ALBARAKA ISLAMIC BANK
B.S.C (c)
Pakistan Branches

FINANCIAL STATEMENTS
2008

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www.albaraka.com.pk
111-742-742 (SHARIA)

CONTENTS

VISION

To be a leading and diversified International Islamic Bank, offering a wide range of quality products and service and forming strategic alliance for a competitive edge.

MISSION

We strive to be a Premier Regional Islamic Bank, dedicated to the economic and social development of our target markets, maximizing our clients' and shareholders' value, and focusing on the human resource development in an environment of creativity and innovation.

CORPORATE PROFILE

BOARD OF DIRECTORS

Mr. Khalid Rashid Al Zayani	Chairman
Mr. Adnan Ahmed Yousif	Vice Chairman
Mr. Mohamed Isa Al Mutaweh	Board Member & Chief Executive Officer
Mr. Othman Ahmed Suliman	Board Member
Mr. Abdul Latif A. R. Janahi	Board Member
Mr. Mousa Abdul Aziz Shehadeh	Board Member
Mr. Ashraf Al Ghamrawi	Board Member
Mr. Yousif Ali Fadel bin Fadel	Board Member
Mr. Maqbool Habib Khalfan	Board Member
Mr. Adel Saud Dehlawi	Board Member

EXECUTIVE COMMITTEE

Mr. Othman Ahmed Suliman	Chairman
Mr. Adnan Ahmed Yousif	Vice Chairman
Mr. Abdul Latif A. R. Janahi	Member
Mr. Mohamed Isa Al Mutaweh	Member

AUDIT COMMITTEE

Mr. Mousa Abdul Aziz Shehadeh	Chairman
Mr. Abdul Hameed Nazer	Member
Mr. Abdul Latif A. R. Janahi	Member

SHARIA BOARD

Shaikh Dr. Abdul Sattar Abu Guda	Chairman
Shaikh Essam Mohamed Ishaq	Member
Shaikh Waleed A. Al Mahmoud	Member

MANAGEMENT PAKISTAN OPERATIONS

Mr. Shafqaat Ahmed	Country Head Pakistan
Mr. Ahmed Shuja Kidwai	Regional Manager-South
Mr. Amjad Ali	Regional Manager-Central
Mr. Kaleem Iqbal	Regional Manager-North
Mr. Ayyaz Ahmad	Chief Financial Office
Mr. Siddiqi Anwar Jalal	Head of Human Resource
Mr. Naseer Ahmed	Head of Internal Audit
Mr. Arif Mehmood Ch.	Head of Credit
Mr. Khawar Khursheed	Head of Operations
Mr. Basit Tansir	Head of Information Technology
Mr. Syed Salman Ali	Head of Treasury
Mr. Waqas Bin Khalid	Head of Compliance
Mr. Muhammad Shakil	Head of Risk Management
Mr. Muhammad Yunas	Head of Credit Admin

SHARIA ADVISOR

Mr. Muhammad Iftikhar Baig	Sharia Advisor

EXTERNAL AUDITORS

Ford Rhdes Sidat Hyder & Co.
(A Member of Ernst & Young International)

BANKING PRODUCTS

Commitment to Islamic Sharia

Striving to develop and an integrated Islamic Financial System. Compliance with the rules and principles of Islamic Sharia is the core of the banking and financial activities of the Bank. to this end , Albaraka has successfully sought the advice and expertise of Islamic scholars acclaimed for their knowledge and piety from all over the Islamic world to guide its path and monitor its performance. the Banks' activities and operations are regularly scrutinized by its Sharia Advisory Board.

Deposit Accounts

SAVING AND CURRENT ACCOUNT

* No minimum balance
* No limitation on number of withdrawals
* In all major currencies

TERM DEPOSIT ACCOUNTS

* No minimum balance
* In all major currencies

KHAZANA ACCOUNTS

* Minimum balance Rs. 250,00
* Higher expected returns then saving account
* Profit: Quarterly

INCENTIVE ACCOUNTS

* Minimum balance Rs. 100,00
* Higher expected returns then saving account
* Profit: Half Yearly

MURABAHA INVESTMENT ACCOUNTS

* Minimum balance Rs. 50,00
* Joint or Pool Investment in Murabaha
* Profit: Half Yearly

MAHANA AMADANI ACCOUNTS

* Minimum balance Rs. 50,00
* Tenure from one Year to Five Years
* Profit: Monthly

Financings A& Ancillary Products

MURABAHA

IJAEAH

ISLAMIC EXPORT FINANCING

IMPORT LETTERS OF CREDIT

CAR IJARAH

HOUSING MUSHARIKA

FOREX SALE & PURCHASE

LETTERS OF GUARANTEE

Other Services

SAFE DEPOSIT BOXES

* Available in different sizes.
* Value insurance
* Flexible hours

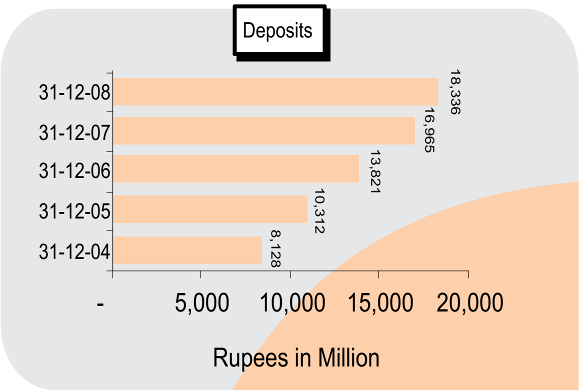
E - BANKING

* On -line Banking
* ATM Cash withdrawal
* Debit Cards
* E-statement

FOR MORE DETAILS CONTACT OUR NEAREST BRANCH

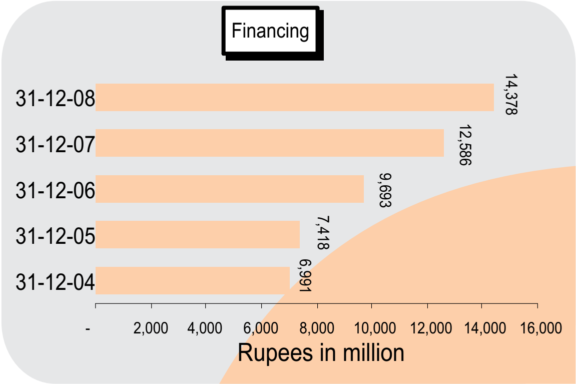
Deposits (Rupees in Million)

2004	2005	2006	2007	2008
8,128	10,312	13,821	16,965	18,336



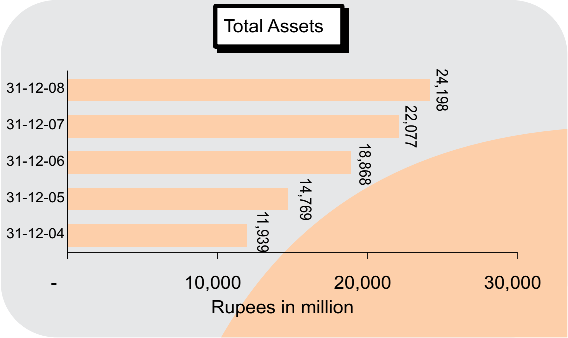
Financing (Rupees in Million)

2004	2005	2006	2007	2008
6,991	7,418	9,693	12,586	14,378



Total Assets (Rupees in Million)

2004	2005	2006	2007	2008
11,939	14,769	18,868	22,077	24,198



Credit Rating

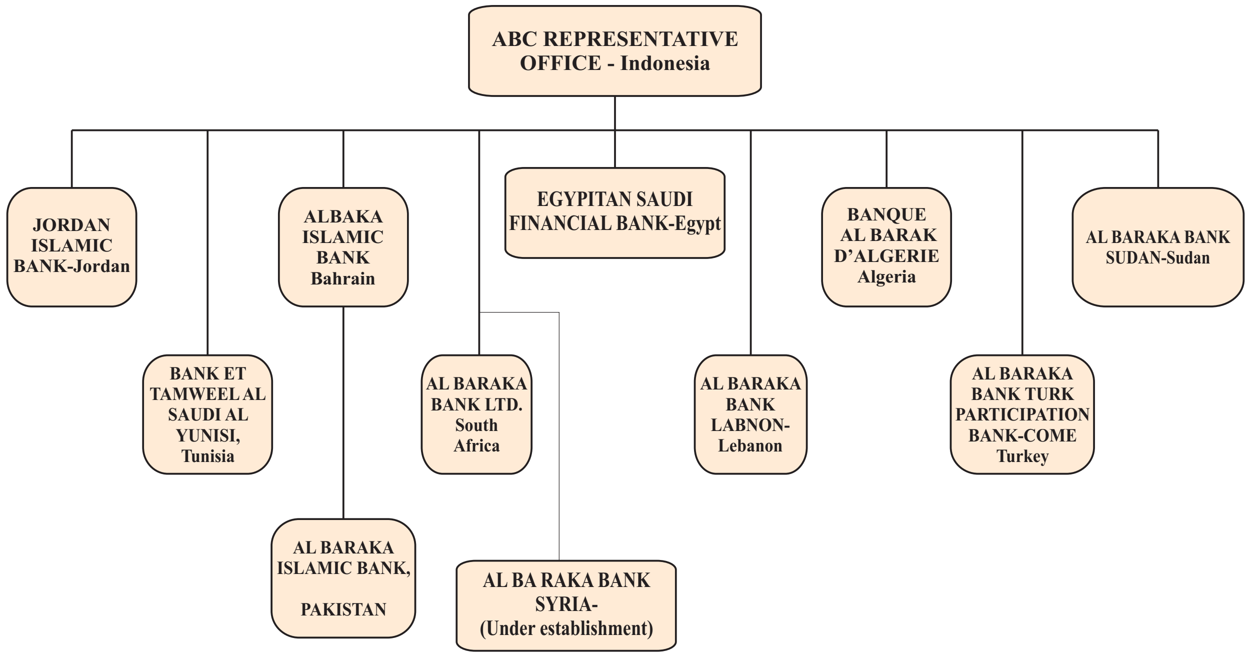
JCR-VIS Credit Rating Company Ltd. has reaffirmed the medium long term rating of Albaraka Islamic Bank BSC © - Pakistan Branches at A (single A) with a 'stable' outlook, the shot term rating is A-1 (Single A-one).

THE ALBARAKA BANKING GROUP (ABG)

Albaraka Banking Group B.S.C. is a Bahraini Joint Stock Company listed on **Bahrain and Dubai** Stock Exchanges and one of the leading international Islamic banks. ABG offers retail, corporate, investment banking and treasury services strictly in accordance with the principles of **Sharia**. The authorized capital of ABG is US $ 1.5 billion, while the total equity amounts to about US $ 1.5 billion. The Group has a wide geographical presence in the form of subsidiary banking units in **12 countries**, which in turn provide their services through more than **250** branches.

Despite the global financial and economic crisis, ABG announced an increase of **32%** in its operating income in the year 2008 over the year 2007 with corresponding amounts of US$ 586 million and US $ 444 million respectively. The net income before provisions and taxation was US $ 314 million as compared to US $ 215 million in 2007, recording an appreciable increase of **46%** over 2007 excluding the extraordinary gain made in previous year in respect of the Initial Public Offering (IPO) of the subsidiary in Turkey.

Even under the present global recessionary conditions and financial crisis being faced by world's leading banks, liquidity of ABG remained high and customer deposits grew by almost **10%** to reach **US $ 9 billion** which reflects an increasing level of customer confidence and loyalty to the group. By these results, the group achieves one of its most important strategic objectives, which is to enhance shareholders' value.



ERNST & YOUNG

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

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AUDITORS' REPORT TO THE DIRECTORS

We have audited the annexed balance sheet of ALBARAKA ISLAMIC BANK B.S.C. (c) - Pakistan Branches as at 31 December 2008 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (hereinafter referred to as the “financial statements”) for the year then ended, in which are incorporated the unaudited certified returns from the branches except for four 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 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 case of loans and advances covered more than sixty percent of total loans and advances of the bank, we report that:

a) in our opinion, proper books of account have been kept by the ALBARAKA ISLAMIC BANK B.S.C. (c) - Pakistan Branches 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 balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962, and the Companies Ordinance, 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 branches' business; and
    iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the branches and the transactions of the branches which have come to our notice have been within the powers of the branches;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved International 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, in the manner so required and give a true and fair view of the state of the branches' affairs as at 31 December 2008 and its true balance of the loss, 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 Branches and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Without qualifying our opinion, we draw attention to Note 1.2 in the financial statements which states that the management of the Bank is in the process of converting the Bank into locally incorporated bank and hence intends to continue its operations through locally incorporated bank.

FORD RHODES SIDAT HYDER & CO.
Chartered Accountants

Lahore: 14 March 2009

BALANCE SHEET AS AT DECEMBER 31, 2008

	Note	2008	2007
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	8	3,248,922	3,480,878
Balances with other banks	9	4,647,570	4,131,352
Due from financial institutions		-	-
Investments	10	1,124,428	1,153,825
Financings	11	14,377,810	12,585,549
Operating fixed assets	12	167,785	102,697
Deferred tax assets		-	-
Other assets	13	631,311	622,812
		24,197,826	22,077,113
LIABILITIES			
Bills payable	14	219,170	231,462
Due to financial Institutions	15	1,969,849	1,309,411
Deposits and other accounts	16	18,336,159	16,964,566
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	17	132,467	144,026
Other liabilities	18	1,174,400	982,895
		21,832,045	19,632,360
NET ASSETS		2,365,781	2,444,753
REPRESENTED BY			
Head office capital account	19	2,420,129	2,046,185
Reserves		-	-
(Accumulated loss)/ Unremitted profit		(19,912)	400,348
		2,400,217	2,446,533
*(Deficit) on revaluation of assets	20	(34,436)	(1,780)
		2,365,781	2,444,753
CONTINGENCIES AND COMMITMENTS	21	-	-

* The above deficit on revaluation of assets include an impairment loss (net of tax) of Rs. 34.507 million in respect of mutual funds held under 'Available-for-sale' category of investments as allowed under BSD Circular No. 04 dated February 13, 2009 of the SBP. The said impairment loss has been determined on the basis of valuation of such mutual funds using the net asset value as of December 31, 2008. Had the impairment loss been charged to profit and loss account, the deficit on revaluation of assets - net of tax would have been lower by Rs. 34.507 million and loss for the year would have been higher by the similar amount (See note 20.1).

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

SHAFQAAT AHMED
Country Head

AYYAZ AHMAD
Chief Financial Officer

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008	2007
		Rupees in '000	
Profit / return on financings, investments and placements earned	22	1,764,924	1,493,035
Return on deposits and other dues expensed	23	1,333,752	1,089,913
Net spread		431,172	403,122
Provision against non-performing financings - net	24	(141,232)	(17,277)
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(141,232)	(17,277)
Net spread after provisions		289,940	385,845
OTHER INCOME			
Fee, commission and brokerage income		130,074	126,749
Dividend income		12,214	8,642
Income from dealing in foreign currencies		127,897	82,166
Net gain on sale of investments	25	5,603	50,834
Unrealized loss on revaluation of investments classified as held for trading		(72,370)	(5,225)
Other income	26	905	987
Total other income		204,323	264,153
		494,263	649,998
OTHER EXPENSES			
Administrative expenses	27	572,687	335,010
Other provisions / write offs		-	163
Other charges	28	121	283
Total other expenses		572,808	335,456
		(78,545)	314,542
Extra ordinary/unusual items		-	-
(LOSS) / PROFIT BEFORE TAXATION		(78,545)	314,542
Taxation – Current	29	3,303	2,889
- Prior years		-	-
- Deferred	29	(8,691)	66,125
		(5,388)	69,014
***(LOSS) / PROFIT AFTER TAXATION**		(73,157)	245,528
Unremitted profit brought forward		400,348	154,820
Unremitted profit		327,191	400,348
Basic (Loss) / Earnings per share	30	-	-
Diluted (Loss) / Earnings per share	30	-	-

* The loss for the year does not include impairment loss (net of tax) of Rs. 34.507 million in respect of mutual funds held under 'Available-for-sale' category of investments in accordance with the treatment allowed under BSD Circular No. 04 dated February 13, 2009 of the SBP. The said impairment loss has been determined on the basis of valuation of such mutual funds using the net asset values as of December 31, 2008 and has been taken to 'deficit on revaluation of assets' account as shown in the balance sheet. Had the impairment loss been charged to profit and loss account, loss after tax for the year would have been higher by Rs. 34.507 million (See note 20.1).

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

SHAFQAAT AHMED	**AYYAZ AHMAD**
Country Head	**Chief Financial Officer**

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES		Rupees in '000	
(Loss) / profit before taxation		(78,545)	314,542
Dividend income		(12,214)	(8,642)
		(90,759)	305,900
Adjustments:			
Depreciation		28,434	19,714
Amortization		1,847	1,929
Provision against non-performing financings		141,232	17,277
Gain on sale of fixed assets		(905)	(987)
Gain on sale of "available for sale " securities		-	(20,243)
Other provisions		-	-
Unrealized loss / (gain) on revaluation of investments classified as held for trading		72,370	(16,948)
		242,978	742
		152,219	306,642
(Increase) / decrease in operating assets			
Held-for-trading securities		(28,497)	27,488
Financings		(1,933,493)	(2,909,644)
Others assets (excluding advance taxation)		62,694	(271,160)
		(1,899,296)	(3,153,316)
Increase / (decrease) in operating liabilities			
Bills payable		(12,292)	75,782
Due to financial institutions		672,587	(597,765)
Deposits and other accounts		1,371,593	3,143,125
Other liabilities (excluding current taxation)		191,504	256,648
		2,223,392	2,877,790
		476,315	31,116
Income tax paid		(73,796)	(33,014)
Net cash inflow from / (used in) operating activities		402,519	(1,898)
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		-	25,243
Net investments in held-to-maturity securities		(50,000)	(5,029)
Dividend income		11,515	8,810
Investments in operating fixed assets		(95,676)	(53,297)
Sale proceeds from disposal of fixed assets		1,212	1,362
Net cash used in investing activities		(132,949)	(22,911)
CASH FLOW FROM FINANCING ACTIVITIES			
Remittances made to head office		(347,103)	-
Net cash used in financing activities		(347,103)	-
Effects of exchange rate changes on cash and cash equivalents		373,944	9,795
Increase / (decrease) in cash and cash equivalents		296,411	(15,014)
Cash and cash equivalents at beginning of the year		7,600,081	7,615,095
Cash and cash equivalents at end of the year	31	7,896,492	7,600,081

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

SHAFQAAT AHMED
Country Head

AYYAZ AHMAD
Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2008

	Head office capital account	Unremitted profit / (Accumulated loss)	Total
	-------------------------	Rupees in '000	-----------------------
Balance as at January 01, 2007	2,036,390	154,820	2,191,210
Profit for the year	-	245,528	245,528
Exchange adjustments on revaluation of capital	9,795	-	9,795
Balance as at December 31, 2007	2,046,185	400,348	2,446,533
Loss for the year	-	(73,157)	(73,157)
Remittances made to head office	-	(347,103)	(347,103)
Exchange adjustments on revaluation of capital	373,944	-	373,944
Closing balance as at December 31, 2008	**2,420,129**	**(19,912)**	**2,400,217**

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

SHAFQAAT AHMED
Country Head

AYYAZ AHMAD
Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

1. STATUS AND NATURE OF BUSINESS

1.1 Al-Baraka Islamic Bank B.S.C. (c) - Pakistan Branches (the Bank), operates as a branch of a foreign bank incorporated and domiciled in Bahrain on February 21, 1984 and is a member of Al-Baraka Banking Group. The Bank commenced its operations in Pakistan in December 1991. The Pakistan branches operate as scheduled Islamic Bank under a license issued by the State Bank of Pakistan (SBP) and are principally engaged in business of banking as defined in the Banking Companies Ordinance, 1962. The registered office of the Bank is situated at 95-B Hali Road, Lahore and presently it operates through twenty nine (29) branches (2007: 18 branches) in Pakistan.

1.2 The management of the Bank is in the process of converting the Bank into locally incorporated bank and it expects to culminate this process by the end of August 2009. However, these financial statements have been prepared on going concern basis as the management intends to continue its operations through locally incorporated bank and amalgamate the Bank with proposed locally incorporated bank in accordance with the proposed scheme of merger on the basis of book values of its assets and liabilities on the date of amalgamation. Further, the bank is currently operating with capital of Rs. 2.40 billion (net of losses) as referred to in Note 19.2. However, subsequent to the merger into locally incorporated bank, the bank would require an increase in paid up capital (net of losses) upto Rs. 6 billion by 31 December 2009.

2. BASIS OF PRESENTATION

2.1 These financial statements have been prepared in accordance with the requirements of State Bank of Pakistan (SBP) vide BSD Circular No. 4 dated February 17, 2006.

2.2 The Bank provides financing mainly through shariah compliant financial products. Except for Murabaha transactions (which are accounted for under the Islamic Financial Accounting Standard - 1), the purchases, sales and rentals arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of rental / profit thereon. Income, if any, received which does not comply with the principles of Islamic Shariah is recognised as charity payable.

3. STATEMENT OF COMPLIANCE

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 (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives shall prevail.

SBP as per BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for Banking companies till further instructions. Further, according to the notification of SECP dated April 28, 2008, the IFRS – 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirement of various circulars issued by SBP.

4. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE:

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

Standard or interpretation		Effective date (accounting periods beginning on or after)
IAS 1	Presentation of Financial Statements (Revised)	January 01, 2009
IAS 23	Borrowings Costs (Revised)	January 01, 2009
IAS 27	Consolidated and Separate Financial Statements (Revised)	January 01, 2009
IFRS 3	Business Combinations (Revised)	July 01, 2009
IFRS 4	Insurance Contracts	January 01, 2009
IFRS 8	Operating segments	January 01, 2009
IFRIC 13	Customer Loyalty Programs	July 01, 2008
IFRIC 15	Agreements for the Construction of Real Estate	January 01, 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	October 01, 2008
IFRIC 17	Distributions of Non-cash Assets to owners	July 01, 2009
IFRIC 18	Transfers of Assets from Customers	July 01, 2009
IFAS 2	Ijarah	January 01, 2009

The Bank considers that the above standards and interpretations except for IFAS 2, are either not relevant or will have no material impact on its financial statements in the period of initial application other than to the extent of certain changes or enhancements in the presentation and disclosures in the financial statements to the extent that such presentation and disclosure requirements do not conflict with the format of financial statements prescribed by SBP for Banks.

IFAS 2 would affect the accounting for Ijarah financing contract undertaken by the Bank. The standard would be applicable prospectively to such contracts entered into on or after January 01, 2009 and requires that the assets financed under ijarah arrangements be recorded as fixed assets separate from the assets in the Bank's own use. The said assets will be carried at cost less depreciation and impairment, if any. The rentals from ijarah are to be recognised in the profit and loss account on a straight-line basis over the terms of the contract. Currently ijarah arrangements are accounted for by the Bank in accordance with the accounting policy disclosed in note 7.2.

In addition to the above, amendments to various accounting standards have also been issued by IASB which are generally effective for accounting periods beginning on or after January 01, 2009. The management is in the process of evaluating the impact of such amendments on the Bank's financial statements for the ensuing periods.

5. BASIS OF MEASUREMENT

These financial statements are prepared on the historical cost convention except for quoted investments which are stated on a marked to market basis, commitments in respect of forward exchange contracts which are carried at fair value and certain staff retirement benefits being carried at present value.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards and statutory requirements require the use of critical accounting estimates. It also requires management to exercise its judgements in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed below:

6.1 Investments

In accordance with BSD Circular No. 10, 11 and 14 dated July 13, 2004, August 04, 2004 and September 24, 2004 respectively, issued by SBP, the Bank classifies its investment portfolio into “held-to-maturity”, “held-for-trading” and “available-for-sale” securities using the management's judgements. In making judgements regarding “held-to-maturity” the Bank evaluates its intention and ability to hold such investments to maturity. Investments made by the bank which it intends to hold for a period of less than 90 days is classified as “held-for-trading”. Investments not classified in the above categories are classified as “available-for-sale”.

6.2 Impairment of equity investments

The Bank determines that available-for-sale or held-for-trading equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in unit prices. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

6.3 Income taxes

In making the estimates for income taxes payable by the Bank, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past. There are various matters where Bank's view differs with the view taken by the income tax department and such amounts are shown as contingent liability.

6.4 Defined benefit plan

The cost of the defined benefit gratuity plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, if any, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

6.5 Operating fixed assets

Estimates with respect to residual values, depreciable lives and pattern of flow of economic benefits are based on the analysis by the management. Further, the Bank reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective items of operating fixed assets, with a corresponding effect on the depreciation charge and impairment.

6.6 Provision against non-performing financings

Apart from the provision determined on the basis of time-based criteria given in Prudential Regulations, the management also applies the subjective criteria of classification and accordingly the classification of financings is downgraded on the basis of credit worthiness of the borrower, its cash flows, operations in account and adequacy of security in order to ensure accurate measurement of the provision.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

7.1 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with treasury banks and balances with other banks.

7.2 Financings

Financings are financial products originated by the Bank and principally comprise of murabaha, ijarah, islamic export refinance and musharaka financing. These are stated at gross receivable net of general and specific provisions.

Murabaha to the purchase orderer is a sale transaction wherein the first party (the Bank) sells to the client/customer a Sharia compliant assets / goods for cost plus a pre-agreed profit. In principle on the basis of an undertaking (Promise-to-Purchase) from the client (the purchase orderer), the Bank purchases the assets / goods 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 assets / goods on its behalf. Thereafter, it sells it to the client at cost plus the profit agreed upon in the promise.

Ijarah is a contract in which the Bank buys and rents a productive asset to a person short of funds and in need of that asset.

Diminishing Musharaka represents an asset in joint ownership whereby a partner promises to buy the equity share of the other partner until the title to the equity is totally transferred to him. The partner using the asset pays the proportionate rental of such asset to the other partner (the Bank).

Musharaka / Modaraba are different types of partnerships in business with distribution of profit in agreed ratio and distribution of loss in the ratio of capital invested.

Provision for non-performing financings is determined in line with the Prudential Regulations issued by the SBP and where such provision is considered necessary, the same is charged to profit and loss account.

Financings are written off, when there are no realistic prospects of recoveries.

The Bank has created a general provision on consumer finance in order to comply with the requirements of the Prudential Regulations for Consumer Finance issued by SBP. These require that the Bank should maintain a general provision at an amount equal to 1.5% of the fully secured portfolio and 5% of the unsecured portfolio to protect the Bank from any risks associated with the cyclic nature of this business.

7.3 Investments

The management determines the appropriate classification of its investments at the time of purchase and classifies these investments as held for trading, available for sale or held to maturity. These are initially measured at cost.

Held for trading

These are securities which are either acquired for generating profit from short term fluctuations in market prices or dealer's margin or are securities included in a portfolio in which a pattern of short term profit taking exists.

Held to maturity

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

Available for sale

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

In accordance with the requirements of the SBP, quoted securities other than those classified as held to maturity and investments in subsidiaries and associates, if any, are stated at market value. Investments held to maturity are measured at amortized cost. Provision is made for any impairment in value.

Surplus / (deficit) arising on revaluation of the Bank's held for trading investment portfolio is taken to the profit and loss account. The surplus / (deficit) arising on revaluation of quoted securities classified as available for sale is kept in “Surplus / (Deficit) on Revaluation of Securities account” and is shown in the balance sheet below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal.

Provision for diminution in the value of securities (except debentures, sukuks, participation term certificates and term finance certificates) is made after considering impairment, if any, in their value.

Profit and loss on sale of investments is recognized in the period of sale.

7.4 Fixed assets and depreciation

Tangible

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged over the estimated useful lives of the assets at the rates stated in note 12.1 using the straight-line method.

Normal repairs and maintenance are charged to the profit and loss account as and when incurred. Major renewals and improvements are capitalized.

Gains or losses on disposal of fixed assets are included in profit and loss account.

Residual value, useful life and depreciation method are reviewed and adjusted, if appropriate, at each financial year end.

Capital work in progress is stated at cost.

Change in accounting estimate

Until the previous years, the Bank used to charge full year depreciation on additions made before June 30, while half year's depreciation on assets acquired thereafter, and similarly no depreciation was charged in respect of disposals made before June 30, while half year's depreciation was charged on assets disposed off thereafter. Pursuant to requirement of IAS- 16" Property, plant and equipment", the Company has changed its policy for charging depreciation. Under the new treatment, depreciation charge commences from the month in which asset is available for use and continues until the month of disposal.

The change has been accounted for as a change in accounting estimate whereby current and future periods are corrected. Had there been no change in accounting estimate, the depreciation charge for the year and loss before tax would have been higher by Rs. 2.495 million while carrying value of fixed assets would have been lower by the same amount.

Intangible

Intangible assets are carried at cost less accumulated amortization and impairment losses, if any. The cost of the intangible assets is amortized over the useful lives of the related assets at the rate stated in note 12.2 using the straight-line method.

7.5 Impairment of assets

The Bank assesses at each balance sheet date, whether there is any indication that an asset may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess, whether they are recorded in excess of their recoverable amounts. Where carrying values exceed the estimated recoverable amounts, assets are written down to their recoverable amounts.

7.6 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any.

Deferred

Deferred tax is provided, using the balance sheet liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences and unused tax losses to the extent that where it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that related tax benefits will be realized.

Deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on the tax rates and tax laws that have been enacted or subsequently enacted at the balance sheet date.

7.7 Staff retirement benefits

Defined Contribution Plan

The Bank operates an approved provident fund scheme for all employees eligible under the scheme. Both, the Bank and the employees, make equal monthly contributions at the rate of 10 percent of basic salary to the fund.

Defined Benefit Plan

The Bank operates an approved funded gratuity scheme for the employees eligible under the scheme. Contribution to the fund is made based on actuarial recommendations. Benefits under the gratuity scheme are payable upon attainment of normal retirement age, which is 60 years or earlier cessation of services due to death or resignation. The benefit is equal to one month last drawn gross salary for each completed year of service up to ten years and 1.5 times of one month last drawn gross salary for each completed year of service over ten years of service. Maximum benefits under the scheme are payable for twenty years.

Actuarial gains or losses in excess of 10 percent of the present value of the defined benefit obligation or 10 percent of the fair value of the plan assets, whichever is higher, at the end of the previous reporting year are recognized over the average expected remaining working lives of the employees participating in the scheme.

Compensated absences

The Bank provides compensated absence benefit to all its regular employees as per service rules whereby, regular employees are entitled to 26 days privileged leaves for each completed year of service. Unutilized privileged leaves are accumulated up to the maximum of 60 days. These are encashed at the time of retirement/resignation by the employee on the basis of last drawn gross salary.

7.8 Revenue recognition

Income on murabaha is accounted for on culmination of murabaha transaction. However, profit not due for payment in the current year is deferred by accounting for unearned murabaha income with a corresponding credit to deferred murabaha income which is recorded as a liability. The same is then recognised as revenue on a time proportionate basis.

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

Mark-up/return on other financings and investments is recognized on an accrual basis except in case of non-performing financings, which warrant carry forward in compliance with prudential regulations issued by SBP.

The Bank follows the finance method in recognizing income on ijarah contracts. Under this method the unearned income i.e. the excess of aggregate ijarah rentals over the cost of the assets under ijarah facility is deferred and then amortized over the term of ijarah, so as to produce a constant rate of return on net investment in the ijarah. Ijarah processing fee is recognized on receipt basis.

Commission and fees are recognized as income at the time of affecting the transaction to which they relate, except for commission on letters of guarantee, which is accounted for on time proportionate basis if the amount exceeds equivalent to Pak Rs. 100,000.

Dividend income is recognized when the right to receive is established.

7.9 Foreign currency transactions

Foreign currency transactions are recorded at rates in effect at the date of transaction whereas foreign currency balances are translated into rupees at the rates of exchange approximating to those ruling at the balance sheet date. All forward foreign exchange contracts are revalued using forward exchange rates applicable to their respective remaining maturities. Exchange gains and losses are included in profit and loss account.

7.10 Head Office Expenses

During the year, the Bank has formulated a policy to recognise head office expenses in the financial statements. Such expenses have been charged on the basis of advice of its head office. Earlier, the Bank had practice to claim such expenses only in its income tax return.

7.11 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in balance sheet, when there is a legally enforceable right to set off the recognized amount and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

7.12 Provision

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

7.13 Financial Instruments

All the financial asset and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of the financial asset and financial liabilities is taken to income currently.

7.14 Inventories

Murabaha transaction are entered into on customer order basis, therefore, in normal circumstances there is no inventory However, if any, inventory remains unsold by the Bank at period end will be measured at lower of cost and net realisable value. Cost is determined on first in first out basis.

7.15 Related party transactions

The Bank enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at prices and rates of return determined using approved methods.

7.16 Segment reporting

Gross income on corporate finance consists of Sukuks. Expenses related to segment are based on weighted average cost of funds.

Gross income from trading and sales consists of profits / losses on investments held for trading purposes measured on mark-to market basis, profit / loss earned on realisation of investments classified as available for sale, net of funding cost, plus dividend income.

Gross income from retail banking consists of net return on financings to retail customers plus fees related to traditional retail services. Net return on retail banking is based on the profit earned on its financings to retail customers less the weighted average cost of funds including profit distributed against deposits and the balance due to financial institutions.

Gross income from commercial banking consists of net return on financings to corporate, interbank and sovereign customers, plus fees related to traditional commercial banking services including commitments, guarantees, bills of exchange, net income (e.g. from coupons and dividends) on securities held in the banking book. The calculation of net return is based on profit earned on financing to corporate, interbank and sovereign customers less the weighted average cost of funds.

Payment and settlement consists of fees to cover provision of payment / settlement facilities for counterparties.

7.17 Trade date accounting

All "regular way" purchases of financial assets are recognized on the trade date i.e. the date the bank commits to purchase the assets. All regular way sales of financial assets are recognized on the trade date i.e. the date the bank commits to sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

8. CASH AND BALANCES WITH TREASURY BANKS

	Note	2008	2007
		Rupees in '000	
In hand			
Local currency		198,147	121,491
Foreign currencies		151,577	65,441
		349,724	186,932
With State Bank of Pakistan in			
Local currency current account	(8.1)	694,092	1,825,413
Foreign currency cash reserve account - non-remunerative	(8.2)	436,228	114,700
Foreign currency capital deposit account	(8.3)	1,670,129	1,296,185
Foreign currency deposit account	(8.4)	40,780	8,743
		2,147,137	1,419,628
With National Bank of Pakistan in			
Local currency current account		57,969	48,905
		3,248,922	3,480,878

8.1 This represents current account maintained with SBP under the requirements of section 22 of the Banking Companies Ordinance, 1962.

8.2 This represents mandatory reserves maintained with the State Bank of Pakistan against FE-25 deposits as per the requirements of SBP's BSD circular No. 18 dated March 31, 2001.

8.3 These represent deposit with the State Bank of Pakistan under section 13(3) of Banking Companies Ordinance, 1962.

8.4 The profit on this account ranges from 2% to 2.5% (2007: 2 % to 2.5 %) per annum.

9. BALANCES WITH OTHER BANKS

	Note	2008	2007
In Pakistan			
On current accounts		4,549	5,716
On deposit accounts	(9.1)	4,415,714	3,939,706
		4,420,263	3,945,422
Outside Pakistan			
On current accounts		38,341	26,444
On deposit accounts	(9.2)	188,966	159,486
		227,307	185,930
		4,647,570	4,131,352

9.1 This represents balances with local banks on profit and loss sharing basis. The expected profit on these accounts ranges from 4% to 14.40% (2007: 1% to 9.90%) per annum , while marutiry of these ranges from one day to less than three months.

9.2 This represents nostro accounts maintained with foreign banks outside Pakistan. Profit on these ranges from 0.3% to 3% (2007: 2.90% to 5.11%) per annum.

	Note	2008 Held by bank	2008 Given as collateral	2008 Total	2007 Held by bank	2007 Given as collateral	2007 Total
10. INVESTMENTS		--------	--------	Rupees in '000	--------	--------	--------
10.1 Investments by types :							
Held-for-trading securities							
Fully paid up ordinary shares - listed		120,285		120,285	91,788	-	91,788
Available-for-sale securities							
National Investment Trust (NIT) Units		60,000		60,000	60,000	-	60,000
Meezan Islamic Income Funds (MIIF) Units		10,000		10,000	10,000	-	10,000
Fully paid ordinary shares - unlisted		4,447		4,447	4,447	-	4,447
		74,447	-	74,447	74,447	-	74,447
Held-to-maturity securities							
Sukuk bonds							
WAPDA First Sukuk Company Limited	(10.1.1)	750,000		750,000	750,000	-	750,000
Sitara Chemical Industries Limited	(10.1.2)	150,000		150,000	150,000	-	150,000
Karachi Shipyard and Engineering Works	(10.1.3)	100,000		100,000	100,000	-	100,000
Government of Pakistan Sukuk	(10.1.4)	50,000		50,000	-	-	-
		1,050,000	-	1,050,000	1,000,000	-	1,000,000
Investment- at cost		1,244,732	-	1,244,732	1,166,235	-	1,166,235
Less: Provision for diminution in value of investments	(10.3)	4,447	-	4,447	4,447	-	4,447
Investments (net of provisions)		1,240,285	-	1,240,285	1,161,788	-	1,161,788
Deficit on revaluation of Held-for-trading securities	(10.5)	(77,595)	-	(77,595)	(5,225)	-	(5,225)
Deficit on revaluation of Available for sale securities	(19)	(38,262)	-	(38,262)	(2,738)	-	(2,738)
		(115,857)	-	(115,857)	(7,963)	-	(7,963)
Total investments at market value		1,124,428	-	1,124,428	1,153,825	-	1,153,825

10.1.1 150,000 certificates having face value Rs. 750 million carry profit at six months Kibor plus 35 basis points. These will mature in 2012 and are secured against unconditional and irrevocable first demand guarantee from Government of Pakistan. The fair value of each certificate is Rs.5,050.These certificates have been pledged with SBP during the year on account of capital in persuance of its letter No. BSD/SU-16/607/3350/2006 dated July 06, 2006.

10.1.2 This certificate having face value Rs. 150 million carries profit at three months Kibor plus 100 basis points. These will mature in 2012 and are secured by specific and exclusive hypothecation charge in respect of musharaka assets in favour of the investors to the extent of their entire legal ownership rights of Sitara Chemical Industries Limited.

10.1.3 This certificate having face value Rs. 100 million carries profit at six months Kibor plus 40 basis points. These will mature in 2015 and are secured against unconditional and irrevocable sovereign guarantee from Government of Pakistan.

10.1.4 500 certificates having face value of Rs. 100,000 each amounting to Rs. 50 million carry profit on the basis of rental announced by SBP prior to start of each half year. The profit will be bench marked against the latest weighted average yield of 6 month market T-Bills. These certificates will mature in 2011 and are secured by asset leased and held on trust.

10.2 Investments by segments :	Note	2008	2007
		Rupees in '000	
Federal Government Securities:			
Sukuk certificates		900,000	850,000
Fully paid up ordinary shares/units			
- Listed	(10.2.1)	120,285	91,788
- Unlisted	(10.2.2)	4,447	4,447
- Mutual Fund Units	(10.2.3)	70,000	70,000
		194,732	166,235
Others			
Sukuk certificates-Sitara Chemical Industries Limited		150,000	150,000
Total investment at cost		1,244,732	1,166,235
Less: Provision for diminution in value of investment	(10.3)	4,447	4,447
Investments (Net of Provisions)		1,240,285	1,161,788
Deficit on revaluation of Held-for-trading securities	(10.2.1)	(77,595)	(5,225)
Deficit on revaluation of Available-for-sale securities		(38,262)	(2,738)
		(115,857)	(7,963)
Total investments at market value		1,124,428	1,153,825

10.2.1 Details of investment in listed companies:

2008	2007		2008		2007	
			Rupees in '000			
Ordinary shares of Rs. 10 each		Name of Company	Cost	Market value	Cost	Market value
175,000	100,000	Pakistan Telecommunication Company Ltd	8,276	2,956	5,128	4,205
-	200,000	Fauji Cement Company Ltd	-	-	4,143	2,980
75,000	-	Lucky Cement Company Ltd	8,801	2,345	-	-
-	150,000	Sui Southern Gas Pipelines Ltd	-	-	5,427	3,922
123,500	182,500	Pakistan Petroleum Ltd	27,784	12,452	45,764	44,722
168,000	80,000	Attock Refinery Ltd	35,880	10,061	20,603	20,104
100,000	-	Oil and Gas Development Company Ltd	12,918	4,999	-	-
80,000	40,000	Engro Chemical Pakistan Ltd	21,248	7,717	10,723	10,630
300,000	-	Bank Islami Pakistan	5,378	2,160	-	-
			120,285	42,690	91,788	86,563

10.2.2 Details of investment in unlisted companies:

Shareholding less than 10% - unlisted:	No. of Shares	Cost as on Dec. 31, 08 Rs. in '000'
Crown Textile Limited	444,656	4,447

10.2.3 Details of investment in mutual funds:

	No. of Units	Cost as on Dec. 31, 08 Rs. in '000'
National Investment Trust Units	941,698	60,000
Meezan Islamic Income Funds (MIIF) Units	208,795	10,000
		70,000

10.3 Particulars of provision	2008	2007
	Rupees in '000	
Opening balance	4,447	4,447
Charge for the year	-	-
Reversals	-	-
Closing balance	4,447	4,447

10.3.1 Particulars of provision in respect of type and segment

	2008	2007
Available-for-sale securities		
Crown Textiles Limited (Textile)		
444,656 (2007:444,656) ordinary shares of Rs.10 each	4,447	4,447
	4,447	4,447

10.4 Quality of available-for-sale securities	2008 Amount	2008 Rating	2007 Amount	2007 Rating
National Investment Trust Units	21,659	5-Star	56,361	4-Star
Meezan Islamic Income Fund (MIIF) Units	10,079	A(f)	10,901	A(f)
	31,738		67,262	
Crown Textiles Limited	4,447	Unrated	4,447	Unrated

10.5 Unrealized loss on revaluation of investments classified as held for trading

Unrealized loss on revaluation of investments classified as held for trading is given in Note 10.1.

11 FINANCINGS

	Note	2008	2007
		Rupees in '000	
In Pakistan			
Murabaha financing		8,562,432	6,994,844
Export refinance (Islamic) - Murabaha financing		2,070,018	1,867,245
Musharaka financing		1,669,473	941,812
Payment against guarantees		5,674	5,674
		12,307,597	9,809,575
Net investment in ijarah financing - In Pakistan	(11.2)	2,061,452	2,231,160
Bills discounted and purchased (excluding treasury bills)			
Payable outside Pakistan		347,775	742,596
Financings - gross		14,716,824	12,783,331
Specific provision for non-performing financing	(11.4)	328,641	188,173
General provision against consumer financing	(11.5)	10,373	9,609
		339,014	197,782
Financings - net of provision		14,377,810	12,585,549

11.1 Particulars of Financings (Gross)

		2008	2007
11.1.1	In local currency	14,087,690	11,362,349
	In foreign currencies	629,134	1,420,982
		14,716,824	12,783,331
11.1.2	Short term (for up to one year)	12,187,358	11,204,289
	Long term (for over one year)	2,529,466	1,579,042
		14,716,824	12,783,331

11.2 Net investment in Ijarah financing

	2008				2007			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Ijarah rentals receivable	870,216	1,232,064	-	2,102,280	832,614	1,525,175	72	2,357,861
Residual value	36,941	317,080	-	354,021	21,785	291,250	2,013	315,048
Minimum Ijarah payments	907,157	1,549,144	-	2,456,301	854,399	1,816,425	2,085	2,672,909
Profit for future periods	(214,939)	(179,910)	-	(394,849)	(205,140)	(236,608)	(1)	(441,749)
Present value of minimum ijarah rentals receivables	692,218	1,369,234	-	2,061,452	649,259	1,579,817	2,084	2,231,160

11.3 Financings include Rs.861,669 thousands (2007:Rs. 231,669 thousands) which have been placed under non-performing status as detailed below:-

	2008								
	Rupees in '000								
	Classified Financings			Specific Provision Required			Specific Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Category of Classification									
Substandard	507,951		507,951	99,517		99,517	99,517		99,517
Doubtful	116,900		116,900	8,719		8,719	8,719		8,719
Loss	236,818		236,818	220,405		220,405	220,405		220,405
	861,669	-	861,669	328,641	-	328,641	328,641	-	328,641

	2007								
	Rupees in '000								
	Classified Financings			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Category of Classification									
Substandard	7,045	-	7,045	1,678	-	1,678	1,678	-	1,678
Doubtful	5,911	-	5,911	2,955	-	2,955	2,955	-	2,955
Loss	218,713	-	218,713	183,540	-	183,540	183,540	-	183,540
	231,669	-	231,669	188,173	-	188,173	188,173	-	188,173

	Note	2008	2007
11.4 Particulars of provision against non-performing financings- specific		Rupees in '000	
Opening balance		188,173	177,647
Charge for the year		143,676	28,200
Reversals		(3,208)	(15,322)
Amounts written off	(11.6)	-	(2,352)
Closing balance		328,641	188,173
11.4.1 Particulars of provision against non-performing financings			
In local currency		328,641	188,173
In foreign currencies		-	-
		328,641	188,173

11.4.2 The SBP vide BSD Circular No. 02 dated January 02, 2009 amended Prudential Regulations in respect of provisioning against non-performing advances. The revised regulations that are effective from December 31, 2008, allow the benefit of 30 percent of Forced Sale Value (FSV) of pledged stocks and mortgaged commercial and residential property held as collateral by the Bank in determining the amount of provision against non-performing advances. Had there been no such relaxation from SBP, the provision would have been higher by Rs. 82.816 million. However, the additional impact on profit due to the benefit of FSV is not available for remittance of profit to the Head Office.

		2008	2007
		Rupees in '000	
11.5 Particulars of general provisions against consumer financing			
Opening balance		9,609	5,210
Charge for the year		764	4,399
Amounts written off		-	-
Closing balance	(11.5.2)	10,373	9,609
11.5.1 Particulars of general provisions against consumer financing			
In local currency		10,373	9,609
In foreign currencies		-	-
		10,373	9,609

11.5.2 This represents general provision against consumer finance maintained at the amount of 1.5% against fully secured performing portfolio and 5% of unsecured performing portfolio as required by the Prudential Regulations issued by SBP.

		2008	2007
11.6 Particulars of write offs			
11.6.1 Against provisions		-	2,352
Directly charged to profit and loss account		-	-
		-	2,352
11.6.2 Write offs of Rs. 500,000 and above	(11.7)	-	2,352
Write offs of below Rs. 500,000		-	-
		-	2,352

11.7 Details of loan write off of Rs. 500,000 and above

As no loan has been written off during the year, accordingly the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31st December 2008 is not attached.

11.8 Particulars of loans and Financings to directors, associated companies, etc.

		2008	2007
Debts due by key management personnel, executives or officers of the bank or any of them either severally or jointly with any other persons			
Balance at beginning of year		91,010	51,607
Financing granted during the year		75,061	76,803
Repayments		(44,970)	(37,400)
Balance at end of year		121,101	91,010

12. OPERATING FIXED ASSETS

		2008	2007
Capital work-in-progress - advances to contractors		20,384	28,638
Property and equipment	(12.1)	142,614	70,484
Intangible assets	(12.2)	4,787	3,575
		167,785	102,697

12.1 Operating fixed assets

Particulars	COST Opening Balance as at January 01, 2008	COST Additions/ (Deletions)/	COST Closing Balance as as at December 31, 2008	DEPRECIATION Opening Balance as at January 01, 2008	DEPRECIATION For the Year	DEPRECIATION Closing Balance as as at December 31, 2008	Book value closing as as at December 31, 2008	Rate %
	--Rupees in '000--							
Furniture and fixture	19,401	8,367	27,663	9,976	1,510	11,392	16,271	10
		(105)			(94)			
Computer and office equipments	71,592	29,603	101,107	50,936	12,535	63,465	37,642	20
		(88)			(6)			
Vehicles	27,662	10,802	34,481	16,612	5,959	18,588	15,893	20
		(3,983)			(3,983)			
Leasehold improvements	52,275	52,099	101,757	22,922	8,430	28,949	72,808	10
		(2,617)			(2,403)			
2008	170,930	100,871	265,008	100,446	28,434	122,394	142,614	
		(6,793)			(6,486)			
Furniture and fixture	16,526	3,301	19,401	8,068	2,257	9,976	9,425	10
		(426)			(349)			
Computer and office equipments	63,707	8,439	71,592	43,264	8226	50,936	20,656	20
		(554)			(554)			
Vehicles	27,859	3,814	27,662	15,432	4,891	16,612	11,050	20
		(4,011)			(3,711)			
Leasehold improvements	43,168	9,107	52,275	18,582	4,340	22,922	29,353	10
2007	151,260	24,661	170,930	85,346	19,714	100,446	70,484	
		(4,991)			(4,614)			

12.1.1 Included in property and equipment are fully depreciated items still in use having cost of Rs. 63,358 million (2007: Rs. 40,634 million).

12.1.2 Detail of disposals of operating fixed assets

Particulars of assets	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Profit/ (Loss)	Mode of Disposal	Particular of buyers
	------------Rupees in '000------------						
Vehicle							
Cultus	607	607	-	275	275	Bank policy	Mr.Qamar Masood (Other than Employee)
Honda Civic	1,281	1,281	-	320	320	Bank policy	Mr. Shafqaat Ahmad (Employee)
Toyota Corolla	941	941	-	235	235	Bank policy	Mr. Naseer Ahmad (Employee)
Honda Civic	1,154	1,154	-	288	288	Bank policy	Mr. Kaleem Iqbal (Employee)
Leasehold improvements	2,617	2,403	214	-	(214)	Bank policy	Scrapped

12.2 Intangible assets

Particulars	COST Opening Balance as as at January 01, 2008	Additions	Closing Balance as as at December 31, 2008	AMORTIZATION Opening Balance as as at January 01, 2008	For the Year	Closing Balance as as at December 31, 2008	Book value as at December 31, 2008	Rate %
	----------Rupees in '000----------							
Computer software	10,076	3,059	13,135	6,501	1,847	8,348	4,787	20
2008	10,076	3,059	13,135	6,501	1,847	8,348	4,787	
Computer software	10,076	-	10,076	4,572	1,929	6,501	3,575	20
2007	10,076	-	10,076	4,572	1,929	6,501	3,575	

12.3 Residual value of items of operating fixed assets are considered to be insignificant.

13. OTHER ASSETS

	Note	2008	2007
		Rupees in '000	
Profit / return on financings, investment and placement accrued in local currency	(13.1.1)	147,915	134,689
Advances, deposits, advance rent and other prepayments		162,415	117,750
Advance against murabaha		108,782	267,378
Advance taxation (payments less provisions)		157,202	86,709
Branch adjustment account		-	941
Unrealized gain on forward foreign exchange contracts		19,185	2,176
Stationery and stamps		1,797	1,524
Others		38,989	16,619
		636,285	627,786
Less: Provision held against other assets	(13.2)	(4,974)	(4,974)
Other Assets (Net of Provision)		631,311	622,812

13.1.1 Profit / return accrued is net of profit / return suspended amounting to Rs. 47.3 (2007: 5.7) million.

13.2 PROVISION AGAINST OTHER ASSETS

	2008	2007
Opening balance	4,974	4,861
Charge for the year	-	163
Reversals	-	-
Amount written off	-	(50)
Closing balance	4,974	4,974

		Note	2008	2007
			Rupees in '000	
14.	**BILLS PAYABLE**			
	In Pakistan		209,101	223,602
	Outside Pakistan		10,069	7,860
			219,170	231,462
15.	**DUE TO FINANCIAL INSTITUTIONS**			
	In Pakistan		1,969,849	1,297,262
	Outside Pakistan		-	12,149
			1,969,849	1,309,411
15.1	**Particulars of due to financial institutions with respect to currencies**			
	In local currency		1,969,849	1,297,262
	In foreign currencies		-	12,149
			1,969,849	1,309,411
15.2	**Details of due to financial instituitions**			
	Secured:			
	Borrowings from State Bank of Pakistan under Islamic export refinance scheme	(15.2.1)	1,969,849	1,297,262
	Unsecured:			
	Overdrawn nostro accounts		-	12,149
			1,969,849	1,309,411

15.2.1 This represents musharaka contribution by State Bank of Pakistan against Islamic export refinance scheme. Expected profit rate is 6.5%(2007:6.5%) per annum.The maximum limit approved by SBP under Islamic Export Refinance is Rupees 2 billion.

		2008		2007	
16.	**DEPOSITS AND OTHER ACCOUNTS**				
	Customers				
	Fixed deposits	6,224,735		5,339,582	
	Saving deposits	4,373,574		6,140,081	
	Current accounts - non-remunerative	1,692,203		1,669,701	
	Margin accounts	185,878		180,245	
			12,476,390		13,329,609
	Financial Institutions				
	Remunerative deposits	5,859,306		3,634,340	
	Non-remunerative deposits	463		617	
			5,859,769		3,634,957
			18,336,159		16,964,566

		Note	2008	2007
			Rupees in '000	
16.1	**Particulars of deposits**			
	In local currency		14,484,214	16,058,519
	In foreign currencies		3,851,945	906,047
			18,336,159	16,964,566
17.	**DEFERRED TAX LIABILITIES**			
	Deferred credits arising due to			
	Net investment in ijarah financing		148,810	148,027
	Accelerated depreciation of operating fixed assets		1,930	-
	Deferred debits arising in respect of			
	Accelerated depreciation of operating fixed assets		-	(1,601)
	Unrealised loss on revaluation of held-for-trading investments		(6,053)	(1,442)
	Unrealised loss on revaluation of available for sale securities		(3,826)	(958)
	Unused tax losses		(8,394)	-
			132,467	144,026
18.	**OTHER LIABILITIES**			
	Return on deposits and other dues payable in local currency		322,598	307,614
	Return on deposits and other dues payable in foreign currency		4,774	5,066
	Unearned commission		17,959	27,778
	Accrued expenses		15,778	11,230
	Advance payments from customers		4,574	5,629
	Inter branch adjustment		2,107	-
	Unremitted head office expenses		114,033	6,538
	Payable to defined benefit plan	(33.2)	11,629	7,298
	Security deposits against ijarah financing		354,021	318,598
	Accounts payable		5,247	14,571
	Excise duty/ income tax withheld		7,929	7,030
	Deferred income on murabaha	(18.1)	278,842	229,131
	Charity Fund payable	(18.2)	8,127	22,792
	Unrealized loss on forward foreign exchange contracts		10,680	9,602
	Other payables		16,102	10,018
			1,174,400	982,895
18.1	**Deferred income on murabaha**			
	Opening balance		229,131	192,992
	Income during the year		1,155,212	800,418
	Recognized during the year		(1,090,725)	(764,279)
	Closing balance		278,842	229,131

	Note	2008	2007
		Rupees in '000	
18.2 Charity Fund payable			
Opening Balance		22,792	12,636
Additions during the year		8,127	10,156
Payments during the year		(22,792)	-
Closing Balance		8,127	22,792

This represents net overdue income earned on murabaha financing. Such income is to be remitted to Head Office where the fund account is maintained, as permitted by State Bank of Pakistan vide its letter No. IBD-Sd/25/22/2007 dated January 18, 2007.

19. HEAD OFFICE CAPITAL ACCOUNT

	Note	2008	2007
Capital held as:			
1. Interest free deposit in cash in Pak Rupees		-	-
2. Interest free deposit in approved foreign exchange :			
i) Revalued remittance from head office	(19.1)	1,296,185	1,286,390
ii) Revaluation surplus allowed by the State Bank		373,944	9,795
		1,670,129	1,296,185
3. Deposit of unencumbered approved securities	(9.1.2)	750,000	750,000
	(19.2)	2,420,129	2,046,185

19.1 This represents an amount of US dollar 21.108(2007: US dollar 21.108) million deposited with the State Bank of Pakistan in compliance with sub section (3) of section 13 of the Banking Companies Ordinance, 1962.

19.2 In accordance with the requirements of BSD Circular no. 6 dated Oct 28, 2005 and BSD Circular no. 19 dated September 5, 2008, the Bank was required to increase Head Office capital to Rs. 5 billion by December 31, 2008. However, the Bank had been granted specific exemption in this regard from State Bank of Pakistan (SBP) vide its letter no. BSD/SU-1/608/3595/2007 dated 24 December 2007 due to the fact that the capital of Bank's Head Office in Bahrain amounts to US $ 100 million and Capital adequacy ratio of above 9% is maintained at Head office level. This relaxation would no more be applicable if the Pakistan branches are converted into a locally incorporated bank and in this case, the locally incorporated bank would require an increase in paid up capital (net of losses) upto Rs. 6 billion by 31 December 2009.

19.3 The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the Prudential Regulations issued by the SBP.

19.4 The primary objectives of the Bank's capital management are to ensure the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business.

19.5 The Bank manages its capital structure and make adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities . In order to maintain or adjust the capital structure , the Bank may adjust the amount of remittance of profit. No changes were made in the objectives, policies and processes from previous years.

20. (DEFICIT) ON REVALUATION OF ASSETS

(Deficit)/surplus on revaluation of available-for-sale securities

	2008	2007
	Rupees in '000	
National Investment Trust Units	(38,341)	(3,639)
Meezan Islamic Income Fund	79	901
	(38,262)	(2,738)
Less : related deferred tax	3,826	958
Net Deficit	(34,436)	(1,780)

20.1 During the year, the stock exchange introduced 'floor mechanism' in respect of prices of equity securities based on the closing price as prevailing on August 27, 2008. Under the "floor mechanism", the individual security price of equity securities could vary within normal circuit breaker limit, but not below the floor price level. The mechanism was effective from August 28, 2008 and remained in place until December 15, 2008. During this period trading of securities effectively remained suspended on the stock exchanges. The trading resumed on December 15, 2008, however, the trading volumes upto December 31, 2008 were significantly low as compared to the volumes before the institution of floor mechanism. However, pursuant to the BSD Circular Letter No. 2 dated January 27, 2009 issued by the SBP, the equity securities held by the Bank have been valued at the prices quoted on the stock exchanges as of December 31, 2008 and the mutual fund units has been valued on the basis of the net asset values as of that date.

Furthermore, pursuant to the BSD Circular No. 4 dated February 13, 2009 of the SBP, the impairment loss amounting to Rs. 38.341 million and the related deferred tax impact of Rs. 3.834 million resulting from the valuation of mutual funds held under 'Available-for-sale' category of investments as of December 31, 2008 has not been recognized in the profit and loss account and have been taken to 'Deficit on revaluation of asset' account as shown on the balance sheet. The said impairment loss is required to be taken to the profit and loss account in the year 2009 on quarterly basis after adjustment for the effects of price movements in that year. However, for the purposes of distribution of profit in form of dividend, the impairment loss as referred above shall be treated as a charge to the profit and loss for the year.

The recognition of impairment loss in accordance with the requirement of accounting standards would have had the following effect on these financial statements.

	Note	2008 Rupees in '000
Increase in provision of diminution in the value of investments		38,341
Decrease in tax charge for the year		3,834
Increase in loss for the year		34,507
Decrease in earning per share (EPS)	(30)	-
Decrease in deficit on revaluation of assets – net of tax		34,507
Increase in accumulated loss		34,507

21. CONTINGENCIES AND COMMITMENTS

21.1 Direct credit substitutes - Guarantees of indebtedness

	2008	2007
	Rupees in '000	
i) Government	2,029,752	1,645,733
ii) Financial institutions	-	43
iii) Others	68,650	296,346
	2,098,402	1,942,122

	2008	2007
	Rupees in '000	
21.2 Transaction-related contingent liabilities		
i) Letters of credit	1,283,141	1,904,325
ii) Others - Shipping Guarantees	28,645	39,455
	1,311,786	1,943,780
21.3 Trade-related contingent liabilities		
Acceptances	762,273	1,601,956

21.4 Other contingencies

This represent additional income tax liability amounting to Rs. 85.844 million which has not been acknowledged by the Bank. The Bank has filed appeals before CIT (Appeals) and Income Tax Tribunal against the orders in respect of tax years 2003 to 2007. Moreover, the Income Tax Department has also filed appeals before IncomeTax Tribunal against the orders in respect of assessment years 2001-2002 and 2002-2003 issued by CIT (Appeals). Appeals filed by the Bank and the Income Tax Department are pending for decision. Management of the Bank has evaluated, after consulting their income tax advisor, that the appeals are likely to be decided in favor of the Bank and, hence no provision has been made for the same in these financial statements.

21.5 Commitments in respect of forward exchange contracts

	2008	2007
Purchase	3,631,384	160,384
Sale	1,044,415	866,072

The bank utilizes foreign exchange instruments to meet the needs of its customers and generates trading revenues as part of its asset and liability management to hedge its own exposure to currency risk. At the year end, all foreign exchange contracts have a remaining maturity of less than one year.

21.6 Other Commitments

The bank makes commitments to extend credit 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.

Commitment against capital expenditure amounts to Rs.45.166 million (2007: Rs. 18.911 million).

22. PROFIT/RETURN ON FINANCINGS, INVESTMENTS AND PLACEMENTS EARNED

	Note	2008	2007
a) On loans and Financings (other than murabaha) to:			
i) Customers		384,747	328,198
ii) Financial institutions		-	-
		384,747	328,198
b) On murabaha to:			
i) Customers		1,005,097	741,158
ii) Financial institutions		85,628	23,121
	(22.1)	1,090,725	764,279
c) On investments in:			
Held to maturity securities		120,056	82,952
d) On deposits with financial institutions		169,396	317,606
		1,764,924	1,493,035

			2008	2007
			Rupees in '000	
22.1	Murabaha sale price		10,660,828	20,125,980
	Less: Purchase price		9,520,392	19,325,562
			1,140,436	800,418
	Add: Deferred murabaha income as on January 01		229,131	192,992
	Less: Deferred murabaha income as on December 31		(278,842)	(229,131)
			1,090,725	764,279

23. RETURN ON DEPOSITS AND OTHER DUES EXPENSED

		2008	2007
Deposits		1,223,397	993,064
Other short term borrowings:			
conventional export refinance	(15.2.1)	-	18,435
Islamic export refinance		82,280	78,414
due to financial institutions		28,075	-
		110,355	96,849
		1,333,752	1,089,913

24. PROVISION AGAINST NON-PERFORMING FINANCINGS

		2008	2007
Provision against non performing financings	(24.1)	140,468	12,878
Provision against consumer financing		764	4,399
		141,232	17,277

24.1 It includes the effect of benefit of Forced Sale Value as mentioned in Note 11.4.2.

25. NET GAIN ON SALE OF INVESTMENTS

	2008	2007
Ordinary shares of listed companies	5,603	30,590
Other mutual funds units	-	8,913
National investment trust units	-	11,331
	5,603	50,834

26. OTHER INCOME

This represents profit on disposal of operating fixed assets.

27. ADMINISTRATIVE EXPENSES

		2008	2007
		Rupees in '000	
Salaries, allowances, etc.	(27.1)	185,588	138,560
Staff medical		7,911	6,308
Charge for defined benefit plan	(33.6)	15,782	15,061
Charge for defined contribution plan	(34)	8,868	6,388
Rent, taxes, insurance, electricity, etc.		88,980	59,652
Legal and professional charges		4,066	3,311
Fee and subscription		6,818	3,492
Communications		22,727	17,086
Repairs and maintenance		15,237	9,134
Stationery and printing		8,732	8,170
Advertisement and publicity		5,720	4,530
Auditors' remuneration	(27.2)	2,185	964
Depreciation	(12.1)	28,434	19,714
Amortization	(12.2)	1,847	1,929
Bank charges		7,132	4,358
Travelling and conveyance		30,082	22,100
Entertainment		6,339	3,911
Security services		10,181	5,340
Brokerage commission		997	1,024
Head Office expenses		107,495	-
Others		7,566	3,978
		572,687	335,010

27.1 This includes remuneration of sharia advisor desk amounting to Rs. 883 thousands (2007: Rs.1.660 million).

27.2 AUDITORS' REMUNERATION

	2008	2007
	Rupees in '000	
Audit fee	786	550
Special certifications including interim reviews	1,129	300
Out of pocket expenses	270	114
	2,185	964

28. OTHER CHARGES

This represents penalties imposed by State Bank of Pakistan.

29. TAXATION

		2008	2007
For the year - current	(29.2)	3,303	2,889
Deferred tax		(8,691)	66,125
		(5,388)	69,014

29.1 Relationship between tax expense and accounting profit

	2008	2007
Accounting profit before taxation	-	314,542
Tax at applicable tax rate of 35%	-	110,090
Tax effect of permanent differences	-	(41,076)
Tax charge for the year	-	69,014

29.2 As the bank sustained accounting and taxable losses during the year, such amount represents tax on only dividend income u/s 5 of Income Tax Ordinance, 2001 and accordingly reconciliation of tax expense and product of accounting profit multiplied by the applicable rates is not meaning-full and hence, not disclosed in these financial statements.

30. BASIC (LOSS) / EARNINGS PER SHARE

Albaraka Islamic Bank B.S.C (C)- Pakistan branches, being branches of a foreign entity do not have share capital. Therefore, no figures of basic and diluted loss/ earning per share have been reported in these financial statements.

31. CASH AND CASH EQUIVALENTS

	Note	2008	2007
		'Rupees in '000	
Cash and balance with treasury banks	(8)	3,248,922	3,480,878
Balance with other banks	(9)	4,647,570	4,131,352
Overdrawn nostro accounts	(15.2)	-	(12,149)
		7,896,492	7,600,081

32. STAFF STRENGTH

	2008	2007
	Number	
Permanent	365	276
Temporary/on contractual basis	90	88
Daily wagers	-	-
Bank's own staff strength at the end of the year	455	364
Outsourced	-	-
Total staff strength	455	364

33. DEFINED BENEFIT PLAN

33.1 Principal actuarial assumptions

The latest actuarial valuation had been carried out as at December 31, 2008 by using projected unit credit actuarial cost method. The significant assumptions used for actuarial valuation are as follows:

	2008	2007
Discount rate	15.00% p.a	10.0% p.a
Expected rate of salary increase	15.00% p.a	10.0% p.a
Expected return on plan assets	15.00% p.a	10.0% p.a

33.2 Reconciliation of (receivable from)/payable to defined benefit plan

	Note	2008	2007
		Rupees in '000	
Present value of defined benefit obligations	(33.2.1)	62,732	50,618
Fair value of plan assets	(33.2.2)	(37,173)	(30,039)
Net actuarial (losses) not recognized		(13,930)	(13,281)
	(18)	11,629	7,298

33.2.1 Present value of defined benefit obligations

	2008	2007
As at January 1	50,618	35,966
Current service cost	13,043	8,050
Interest cost	5,062	3,597
Benefits paid	(6,655)	(1,584)
Past service cost-Vested	-	3,715
Actuarial loss	664	874
As at December 31	62,732	50,618

	Note	2008	2007
		Rupees in '000	
33.2.2 Fair value of plan assets			
As at January 1		30,039	24,186
Expected return on plan assets		3,004	967
Contributions		11,455	7,274
Benefits paid		(6,655)	(1,584)
Actuarial (loss)		(670)	(804)
As at December 31		37,173	30,039
33.3 Movement in payable to defined benefit plan			
Opening balance		7,298	(489)
Charge for the year		15,786	15,061
Contribution to fund made during the year		(11,455)	(7,274)
Closing balance		11,629	7,298

33.4 Composition of plan assets

		2008		2007	
		Rs. in '000	%	Rs. in '000	%
Bank deposit account	(33.4.1)	29,507	78%	30,039	100%
UTP Islamic Fund units		1,709	5%	-	0%
NIT units		2,051	6%	-	0%
Meezan Islamic Fund units		1,441	4%	-	0%
Pak Int'l Element Islamic Fund units		2,465	7%	-	0%
		37,173	100%	30,039	100%

33.4.1 It consists of Khanzana Account maintained with the Bank.

33.5 Experience adjustments on obligations and plan assets

	2008	2007	2006	2005	2004
Present value of defined benefit obligations	62,732	50,618	35,966	31,563	20,876
Fair value of plan assets	(37,173)	(30,039)	(24,186)	(3,295)	(4,401)
Deficit	25,559	20,579	11,780	28,268	16,475
Actuarial (loss)/gain on Obligation	(664)	(874)	(1,064)	(7,218)	-
Actuarial (loss)/gain on Assets	(670)	(804)	(182)	(410)	-

	2008	2007
33.6 Charge for defined benefit plan		
Current service cost	13,043	8,050
Interest cost	5,062	3,597
Expected return on plan assets	(3,004)	(967)
Actuarial gains and losses - recognized	685	666
Past Service Cost-Vested	-	3,715
	15,786	15,061
33.7 Actual return on plan assets	2,334	163

34. DEFINED CONTRIBUTION PLAN

The Bank operates an approved provident fund scheme for all its permanent employees, which are administered by a board of trustees. Equal monthly contributions are made by the Bank and employees to the fund at the rate of 10 percent (2007: 10 percent) of basic salaries of employees.The contribution made by the bank during the year is Rs. 8,425 (2007: 6,388) thousands.

35. COMPENSATION OF COUNTRY HEAD AND EXECUTIVES

	Country Head		Executives	
	2008	2007	2008	2007
	Rupees in '000			
Managerial remuneration	5,078	4,416	31,092	28,620
Charge for defined benefit plan	581	505	3,570	2,954
Contribution to defined contribution plan	450	391	2,752	2,425
Rent and house maintenance	2,023	1,760	12,385	11,477
Utilities	581	536	3,397	3,060
Medical	60	55	1,034	943
Others	788	376	9,840	4,434
	9,561	8,039	64,070	53,913
Number of persons	1	1	33	31

The Country Head and some of the executives have been provided with free use of bank maintained cars.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2008		2007	
	Book value	Fair value	Book value	Fair value
Assets				
Cash balances with treasury banks	3,248,922	3,248,922	3,480,878	3,480,878
Balances with other banks	4,647,570	4,647,570	4,131,352	4,131,352
Investments	1,124,428	1,131,928	1,153,825	1,189,450
Financings	14,377,810	14,656,652	12,585,549	12,814,680
Other assets	275,882	275,882	404,243	404,243
	23,674,612	23,960,954	21,755,847	22,020,603
Liabilities				
Bills payable	219,170	219,170	231,462	231,462
Due to financial instituitions	1,969,849	1,969,849	1,309,411	1,309,411
Deposits and other accounts	18,336,159	18,336,159	16,964,566	16,964,566
Other liabilities	664,005	664,005	627,784	627,784
	21,189,183	21,189,183	19,133,223	19,133,223
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	3,631,384	3,631,384	160,384	160,384
Forward sale of foreign exchange	1,044,415	1,044,415	866,072	866,072

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

37. 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	Payment & Settlement
2008	Rupees in '000				
Total income	120,788	318,419	189,717	1,422,683	3,182
Total expenses	29,926	207,697	1,280,559	609,750	13
Net income	90,862	110,722	(1,090,842)	812,933	3,169
Segment assets (gross)	1,274,018	5,761,220	2,433,535	15,057,694	-
Segment non-performing loans	-	-	22,038	839,631	-
Segment provision required	-	-	5,294	323,347	-
Segment liabilities	-	10,844	18,880,630	2,731,025	209,545
Segment return on net assets (ROA) (%)	11.64%	13.57%	10.50%	12.78%	-
Segment cost of funds (%)	8.01%	8.01%	8.01%	15.00%	-

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
	--------	--------	Rupees in '000	--------	--------
2007					
Total income	82,952	126,488	116,595	1,432,942	3,436
Total expenses	70,724	68,409	109,411	1,198,670	657
Net income	12,228	58,079	7,184	234,272	2,779
Segment assets (gross)	1,016,802	412,996	1,298,994	19,546,103	-
Segment non-performing loans	-	-	18,176	223,102	-
Segment provision required	-	-	12,389	185,393	-
Segment liabilities	-	-	17,086,184	2,393,078	153,098
Segment return on net assets (ROA) (%)	10.83%	20.48%	13.09%	10.35%	-
Segment cost of funds (%)	7.16%	7.16%	7.16%	4.80%	-

38. RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Bank, close members of their families, entities owned or controlled by them and companies affiliated by virtue of shareholding in common with that of the Bank. Related parties also comprise of branches of the bank out side Pakistan, key management personnel and employee funds. The significant balances with related parties at 31 December were as follows:

	2008		2007	
	Country Head & Executives	Other related parties	Country Head & Executives	Other related parties
	--------	Rupees in '000	--------	--------
Assets				
Other receivables	-	16,967	-	-
Liabilities				
Deposits	58,337	2,451,973	63,604	908,129
Unremitted head office expenses	-	114,033	-	6,538
Mark-up/ Return payable	2,321	26,175	1,011	1,075

Other significant transactions with related parties during the year were as follows:	2008	2007
	Rupees in '000	
Deposits received during the year	4,906,245	1,236,966
Deposits withdrawn during the year	3,367,668	365,092
Profit remitted during the year	347,103	-
Mark-up/return expensed	56,165	9,910
Mark-up/return earned	-	13,956
Head office expenditure	107,494	-

Transactions entered into with key management personnel as per their terms of employment are excluded from related party

39. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

39.1 Scope of applications

Al-Baraka Islamic Bank B.S.C. (C) - Pakistan Branches (the Bank), operates as a branch of a foreign bank incorporated and domiciled in Bahrain on February 21, 1984 and is a member of Al-Baraka Banking Group. The Bank commenced its operations in Pakistan in December 1991. The Pakistan branches operate as scheduled Islamic Bank under a license issued by the State Bank of Pakistan (SBP) and are principally engaged in business of banking as defined in the Banking Companies Ordinance, 1962.

Vide SBP's BSD circular 1 dated January 1, 2008, Basel II is applicable on the banks w.e.f. January 1, 2008 and accordingly, Basel II related disclosures as required by BSD 4 dated February 17, 2006 have been given in these financial statements.

39.2 **Capital structure**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:
• To comply with the capital requirements set by State Bank of Pakistan;
• To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
• To maintain a strong capital base to support the development of its business.

Banks regulatory capital is divided into three tiers as follows:

Tier I Capital
This includes paid up capital (presented as Head Office Capital Account being branches of foreign bank), net un-appropriated / remitted profits, after deductions for deficit on revaluation of available for sale investments.

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

Tier III Capital
Tier III Capital has also been prescribed by the SBP for managing market risk; however the Bank does not have any Tier III capital as of December 31, 2008.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of (and reflecting an estimate of credit, market and other risks associated with) each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.
The required capital is achieved by the Bank through:

(a) Adequate level of Paid up Capital (through head office)
b) Ensuring better recovery management; and
c) Maintain acceptable profit margins.

As discussed in Note 19, the bank has been granted specific exemption from increasing the capital base upto Rs. 5 billion.

The table below summarises the composition of regulatory capital and the ratio of the Bank for the year ended 31 December 2008:

	2008	**(Un-audited) 2007**
	Rupees in "000"	
1 **Tier I Capital**		
Shareholder equity / Assigned capital	2,420,129	2,046,185
Share premium	-	-
Reserve	-	-
Un-appropriated/Unremitted profits (net of accumulated losses, if any)	(19,912)	400,348
Minority interest (for consolidated position reporting)	-	-
Less: intagibles, investment in commercial entities (50%) etc.	-	-
Calculation difference (expected losses vs eligible provisions)	(39,294)	(2,738)
Total Tier I Capital	**2,360,923**	**2,443,795**

2 **Tier II Capital**		
Subordinated Debt (upto 50% of total Tier 1 Capital)	-	-
General Provisions subject to 1.25% of Total Risk Weighted Assets	10,373	9,609
Revaluation Reserve (upto 45%)	32	-
Less: Calculation difference (expected losses vs eligible provisions)		
Investment in commercial entities (50%)	-	-
Total Tier II Capital	**10,405**	**9,609**
Eligible Tier III Capital	**-**	**-**
Total Regulatory Capital Base	**2,371,328**	**2,453,404**

39.2 **Capital adequacy**

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders'.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of profit remittance to Head Office. No changes were made in the objectives, policies and processes from the previous years.

Assessment of the capital requirement of the Bank is carried out through a comprehensive projection of future businesses that takes cognizance of the strategic intent of the Bank, profitability of particular businesses and opportunities for growth. The proper mapping of credit, operational and market risks to this projected business growth enables assignment of capital that not only adequately covers the minimum regulatory capital requirement but also provides headroom for growth. The calibration of risk to business is enabled by a strong risk culture in the Bank aided by effective, technology based risk management systems.

The Bank calculates capital adequacy ratio for its credit risk, market risk and operational risk based upon requirements under Basel II and as per guidelines issued by the State Bank of Pakistan from time to time in this regard.

Major credit risk in respect of on and off-balance sheet exposures are mainly claims on banks, corporates, retail customers, residential mortgages, and Sukuk (Held to Maturity). Market risk exposures are in equity and foreign exchange positions. The Bank's potential risk exposures shall remain in these exposure types.

Sensitivity and stress testing of the Bank under different risk factors namely yield rate, forced sale value of collateral, non-performing financings and foreign exchange rate depicts that the Bank's capital adequacy ratio is within the regulatory requirements.

The Bank's sponsors are well reputed in abroad. The Bank has never faced in the past any difficulty in raising capital whenever it required. The Bank's economic capital requirement assessment based on economic capital model is same as determined by the Bank's management as it has taken into account all factors which are required to be considered in an economic model.

A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 31st December 2008 is presented below:

	Capital Requirements		Risk Weighted Assets	
	Current Year	Prior Year	Current Year	Prior Year
Credit Risk	-------------------------Rupees in "000"-------------------------			
Portfolios subject to standardised approach				
Portfolios subject to on-balance sheet exposure (Simple approach):				
Public sector entities in Pakistan	1,733	4,509	21,659	56,361
Banks	76,808	3,339	960,097	41,732
Corporates	935,732	878,682	11,696,648	10,983,530
Retail	62,523	33,976	781,535	424,700
Residential mortgage finance	19,445	17,163	243,059	214,540
Past due loans	41,986	1,955	524,822	24,432
All other assets	61,835	56,697	772,938	708,707
Portfolios subject to off-balance sheet exposure - non market related (Simple approach):				
Corporates	122,036	208,734	1,525,448	2,609,175
Retail	10,434	4,853	130,427	60,662
Banks	444	2,311	5,546	28,887
Portfolios subject to off-balance sheet exposures - market related (Current exposure method):				
Banks	176,108	13,151	2,201,356	164,384
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Equity position risk	6,830	1,108	85,380	13,850
Foreign exchange risk	16,524	1,526	206,551	19,074
Operational Risk	87,251	4,733	1,090,642	59,167
	1,619,689	1,232,737	20,246,107	15,409,201

Capital adequacy ratio

		2008	(Un-audited) 2007
		Rupees in '000	
Total eligible regulatory capital held	(a)	2,371,328	2,453,404
Total risk weighted assets	(b)	20,246,107	15,409,201
Capital adequacy ratio	(a) / (b)	11.71%	15.92%

40. RISK MANAGEMENT

The due identification, measurement and mitigation of all risks inherent in the Bank's business processes is essential for the continuity and profitability of its operations. Cognizant of this fact, the management has taken comprehensive measures to establish a well-structured and meaningful risk management process within the organization. In compliance with State Bank of Pakistan guidelines, a comprehensive Risk Management Policy is in place duly approved by the Board of Directors. This document covers all facets of risks including credit, market, liquidity, operational and country risks, and outlines policies for their prudent management and mitigation.

In addition, a dedicated Risk Management Department is in place, independent of the business units, to perform all tasks necessary to identify, monitor and mitigate the risks arising from various activities, in line with the approved Policy. Periodic risk reviews are prepared to monitor portfolio concentrations, compliance with risk limits, and identification of any risk related issues which are subsequently discussed and resolved by the Risk Management Committee. Furthermore, quarterly stress tests are also conducted to assess the resilience of the portfolios under extreme market conditions.

40.1 Credit Risk

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions. The credit risk management process in the Bank encompasses the assessment of risk both at the portfolio as well as at the transaction level. Limits have been set relating to group and industry to monitor portfolio concentrations and to encourage diversification. New approvals and/or renewals are monitored on a transaction level to ensure compliance with risk management policies and procedures.

A well-defined Credit Policy, duly approved by the Board of Directors, explicitly spells out various components of the credit granting process, including appraisal, sanctioning and review procedures, in order to instill prudence in all financing activities. Past due accounts are treated in line with the State Bank of Pakistan rules and regulations. However, periodic Watch Lists are prepared by the Credit Administration Department to proactively monitor accounts with early warning indicators .

A key tool being used by the bank in its credit risk management process is the internal risk rating of all its exposures. The newly refurbished rating framework has been designed to conform to the requirements of advanced measurement approaches under the Basel II Capital Accord, and is in line with the State Bank of Pakistan's guidelines on internal rating systems. The framework has been bifurcated into Customer Rating and Facility Rating to separately capture the risks pertaining to borrowing entities and specific transactions. The internal rating exercise provides invaluable assistance in the decision-making process by evaluating the risk profile of exposures before approval. In addition, it also helps in gauging the overall risk profile of the entire portfolio.

In order to monitor the credit exposure taken by the Bank in various economic segments, sectoral limits are set and approved by the Board of Directors in accordance with the nature and performance of each sector and Bank's own risk appetite. Adherence to these limits is assessed on a regular basis to ensure that the credit portfolio remains well diversified. Further diversification is achieved with the initiation of Consumer Finance, which serves to spread the risks over a large number of customers.

Various credit mitigants are used to protect against potential credit losses. Great care is taken to ensure that all legal and operational requirements are in place to allow smooth liquidation/processing in case of a default. The impact of these collaterals is a substantial reduction in the overall credit risk exposure of the Bank.

	2008	2007
	Rupees in '000	
Maximum amount under credit risk exposure -without taking into account collaterals	20,781,119	18,493,538
Maximum amount under credit risk exposure - taking into account collaterals	5,503,309	5,057,989

40.1.1 SEGMENTAL INFORMATION

Segmental Information is presented in respect of the class of business and geographical distribution of Advances, Deposits, Contingencies and Commitments.

40.1.1.1 Segments by class of business

	2008					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	10,159	0.07%	98,405	0.54%	-	0.00%
Mining and quarrying	1,765	0.01%	21,137	0.12%	-	0.00%
Textile	5,861,419	39.83%	349,376	1.91%	594,941	14.26%
Chemical and pharmaceuticals	976,969	6.64%	865,411	4.72%	365,472	8.76%
Cement	210,720	1.43%	12,665	0.07%	17,848	0.43%
Sugar	284,144	1.93%	54,675	0.30%	-	0.00%
Footwear and leather garments	612,577	4.16%	64,110	0.35%	145,460	3.49%
Automobile and transportation equipment	630,253	4.28%	104,531	0.57%	137,811	3.30%
Electronics and electrical appliances	254,162	1.73%	91,488	0.50%	129,532	3.10%
Construction	404,965	2.75%	141,708	0.77%	278,118	6.67%
Power (electricity), gas, water, sanitary	1,671	0.01%	112,624	0.61%	100,917	2.42%
Wholesale and retail trade	242,831	1.65%	64,881	0.35%	35,159	0.84%
Exports/imports	292,983	1.99%	117,375	0.64%	434,859	10.42%
Transport, storage and communication	61,685	0.42%	152,586	0.83%	90,307	2.16%
Financial	400,684	2.72%	5,859,769	31.96%	60,794	1.46%
Insurance	16,310	0.11%	56,404	0.31%	-	0.00%
Services	377,637	2.57%	5,404,447	29.47%	128,942	3.09%
Individuals	637,693	4.33%	648,739	3.54%	37,592	0.90%
Others	3,438,197	23.36%	4,115,828	22.45%	1,614,709	38.70%
	14,716,824	100.00%	18,336,159	100.00%	4,172,461	100.00%

Segments by class of business	2007					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	1,172	0.01%	18,217	0.11%	14,992	0.27%
Mining and quarrying	4,803	0.04%	5,508	0.03%	3,293	0.06%
Textile	5,077,185	39.72%	301,043	1.77%	1,285,057	23.42%
Chemical and pharmaceuticals	453,805	3.55%	725,245	4.28%	552,855	10.07%
Cement	10,003	0.08%	21,880	0.13%	97,618	1.78%
Sugar	243,448	1.90%	62,911	0.37%	12,487	0.23%
Footwear and leather garments	512,732	4.01%	45,478	0.27%	199,368	3.63%
Automobile and transportation equipment	508,178	3.98%	141,149	0.83%	167,205	3.05%
Electronics and electrical appliances	137,329	1.07%	26,607	0.16%	71,501	1.30%
Construction	458,560	3.59%	135,989	0.80%	267,968	4.88%
Power (electricity), gas, water, sanitary	493	0.00%	88,732	0.52%	63,549	1.16%
Wholesale and retail trade	137,380	1.07%	58,159	0.34%	33,960	0.62%
Exports/imports	158,112	1.24%	181,128	1.07%	548,787	10.00%
Transport, storage and communication	222,232	1.74%	151,399	0.89%	69,715	1.27%
Financial	82,136	0.64%	3,635,723	21.43%	58,105	1.06%
Insurance	4,527	0.04%	444,081	2.62%	-	0.00%
Services	300,700	2.35%	293,755	1.73%	121,389	2.21%
Individuals	540,296	4.23%	4,894,500	28.85%	18,666	0.34%
Others	3,930,240	30.75%	5,733,062	33.79%	1,901,343	34.65%
	12,783,331	100.00%	16,964,566	100.00%	5,487,858	100.00%

40.1.1.2 Segment by sector

Segment by sector	2008 Financings (Gross) Rupees in '000	Percent	Deposits Rupees in '000	Percent	Contingencies and Commitments Rupees in '000	Percent
Public/ Government	-	-	1,320,740	7%	-	-
Private	14,716,824	100%	17,015,419	93%	4,172,461	100%
	14,716,824	100%	18,336,159	100%	4,172,461	100%

Segment by sector	2007 Financings (Gross) Rupees in '000	Percent	Deposits Rupees in '000	Percent	Contingencies and Commitments Rupees in '000	Percent
Public/ Government	-	-	2,245,161	13%	-	-
Private	12,783,331	100%	14,719,405	87%	5,487,858	100%
	12,783,331	100%	16,964,566	100%	5,487,858	100%

40.1.1.3 Details of non-performing financings and specific provisions by class of business segment

	2008 Classified Financings	2008 Specific provisions held	2007 Classified Financings	2007 Specific provisions held
	Rupees in '000			
Textile	400,776	135,616	103,049	66,142
Chemical and pharmaceuticals	45,862	39,405	29,906	29,906
Power (electricity), gas, water, sanitary	1,763	1,763	1,763	1,763
Others	413,268	151,857	96,951	90,362
	861,669	328,641	231,669	188,173

40.1.1.4 Details of non-performing financings and specific provisions by sector

	2008 Classified Financings	2008 Specific provisions held	2007 Classified Financings	2007 Specific provisions held
Public/ Government	-	-	-	-
Private	861,669	328,641	231,669	188,173
	861,669	328,641	231,669	188,173

40.1.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	2008	2007
	Rupees in '000	
	Pakistan	
(Loss) / Profit before taxation	(78,545)	314,542
Total assets employed	24,197,826	22,077,113
Net asset employed	2,365,781	2,444,753
Contingencies and commitments	4,172,461	5,487,858

Total assets employed include intra group items of Rs. Nil (2007: Rs.Nil) million.

40.1.1.6 Credit Risk-General Disclosures Basel II Specific

The Bank is operating under standardised approach for credit risk under Basel II. As such risk weights for the credit risk related assets (on-balance sheet and off-balance sheet-market & non market related exposures) are assigned on the basis of standardised approach. The Bank is committed to further strengthen its risk management framework that shall enable the Bank to move ahead for adopting Foundation IRB approach of Basel II; meanwhile none of our assets class is subject to the foundation IRB or advanced IRB approaches.

40.1.1.7 Credit Risk: Disclosures for portfolio subject to the Standardised Approach & supervisory risk weights in the IRB Approach-Basel II Specific:

The Simplified Standardized Approach is used for calculating capital charge for credit risk. Under this Approach, risk weight to claims on sovereigns (denominated in FCY), public sector entities, and banks are assigned on the basis of country scores (assigned to the country of origin of these claims) of Export Credit Agencies (ECA) participating in the "Arrangement of Officially Supported Export Credits". These scores are available from the Oraganization for Economic Cooperation and Development (OECD).

Types of exposures and ECAI's used is as follows:

Exposures	JCR-VIS	PACRA	OTHER
Corporate	------fixed risk weight------		
Banks	X	X	ECA Scores
Sovereigns	X	X	ECA Scores
SMEs	------fixed risk weight------		
Securitizations	-----------N/A----------		

Credit exposure subject to standardised approach:

2008 (Rs. in thousands)

Exposures	Rating category	Amount outstanding	Deduction CRM	Net amount
Corporate	-	12,079,580	382,932	11,696,648
Retail	-	1,230,736	188,690	1,042,046
Residential mortgage	-	694,545	91	694,454
Banks	-	4,705,539	-	4,705,539

2007 (Rs. in thousands)

Exposures	Rating category	Amount outstanding	Deduction CRM	Net amount
Corporate	-	11,293,644	310,114	10,983,530
Retail	-	704,645	138,378	566,267
Residential mortgage	-	612,971	-	612,971
Banks	-	4,180,257	-	4,180,257

40.1.1.8 Credit Risk: Disclosures for portfolio subject to IRB Approach - Basel II Specific
Not applicable as the Bank has not yet adopted IRB approach.

40.1.1.9 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardised and IRB Approaches-Basel II Specific:

Bank obtains capital relief for its both on-balance and off-balance sheet- non-market related exposures by using simple approach for credit risk mitigation (CRM). Off-balance sheet items under the simplified standardised approach are converted into credit exposure equivalents through the use of credit conversion factors. The main type of collateral taken by the bank are:

- Cash and certificates of deposits
- Guarantees
- Pledge on imported good / title to goods
- Mortgage over property
- Hypothecation of current and fixed assets

However, under the standardised approach, the eligible collaterals used for credit risk mitigation under the simple approach for calculating credit risk capital charge are security deposits, cash margins, Government securities and saving accounts.

Valuation and management of eligible collaterals for CRM is being done in line with the conditions laid down by SBP. Since eligible collaterals for CRM purposes are all in the form of cash collaterals, they generally do not pose risk to the Bank in terms of change in their valuation due to changes in the market condition.

The credit equivalent amount of an off-balance sheet market related foreign exchange contracts are determined by using the current exposure (mark to market) method.

The benefit of CRM against its claims on corporate and retail portfolio under the standardised approach for on-balance sheet exposures is as follows:

	Original Exposure	CRM Benefit	Net Amount
	Rupees in thousands		
Claims on coporate portfolios	12,079,580	382,932	11,696,648
Claims on retail portfolios	1,230,736	188,690	1,042,046
	13,310,316	571,622	12,738,694

The benefit of CRM against its claims on corporate and retail portfolio under standardised approach for off-balance sheet, non-market

	Original Exposure	CRM Benefit	Net Amount
	Rupees in thousands		
Claims on coporate portfolios	3,563,885	300,735	3,263,150
Claims on retail portfolios	593,404	74,752	518,652
	4,157,289	375,487	3,781,802

40.1.1.10 Credit Risk: Disclosures with respect to securitization - Basel II Specific

Not applicable

40.1.1.11 Equity position risk in the banking book-Basel II Specific

The Bank makes investment in various products/instruments for supporting business activities of the bank and generating revenue in short term or relatively short term tenure. No strategic Investments have been made with the intention to hold it for a longer term.

Classification of equity investments

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

-Held for trading Investments
- Available for sale Investments

Some of the above mentioned investments are listed and traded in public through stock exchanges, while other investments are unlisted.

Policies, valuation and accounting of equity investments

These are given in Note 6.1 & Note 7.3 and 20.1.

Composition of equity investments

	Held for trading (HFT)		Available for sale (AFS)	
	Cost / Fair value	Unrealized	Cost / Fair value	Unrealized gain /
	Rs. In thousands		Rs. In thousands	
Equity investment - listed	120,285 / 42,690	(77,595)	74,447 / 36,185	(38,262)
Equity investment - Unlisted	-	-	-	-

Gain on Investments

During the year, gain amounting of Rs. 5,603 (In thousands) have been realized on sale of equity investments which have been credited to profit and loss account. The unrealized loss on AFS investments is recognized in balance sheet while unrealized loss on HFT investments is recognized through profit and loss account as disclosed in note 10.1.

40.2 Market risk

Market risk is the risk of losses in on- and off-balance sheet positions of the Bank due to movement in market prices, such as profit rates, equity prices and exchange rates.

The basic objective of effective market risk management is to minimize the risk of losses resulting from adverse movements in these prices. This is achieved by setting instrument-specific exposure limits, counterparty limits and stop loss limits etc. Furthermore, policies are in place to monitor transactions that result in excess over limits. All these activities are performed in line with the Risk Management Policies and Procedures Manual. The quarterly market risk review assesses the position of Bank portfolios with regard to various market risks, and identifies key risk areas and remedial measures.

40.2.1 Foreign exchange risk

Foreign exchange transactions carried out by the Bank as part of its overall banking activity exposes it to foreign exchange risk due to movement in exchange rates.

As a policy stance, all foreign currency exposures of the Bank are taken to execute customers' requirements and/or to square Bank's own position. No exposures are allowed purely for trading purposes. The policy also specifies permitted currencies in which the Bank can take exposure as well as the maximum tenure for foreign currency transactions. Limits have been set with regard to net open position, currency-wise holdings, transaction amounts and stop loss positions, to safeguard against adverse movements in exchange rates.

	2008			
Foreign exchange risk	**Assets**	**Liabilities***	**Off-balance sheet items**	**Net foreign currency exposure**
	-----------------------Rupees in '000-----------------------			
United States dollar	2,911,550	5,111,871	2,313,680	113,359
Great Britain pound	69,386	237,030	191,013	23,369
Euro	134,111	186,673	82,276	29,714
Japanese yen	12,871	-	-	12,871
Deutsche mark	-	19	-	(19)
ACU Dollar	22,696	-	-	22,696
U.A.E. Dirham	2,774	-	-	2,774
Swiss Frank	1,767	-	-	1,767
Foreign Currency	3,155,155	5,535,593	2,586,969	206,531
Pakistan Rupees	21,042,671	18,662,233	(2,586,969)	(206,531)
	24,197,826	24,197,826	-	-

	2007			
	Assets	**Liabilities***	**Off-balance sheet items**	**Net foreign currency exposure**
	-----------------------Rupees in '000-----------------------			
United States dollar	3,013,452	2,097,980	(743,077)	172,395
Great Britain pound	69,120	89,499	37,333	16,954
Euro	13,746	-	-	13,746
Japanese yen	7,016	-	-	7,016
Deutsche mark	56,164	32,223	(3,239)	20,702
ACU Dollar	-	824	2,753	1,929
Swiss Frank	5,683	-	-	5,683
Foreign Currency	3,165,181	2,220,526	(706,230)	238,425
Pakistan Rupees	18,911,932	19,856,587	706,230	(238,425)
	22,077,113	22,077,113	-	-

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates. Hedging transactions are used to manage risk in other currencies.

Liabilities include head office capital account, (accumulated loss) / unremitted profit and deficit on revaluation of assets amounting to Rs. 2,365,782 thousands (2007: Rs. 2,444,753 thousands).

40.2.2 Equity position risk

The Bank has exposure in stock market equities in its trading book, which gives rise to this risk due to movement in share prices.

The equity position risk of the Bank in the trading book revolves around the investment in listed shares/securities, duly approved by the Shari'ah Advisor. Limit for the maximum stock market exposure has been set by the Head Office, in order to monitor and manage the size of the risk taken by the Bank. Even within the approved limit, all decisions with regard to taking or selling off an investment is made with the approval of the Country Credit Committee.

40.2.3 Yield / Profit Rate Risk in the Banking Book (IRRBB)-Basel II Specific

Return sensitive assets, liabilities and off-balance sheet items-repricing analysis is done by ALCO. ALCO also monitors and manages the yield rate risk and takes on exposure to the effects of fluctuations in the prevailing levels of profit rates on Bank's financial position and cash flows. Profit margin may increase as a result of such changes but may reduce or create losses in the event of unexpected movements.

40.2.3 **Mismatch of interest rate sensitive assets and liabilities**

2008	Effective Yield/ Profit rate	Total	Exposed to Yield/ Interest 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	-	3,248,922	-	-	-	-	-	-	-	-	-	3,248,922
Balances with other banks	9.50%	4,647,570	4,604,680	-	-	-	-	-	-	-	-	42,890
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	11.86%	1,124,428	-	-	-	-	-	-	950,000	100,000	-	74,428
Financings	12.33%	14,377,810	2,510,156	3,889,154	3,931,849	1,856,199	799,744	-	-	-	-	533,028
Other assets	-	275,882	-	-	-	-	-	-	-	-	-	275,882
		23,674,612	7,114,836	3,889,154	3,931,849	1,856,199	799,744	-	950,000	100,000	-	4,175,150
Liabilities												
Bills payable	-	219,170	-	-	-	-	-	-	-	-	-	219,170
Due to financial instituitions	6.50%	1,969,849	277,932	1,021,755	670,162	-	-	-	-	-	-	-
Deposits and other accounts	9.19%	18,336,159	11,098,257	1,219,732	481,550	2,067,825	444,764	586,686	558,801	-	-	1,878,544
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	664,005	-	-	-	-	-	-	-	-	-	664,005
		21,189,183	11,376,189	2,241,487	1,151,712	2,067,825	444,764	586,686	558,801	-	-	2,761,719
On-balance sheet gap		2,485,429	(4,261,353)	1,647,667	2,780,137	(211,626)	354,980	(586,686)	391,199	100,000	-	1,413,431
Off-balance sheet financial instruments												
Forward Foreign exchange contracts- Purchase		3,631,384	-	-	-	-	-	-	-	-	-	3,631,384
Forward Foreign exchange contracts- Sale		1,044,415	-	-	-	-	-	-	-	-	-	1,044,415
Off-balance sheet gap		2,586,969	-	-	-	-	-	-	-	-	-	2,586,969
Total Yield/Profit Risk Sensitivity Gap			(4,261,353)	1,647,667	2,780,137	(211,626)	354,980	(586,686)	391,199	100,000	-	
Cumulative Yield/Profit Risk Sensitivity Gap			(4,261,353)	(2,613,686)	166,451	(45,175)	309,805	(276,881)	114,318	214,318	214,318	

ALBARAKA ISLAMIC BANK B.S.C. (C)

Mismatch of interest rate sensitive assets and liabilities

2007	Effective Yield/ Profit rate	Total	Exposed to Yield/ Interest 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	-	3,480,878	-	-	-	-	-	-	-	-	-	3,480,878
Balances with other banks	8.06%	4,131,352	4,099,192	-	-	-	-	-	-	-	-	32,160
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	9.82%	1,153,825	-	-	-	-	-	-	900,000	100,000	-	153,825
Financings	10.91%	12,585,549	2,853,038	2,904,888	3,502,634	1,943,729	1,243,055	-	-	-	-	43,496
Other assets	-	404,243	-	-	-	-	-	-	-	-	-	404,243
		21,755,847	6,952,230	2,904,888	3,502,634	1,943,729	1,243,055	-	900,000	100,000	-	4,114,602
Liabilities												
Bills payable	-	231,462	-	-	-	-	-	-	-	-	-	231,462
Due to financial instituitions	6.50%	1,309,411	212,462	705,678	391,271	-	-	-	-	-	-	-
Deposits and other accounts	7.90%	16,964,566	10,207,229	1,386,002	423,023	1,754,420	469,454	485,931	387,944	-	-	1,850,563
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	627,784	-	-	-	-	-	-	-	-	-	627,784
		19,133,223	10,419,691	2,091,680	814,294	1,754,420	469,454	485,931	387,944	-	-	2,709,809
On-balance sheet gap		2,622,624	(3,467,461)	813,208	2,688,340	189,309	773,601	(485,931)	512,056	100,000	-	1,404,793
Off-balance sheet financial instruments												
Forward foreign exchange contract - purchase	-	160,384	-	-	-	-	-	-	-	-	-	160,384
Forward foreign exchange contracts - sales	-	866,072	-	-	-	-	-	-	-	-	-	866,072
Off-balance sheet gap		(705,688)										(705,688)
Total Yield/Profit Risk Sensitivity Gap			(3,467,461)	813,208	2,688,340	189,309	773,601	(485,931)	512,056	100,000	-	
Cumulative Yield/Profit Risk Sensitivity Gap			(3,467,461)	(2,654,253)	34,087	223,396	996,997	511,066	1,023,122	1,123,122	1,123,122	

Yield/Profit rate risk arises from the possibility that changes in profit rates will affect the value of financial instruments. Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. The bank is exposed to both profit rate risk and yield risk as result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in the given period. The bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The position of on-balance sheet financial instruments other than deposits and investments is based on the earlier of the contractual repricing or maturity date and for off- balance sheet instrument is based on settlement dates, while the position of deposits and investments is based on maturity date.

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

40.3 Liquidity risk

This is the risk of loss due to the inability of the bank to meet its obligations without incurring large or unacceptable costs.

The mandate for continuous and effective liquidity management in the bank lies with the Asset and Liability Management Committee (ALCO). The asset and liability position, both in local and foreign currencies, is monitored on a daily basis, to assess the appropriateness of sources and application of funds, the adequacy of various reserve requirements, and to ensure Shari'ah compliance. In addition, liquidity risk reviews are prepared on a quarterly basis to assist the ALCO in its decision making process.

40.3.1 Maturities of assets and liabilities

		2008								
Maturities of assets and liabilities	**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	3,248,922	1,578,793	-	-	-	-	-	-	1,670,129	-
Balances with other banks	4,647,570	4,647,570	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	1,124,428	42,690	-	-	-	-	31,738	950,000	100,000	-
Financings	14,377,810	2,510,156	3,889,154	3,931,849	1,056,455	834,556	587,921	495,463	214,576	857,680
Other assets	631,311	112,642	242,486	9,697	17,120	191,739	24,980	22,485	2,512	7,650
Operating fixed assets	167,785	-	-	-	-	-	-	167,785	-	-
	24,197,826	8,891,851	4,131,640	3,941,546	1,073,575	1,026,295	644,639	1,635,733	1,987,217	865,330
Liabilities										
Bills payable	219,170	219,170	-	-	-	-	-	-	-	-
Due to financial instituitions	1,969,849	277,932	1,021,755	670,162	-	-	-	-	-	-
Deposits and other accounts	18,336,159	12,976,801	1,219,732	481,550	2,067,825	444,764	586,686	558,801	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	1,174,400	286,941	202,142	112,209	120,451	234,608	98,877	76,148	15,776	27,248
Deferred tax liabilities	132,467	4,042	-	-	-	51,370	77,055	-	-	-
	21,832,045	13,764,886	2,443,629	1,263,921	2,188,276	730,742	762,618	634,949	15,776	27,248
Net assets	2,365,781	(4,873,035)	1,688,011	2,677,625	(1,114,701)	295,553	(117,979)	1,000,784	1,971,441	838,082

Head office capital account	2,420,129
(Accumulated loss)/ unremitted profit	(19,912)
(Deficit) on revaluation of assets	(34,436)
	2,365,781

ALBARAKA ISLAMIC BANK B.S.C. (C)

		2007								
Maturities of assets and liabilities	**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	3,480,878	2,184,693	-	-	-	-	-	-	1,296,185	-
Balances with other banks	4,131,352	4,131,352	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	1,153,825	87,464	-	-	-	-	66,361	900,000	100,000	-
Financings	12,585,549	2,853,038	2,904,888	3,502,634	700,674	1,081,345	771,298	610,698	66,264	94,710
Other assets	622,812	269,568	209,210	19,942	5,543	11,181	8,087	7,280	87,522	4,479
Operating fixed assets	102,697	-	-	-	-	-	-	102,697	-	-
	22,077,113	9,526,115	3,114,098	3,522,576	706,217	1,092,526	845,746	1,620,675	1,549,971	99,189
Liabilities										
Bills payable	231,462	231,462	-	-	-	-	-	-	-	-
Due to financial instituitions	1,309,411	212,462	705,678	391,271	-	-	-	-	-	-
Deposits and other accounts	16,964,566	12,057,792	1,386,002	423,023	1,754,420	469,454	485,931	387,944	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	982,895	282,744	201,533	93,008	90,700	114,495	98,098	85,551	8,504	8,262
Deferred tax liabilities	144,026	-	-	-	-	57,611	86,415	-	-	-
	19,632,360	12,784,460	2,293,213	907,302	1,845,120	641,560	670,444	473,495	8,504	8,262
Net assets	2,444,753	(3,258,345)	820,885	2,615,274	(1,138,903)	450,966	175,302	1,147,180	1,541,467	90,927

Head office capital account	2,046,185
Unremitted profit	400,348
(Deficit) on revaluation of assets	(1,780)
	2,444,753

The above maturity profile has been prepared in accordance with IAS- 30: 'Disclosure in the financial statements of banks and similar financial institutions' based on contractual maturities. However, current and saving deposits do not have any contractual maturity.

40.4 Operational Risk

This is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external

By its very nature, operational risk is inherent in all business activities of the Bank and hence its identification and management is not limited to a particular department/division. The operational manuals of each business activity identify key operational issues and define procedures to minimize the potential risks. Prudent and proactive operational risk management is achieved by adopting an integrated approach whereby all Bank personnel are responsible for identifying, evaluating, reporting and mitigating such risks inherent in their respective lines of activities, in accordance with their operational manuals. Furthermore, key oversight functions of the Bank such as Risk Management, Internal Audit and Compliance work in conjunction to ensure that operational policies and procedures are being observed in letter and spirit.

Like all modern-day institutions, the Bank relies heavily on computer systems to handle critical electronic data and to support its daily operations. The necessity of ensuring continuity in these IT-related operations is a source of considerable operational risk, which is mitigated through the development of a Disaster Recovery Plan (DRP). The DRP outlines standard operating procedures to be followed in case of an unforeseen disaster, interruption or breakdown in the IT systems of the bank, thereby ensuring continuity in Bank's business and in meeting customer needs. In addition, a Business Continuity Plan (BCP) is also in place to ensure rapid recovery and timely resumption of all critical business functions of the Bank following a wide-scale, regional disruption.

The Bank recognizes that the field of sophisticated and structured operational risk management is in a state of evolution. In line with the latest research and development in this area, the Bank has taken the initiative of adopting a more objective approach to operational risk management, based on actual loss events. This is envisaged to be accomplished through the identification of key risk indicators for all major business units of the Bank. Based on the actual incidents reported by the branches,an operational loss database is being maintained, which will ultimately assist in the quantification of operational risk.

40.4.1 Operational Risk-Disclosures Basel II Specific

Basic Indicator Approach (BIA) is used for Operational Risk under Basel II.

40.5 Shariah non-compliance risk

Shari'ah Non-compliance risk arises due to the lack of awareness amongst the staff while processing a particular transaction, which may result in reputational loss to the bank as well as reversal of income of the bank in respect of that

This risk is covered by ensuring that all Bank personnel have detailed and relevant knowledge of Shari'ah-related issues pertaining to their respective areas. This is accomplished through periodic training sessions and workshops conducted by the Shari'ah Advisor and his team. Furthermore, the Shari'ah Desk carries out frequent transaction and policy specific reviews to identify and rectify deviations, if any.

41. GENERAL

41.1 Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

41.2 In general captions in respect of which there are no amounts, have not been reproduced in these accounts except in case of balance sheet and profit and loss account.

41.3 These financial statements were authorised for issue on 14 March, 2009.

SHAFQAAT AHMED **Country Head**	**AYYAZ AHMAD** **Chief Financial Officer**

STATEMENT OF INTERNAL CONTROLS

It is the responsibility of the management to establish the sound system of internal controls. The prime objectives of these controls are effectiveness and efficiency of the operations, timeliness and reliability of financial and non-financial reporting, safe guarding and proper utilization of assets and adherence to the internal policies procedures and external regulatory statues.

The evaluation of internal control system is an on going process and management regularly reviews the system for improvement. Immediate and appropriate actions are taken to mitigate the risks which are inherent to the banking business operations keeping in mind the cost effectiveness of the controls implemented.

The internal controls are reviewed by the internal auditors as well as external auditors. Management is committed to respond on the recommendations for improvement in internal control system by prompt and effective implications. Management has established a well structured system of internal controls with segregation of duties and different level of authorities, roles and responsibilities.

The internal control system is effectively and efficiently implemented. However there are certain inherent limitations which hinder the smooth working of the system. It can therefore provide reasonable but no absolute assurance against material misstatement or loss.

In view of the above and based on supervision, management believes that the internal controls are in place and operation effectively for the year under review. During the year under review the manuals covering all the areas of banking operations is being implemented and are under continuous monitoring.

RISK MANAGEMENT FRAMEWORK

The risk management framework of the Bank is focused on the timely identification, measurement, monitoring and management of various risks to which the Bank is exposed. This is governed by the risk Management Policy which has been duly approved by the Head Office. All key risks such as credit, market, operational, liquidity and country risks are comprehensively covered in the Policy, which provides guidance on their prudent management and mitigation. In addition, a dedicated Risk Management Department, equipped with the desired level of expertise, has the responsibility of assessing and monitoring the risk profile of the bank both at the portfolio as well as the transactional level.

For effective and objective monitoring of risk, various exposure limits have been incorporated in the framework in order to check undue concentrations and to encourage diversification. The bank has also developed and enhanced the capacity for internally assessing the creditworthiness of an exposure through separate risk ratings of customers as well as facilities.

Apart from the monitoring and management of risks under normal state of affairs, the bank also conducts periodic stress tests to assess the resilience of its credit, investment, foreign exchange portfolios and liquidity position under extreme market conditions.

The framework also recognizes and places due emphasis on the unique nature of risks pertaining to Islamic financial products and services, and ensures stringent Shari'ah compliance in all business activities of the Bank.

For mitigating the risks inherent in the various operational activities of the bank, specific policies and procedural manuals for all business activities have been implemented. Furthermore, policies and procedures relating to disaster recovery and business continuity are also in place to ensure rapid recovery and timely resumption of all critical business functions following a wide-scale, regional disruption.

As regards consumer banking, the bank places great importance on the pre as well as post disbursement risk issues relating to this area. In this regard, more comprehensive and elaborate policies and procedures have been formulated in view of the unique risk profile of consumer financing.

We believe that with the gradual but efficient implementation of the risk management framework and continuous efforts of the management, the overall risk management activities of the bank are getting in line with the guidelines issued by State Bank of Pakistan.

ALBARAKA ISLAMIC BANK B.S.C. (c)

(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES