

ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 ------(Rupees '000)-----	2010 Restated
ASSETS			
Cash and balances with treasury banks	7	3,945,481	4,460,257
Balances with other banks	8	7,577,186	7,409,620
Due from financial institutions	9	-	80,000
Investments	10	26,179,416	15,617,589
Financings	11	27,610,708	26,599,261
Operating fixed assets	12	2,798,165	3,030,269
Deferred tax assets	13	1,030,951	1,029,055
Other assets	14	3,402,972	2,537,613
		72,544,879	60,763,664
LIABILITIES			
Bills payable	15	451,030	427,600
Due to financial institutions	16	1,736,120	2,756,892
Deposits and other accounts	17	61,559,026	49,324,209
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	18	5,123	19,303
Deferred tax liabilities		-	-
Other liabilities	19	2,269,097	2,116,583
		66,020,396	54,644,587
NET ASSETS		6,524,483	6,119,077
REPRESENTED BY			
Share capital	20	8,935,200	8,935,200
Discount on issuance of shares		(767,290)	(767,290)
Reserves		82,074	-
Accumulated loss		(1,723,728)	(2,052,024)
		6,526,256	6,115,886
(Deficit) / surplus on revaluation of assets - net of tax	21	(1,773)	3,191
		6,524,483	6,119,077
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes from 1 to 48 form an integral part of these financial statements.

ALBARAKA BANK (PAKISTAN) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 ------(Rupees '000)-----	2010
	6		
Profit / return earned on financings, investments and placements	23	6,699,178	2,198,794
Return on deposits and other dues expensed	24	<u>5,001,222</u>	<u>1,658,608</u>
Net spread earned		1,697,956	540,186
Provision against non-performing financings - net	11.6	(229,204)	759,301
Provision for diminution in the value of investments	10.3.1	2,018	5,074
Bad debts written off directly		10	-
		<u>(227,176)</u>	<u>764,375</u>
Net spread after provisions		1,925,132	(224,189)
Other income			
Fee, commission and brokerage income		202,306	68,535
Dividend income		905	209
Income from dealing in foreign currencies		249,127	138,867
Gain on sale of securities	25	17,674	15,974
Unrealised gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	26	12,046	23,436
Total other income		<u>482,058</u>	<u>247,021</u>
		2,407,190	22,832
Other expenses			
Administrative expenses	27	1,910,731	1,508,590
Other provisions / write offs	27.2	15,621	86,173
Other charges	28	136	376
Total other expenses		<u>1,926,488</u>	<u>1,595,139</u>
		480,702	(1,572,307)
Extra ordinary / unusual items		-	-
PROFIT / (LOSS) BEFORE TAXATION		480,702	(1,572,307)
Taxation - Current		(72,228)	(27,375)
- Prior years		-	13,821
- Deferred		1,896	546,266
	29	<u>(70,332)</u>	<u>532,712</u>
PROFIT / (LOSS) AFTER TAXATION		410,370	(1,039,595)
Earnings / (loss) per share - Basic and diluted (Rupees)	30	<u><u>0.46</u></u>	<u><u>(2.19)</u></u>

The annexed notes from 1 to 48 form an integral part of these financial statements.

ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
		------(Rupees '000)-----	
Profit / (Loss) for the year	6	410,370	(1,039,595)
Other comprehensive income		-	-
Total comprehensive income / (loss) for the year		<u>410,370</u>	<u>(1,039,595)</u>

As per the requirement of the State Bank of Pakistan, surplus / deficit on revaluation of available-for-sale securities is required to be taken to a separate account 'Surplus / deficit on revaluation of assets' shown in the statement of financial position below equity. Accordingly, it has not been included in statement of comprehensive income.

The annexed notes from 1 to 48 form an integral part of these financial statements.

ALBARAKA BANK (PAKISTAN) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
		----- (Rupees '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES	6		
Profit / (loss) before taxation		480,702	(1,572,307)
Adjustments for non-cash and other items:			
Depreciation		129,818	118,157
Depreciation on ijarah assets held under IFAS 2		653,132	320,576
Amortisation		95,948	33,308
Fixed assets written-off		1,501	37,373
Reversal of provision / provision against non-performing financings		(229,204)	759,301
Provision for diminution in the value of investments		2,018	5,074
Finance charges on leased assets		24,308	27,243
Reversal of provision / provision against other assets		(48,800)	48,800
		628,721	1,349,832
		1,109,423	(222,475)
(Increase) / decrease in operating assets			
Due from financial institutions		80,000	1,520,000
Financing		(1,435,375)	(709,303)
Others assets (excluding advance taxation)		(810,556)	(599,228)
		(2,165,931)	211,469
Increase / (decrease) in operating liabilities			
Bills payable		23,430	(141,874)
Due to financial institutions		(1,020,772)	678,303
Deposits and other accounts		12,234,817	8,457,074
Other liabilities		152,514	46,798
		11,389,989	9,040,301
Income tax paid		(78,231)	(232,245)
Net cash inflow from operating activities		10,255,250	8,797,050
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(10,568,809)	(10,610,911)
Cash inflow on acquisition of Pakistan branches of AlBaraka Islamic Bank B.S.C (c)		-	11,484,910
Net investments in operating fixed assets		(861)	(52,967)
Received on disposal of operating fixed assets		5,698	5,222
Net cash (outflow) / inflow on investing activities		(10,563,972)	826,254
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease obligations		(38,488)	(50,397)
Net cash outflow on financing activities		(38,488)	(50,397)
(Decrease) / increase in cash and cash equivalents		(347,210)	9,572,907
Cash and cash equivalents at beginning of the year		11,869,877	2,296,970
Cash and cash equivalents at end of the year	31	11,522,667	11,869,877

The annexed notes from 1 to 48 form an integral part of these financial statements.

ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Issued, subscribed and paid-up share capital	Discount on issuance of shares	Statutory reserve	Accumulated loss	Total
	----- (Rupees '000) -----				
Balance as at 1 January 2010	4,500,000	-	-	(1,012,429)	3,487,571
Total comprehensive income / (loss) for the year	-	-	-	(1,039,595)	(1,039,595)
Shares issued during the year upon amalgamation	4,435,200	-	-	-	4,435,200
Discount on shares issued during the year	-	(767,290)	-	-	(767,290)
Balance as at 31 December 2010	<u>8,935,200</u>	<u>(767,290)</u>	<u>-</u>	<u>(2,052,024)</u>	<u>6,115,886</u>
Total comprehensive income / (loss) for the year	-	-	-	410,370	410,370
Transfer to statutory reserve	-	-	82,074	(82,074)	-
Balance as at 31 December 2011	<u><u>8,935,200</u></u>	<u><u>(767,290)</u></u>	<u><u>82,074</u></u>	<u><u>(1,723,728)</u></u>	<u><u>6,526,256</u></u>

The annexed notes from 1 to 48 form an integral part of these financial statements.

ALBARAKA BANK (PAKISTAN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 AlBaraka Bank (Pakistan) Limited [formerly Emirates Global Islamic Bank Limited] (the Bank) was incorporated in Pakistan on 20 December 2004 as a public limited company under the Companies Ordinance, 1984.

The main objective of the Bank is to carry on Islamic banking business in Pakistan in accordance and in conformity with Shariah. The Bank was granted an Islamic Banking License BL(i)-01(07), issued by the Banking Policy and Regulations Department of the State Bank of Pakistan (SBP) vide their letter no. BPRD (LCGD-02)1625-761D/2007/521 dated 18 January 2007 under section 27 of the Banking Companies Ordinance, 1962 read with Islamic Banking Department circular no. 2 of 2004. Subsequently, the Bank was also granted approval for commencement of business as a scheduled bank with effect from 13 February 2007 by the SBP vide their letter no. BPRD (LCGD-02)1625-76/X/JD/2007/1269 dated 12 February 2007.

The Bank is a subsidiary of AlBaraka Islamic Bank B.S.C. (c) (AlBaraka) incorporated and domiciled in Bahrain (the parent company) and a member of AlBaraka Banking Group.

The name of the Bank was changed from Emirates Global Islamic Bank Limited to AlBaraka Bank (Pakistan) Limited with effect from close of business on 29 October 2010 as notified by SBP through notification no. BPRD (R&P - 01) / 8365 / 2010.

The Bank's registered office is located at 162, Bangalore Town, Main Sharah-e-Faisal, Karachi. The Bank operates 87 branches and 2 sub-branches (2010: 87 branches and 2 sub-branches) in Pakistan.

- 1.2 According to the BSD Circular No. 7 of 2009 dated 15 April 2009 of the SBP, the Minimum Capital Requirement (MCR) for Banks / Development Financial Institutions as of 31 December 2011, 2012 and 2013 is Rs.8 billion , Rs.9 billion and Rs.10 billion respectively. As of 31 December 2011, the paid up capital of the Bank is Rs 8,935.2 million. Further, the Bank has reserves of Rs. 82.074 million and discount on issue of shares and accumulated losses of Rs 767.290 and Rs 1,723.728 million respectively. The Bank has been granted exemption from the MCR by the SBP vide its letter no. BSD/BAI-3/608/4673/2011 dated 14 April 2011 for a period of three years i.e. 31 December 2010, 2011 and 2012 subject to the compliance of the following conditions during the exemption period:

- i) The Bank shall maintain paid up capital (free of losses) of at least Rs 6 billion at all times and raise the paid up capital (free of losses) to Rs 6.5 billion in the year 2011, Rs 8 billion in the year 2012 and Rs 10 billion in the year 2013;
- ii) The Bank shall maintain Capital Adequacy Ratio (CAR) of 15% or above during the period;
- iii) There would be moratorium on dividend payments until the Bank meets existing regulatory capital requirements;
- iv) The Bank shall not undertake related party transactions (as defined under note 43 of the annual financial statements circulated vide BCD Circular No 4 of February 17, 2006).

The Bank will be subject to MCR and Capital Adequacy Ratio (CAR) as of 31 December 2013 and onwards as per BSD Circular no.7 dated 15 April 2009. The Bank is fully committed to comply with the prescribed capital requirements of SBP.

2. BASIS OF PRESENTATION

These financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04 dated 17 February 2006.

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 and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of rental / profit thereon. Income, if any, received which does not comply with the principles of 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 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 (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the SECP and the SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.

The SBP vide BSD Circular No. 10 dated 26 August 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 28 April 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 requirements of various circulars issued by the SBP.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for certain investments which have been carried at fair value.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

IAS 24 – Related Party Disclosures (Revised)
IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
IFRIC 14 – Prepayments of a Minimum Funding
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

In May 2010, International Accounting Standards Board (IASB) issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

IFRS 3 – Business Combinations

- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
- Measurement of non-controlling interests (NCI)
- Un-replaced and voluntarily replaced share-based payment awards

IAS 1 – Presentation of Financial Statements

- Clarification of statement of changes in equity

IAS 27 – Consolidated and Separate Financial Statements

- Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements

IAS 34 – Interim Financial Reporting

- Significant events and transactions

IFRIC 13 – Customer Loyalty Programmes

- Fair value of award credits

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

5.2 Business combinations

Business combination are accounted for by applying the acquisition method. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and the liabilities incurred or assumed at the date of acquisition. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement, if any. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisitions, the amount of any non-controlling interest in the acquiree, if any, and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is lower than the fair values of net assets acquired, the difference is recognized in profit and loss account at the date of acquisition.

Goodwill acquired in a business combination is measured, subsequent to initial recognition, at its cost less accumulated impairment losses, if any. Goodwill acquired in a business combination is tested for impairment annually or whenever there is an indication of impairment as per the requirements of International Accounting Standard (IAS) 36, 'Impairment of Assets'. Impairment charge in respect of goodwill is recognised in the profit and loss account.

5.3 Cash and cash equivalents

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

5.4 Investments

Investments are classified as follows:

(a) Held for trading

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

(b) Held to maturity

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

(c) Available for sale

These are investments, other than those in subsidiaries and associates, that do not fall under the held for trading or held to maturity categories.

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

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

In accordance with the requirements of the State Bank of Pakistan, quoted securities other than those classified as 'held to maturity', investments in subsidiaries and investments in associates (which qualify for accounting under International Accounting Standard - 28), are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the statement of financial position below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account. Investments classified as 'held to maturity' are carried at amortised cost. Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. In cases where the break up value of such shares is less than the cost, the difference of the cost and break up value is provided for accordingly by charging to the profit and loss account.

Provision for diminution in the values of securities (except debentures, participation term certificates and term finance certificates) is made after considering impairment, if any, in their value and charged to profit and loss account. Provision for diminution in value of debentures, participation term certificates and term finance certificates is made as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Investment in subsidiaries and associates are carried at cost less impairment in the value of such investments.

5.5 Financing

Financings are stated net of specific and general provisions against non-performing financings, if any, which are charged to the profit and loss account.

Under murabaha financing, funds disbursed for purchase of goods are recorded as 'advance for murabaha'. On culmination of murabaha i.e. sale of goods to customers, murabaha financings are recorded at the deferred sale price net of profit. Goods purchased but remaining unsold at the statement of financial position date are recorded as inventories.

Ijarah financing booked on or after 01 January 2009 is accounted for as per the requirements of IFAS 2, whereby assets leased out under ijarah are recorded as fixed assets and depreciated over the term of ijarah and the related rental income is recognised in the profit and loss account on an accrual basis.

Ijarah financing booked before 01 January 2009 is accounted for as a finance lease whereby assets under ijarah arrangements are presented as a receivable at an amount equal to net investment in ijarah. Unearned income i.e. excess of aggregate rentals over the cost of the asset is recorded at the inception of the ijarah and is amortised over the term of the ijarah so as to produce a constant rate of return on net investment in ijarah.

Specific provision against non-performing financing is determined in accordance with the Prudential Regulations and other directives issued by the State Bank of Pakistan. General provision against consumer financing is determined in accordance with the Prudential Regulations issued by the State Bank of Pakistan.

Financings are written off when there is no realistic prospect of recovery.

5.6 Inventories

As stated in note 5.5 to these financial statements, goods purchased but remaining unsold at the statement of financial position date are recorded as inventories. The bank values its inventories at the lower of cost and net realisable value. Cost of inventories represents the actual purchase price paid by the customer as an agent on behalf of the bank from the funds disbursed for the purpose of culmination of murabaha.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

5.7 Operating fixed assets and depreciation - Tangible

(a) Owned

Property and equipment, other than land, are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Land is stated at cost.

Depreciation is charged using the straight-line method in accordance with the rates specified in note 12.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate at each statement of financial position date. Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Gains / losses on sale of fixed assets are credited / charged to the profit and loss account.

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

(b) Leased assets

Assets held under finance lease (in respect of contracts entered into before 01 January 2009) are stated at lower of fair value or present value of minimum lease payments at inception less accumulated depreciation. The outstanding obligation under lease is shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Bank.

(c) Capital work in progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when assets become available for use.

(d) Ijarah assets

Assets leased out under ijarah on or after 01 January 2009 are recorded as fixed assets and stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under ijarah are shown under 'financing' and depreciated over the term of ijarah using the straight line basis. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset.

(e) Impairment

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

5.8 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised from the month, when these assets are available for use, using the straight line method, whereby the cost of the intangible asset is amortised on the basis of the estimated useful life over which economic benefits are expected to flow to the bank. The residual value, useful life and amortisation method are reviewed and adjusted, if appropriate, at each statement of financial position date.

Intangible assets with indefinite useful lives are not amortized but tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit and loss account when the asset is derecognized.

5.9 Revenue recognition

- Profit on murabaha transactions is recognised over the term of these transactions on a straight line basis.
- Rental income on ijarah financing booked on or after January 1, 2009 is recognised on accrual basis as and when the rentals become due.
- The Bank follows the finance method in recognising income on ijarah contracts booked before January 1, 2009. Under this method the unearned income i.e. the excess of aggregate ijarah rentals over the cost of the asset is deferred and then amortised over the term of the ijarah, so as to produce a constant rate of return on net investment in ijarah. Gains / losses on termination of ijarah contracts are recognised as income / expense on a receipt basis. Income on ijarah is recognised from the date of delivery of the respective assets to the mustajir.
- Profit on diminishing musharaka is recognised on accrual basis.
- Commission on letters of credit, acceptances and letters of guarantee is recognised on receipt basis.
- Dividend income is recognised when the Bank's right to receive the dividend is established.
- Profit on investment in sukuk bonds is recognised on accrual basis.
- Profit and loss on sale of investments is included in income currently.
- Income earned from Shariah non-compliant avenues is not recognised in the profit and loss account. This income is classified as charity payable in accordance with the recommendation of the Shariah Advisor of the Bank.
- Profit on financing which are classified under the Prudential Regulations is recognized on receipt basis.

5.10 Taxation

(a) Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration tax credits and rebates available, if any. The charge for the current tax also includes adjustments, where considered necessary relating to prior years, arising from assessments finalised during the year.

(b) Deferred

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

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

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

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

5.11 Staff retirement benefits**(a) Defined benefit plan**

The Bank operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method. Actuarial gains and losses at each valuation date in excess of the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets, as computed as of the previous annual reporting date, are amortised over the average remaining working lives of the employees.

(b) Defined contribution plan

The Bank also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the Bank and the employees, to the fund at a rate of 10 percent of basic salary.

5.12 Provisions, contingent assets and contingent liabilities

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

Contingent assets are not recognised unless inflow of economic benefits is virtually certain.

Contingent liabilities are not recognised and are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

5.13 Provision for guarantee claims and other off-balance sheet obligations

The Bank, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognized in the profit and loss account under "fee, commission and brokerage income" over the period of contracts. The Bank's liability under such contracts is measured at the best estimate of the amount expected to settle any financial obligation arising under such contracts.

5.14 Functional and presentation currency

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

5.15 Foreign currency transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

5.16 Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are translated into Pak Rupees at the exchange rates ruling on the reporting date.

5.17 Financial instruments**(a) Financial assets and financial liabilities**

Financial assets and financial liabilities are initially recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. These include regular way purchases or sales of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the market place. Financial assets are de-recognized when the contractual right to future cash flows from the asset expires or is transferred along with the risk and rewards of ownership of the asset. Financial liabilities are de-recognized when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial assets and liabilities is recognized in the profit and loss account of the current period.

(b) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as asset when fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

(c) Off-setting

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

5.18 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) / basic and diluted loss per share for its shareholders. Basic EPS / loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS / loss per share is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

5.19 Segment reporting

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

(a) Business segments

The business segments within the Bank have been categorised into the following classifications of business segments in accordance with the requirements specified by the SBP.

- Corporate finance

Corporate banking includes services provided in connection with mergers and acquisitions, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

- Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

- Retail banking

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

- Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange and deposits.

(b) Geographical segments

Currently, the operations of the Bank are carried out in Pakistan only.

5.20 Dividends and appropriation to reserves

Dividends and appropriation to reserves approved after the reporting date, except appropriations which are required by the law, are recognised as a liability in the Bank's financial statements in the period in which these are approved.

5.21 Accounting judgments and estimates

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

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

	<u>Note</u>
Classification of investments and provision for diminution in value of investments	5.4 & 10.1
Useful lives of assets and methods of depreciation / amortisation	5.7, 12.2 & 12.3
Current and deferred taxation	5.10 & 13
Provision against non-performing financings / due to financial institutions / other assets	5.5, 9, 11.6, 14
Provision for staff retirement benefits under defined benefit plan	5.11 & 33

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

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

Standard, interpretation or amendment	Effective date (accounting periods beginning on or after)
IAS 1 - Presentation of Financial Statements – Presentation of items of comprehensive income	01 July 2012
IAS 12 - Income Taxes (Amendment) – Recovery of Underlying Assets	01 January 2012
IAS 19 - Employee Benefits – (Amendment)	01 January 2013

The Bank expects that the adoption of the above revisions and amendments of the standards will not materially affect the Bank's financial statements in the period of initial application other than the amendments to IAS-19 'Employee Benefits'. Such amendments range from fundamental changes to simple clarifications and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in other comprehensive income with no subsequent recycling to profit and loss.
- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

The Bank is currently assessing the impact of the above amendments which are effective from 1 January 2013 on the financial statements. However, it is expected that the adoption of the said amendments will result in change in the Bank's accounting policy related to recognition of actuarial gains and losses as referred to in note 5.11 to the financial statements.

In addition to the above, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan:

	IASB effective date (annual periods beginning on or after)
IFRS 9 - Financial Instruments: Classification and Measurement	01 January 2015
IFRS 10 - Consolidated Financial Statements	01 January 2013
IFRS 11 - Joint Arrangements	01 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 - Fair Value Measurement	01 January 2013

6. BUSINESS COMBINATION - Restatement of prior year figures

- 6.1** During the year ended 31 December 2010 the Pakistan branches of AlBaraka amalgamated with the Bank. The said amalgamation was accounted for by applying the acquisition method of accounting as prescribed by International Financial Reporting Standard 3, "Business Combination" (IFRS 3).

6.2 The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. At the time of acquisition of Pakistan branches of AlBaraka, the management was in the process of carrying out a detailed exercise for the identification and valuation of assets acquired (including intangible assets) for the purpose of the initial accounting for the acquisition. According to the requirements of IFRS 3, if the initial accounting for a business combination remain incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report provisional amounts for the items for which the accounting is incomplete. Such provisional values shall be adjusted retrospectively within a period of one year from the acquisition date to reflect the results of the valuation and information that existed as of acquisition date. Accordingly, pending the completion of the detailed exercise for valuation of the acquired net assets as referred above, the Bank reported provisional amounts for the assets acquired including the goodwill in respect of the amalgamation in the financial statements for the year ended 31 December 2010.

6.3 During the current year, the exercise for the identification and valuation of assets acquired (including intangible assets) has been completed by the management with the assistance of an independent consultant. As a result certain adjustments have been made to the provisional values reported last year in respect of the amalgamation.

A reconciliation between the provisional amounts reported as at 29 October 2010 and final values in respect of the amalgamation is as under:

		Provisional amounts as at the date of amalgamation	Fair value adjustments / intangible recognised	Final amounts as at the date of amalgamation
ASSETS	Note	----- Rupees '000 -----		
Cash and balances with treasury banks		4,722,020	-	4,722,020
Balances with other banks		6,762,890	-	6,762,890
Investments		1,655,046	-	1,655,046
Financings		17,828,530	(297,937)	17,530,593
Operating fixed assets				
Tangible		360,186	-	360,186
Intangible	6.5	2,688	1,067,145	1,069,833
		362,874	1,067,145	1,430,019
Other assets		929,389	-	929,389
		<u>32,260,749</u>	<u>769,208</u>	<u>33,029,957</u>
LIABILITIES				
Bills payable		306,783	-	306,783
Due to financial Institutions		2,058,589	-	2,058,589
Deposits and other accounts		25,785,893	-	25,785,893
Deferred tax liabilities		4,098	-	4,098
Other liabilities		1,206,684	-	1,206,684
		<u>29,362,047</u>	<u>-</u>	<u>29,362,047</u>
NET ASSETS		<u>2,898,702</u>	<u>769,208</u>	<u>3,667,910</u>
CONSIDERATION (Cost of acquisition)				
Shares issued (443,520,000 shares @ Rs.8.27/- each)		3,667,910	-	3,667,910
(GOODWILL) / GAIN ON AMALGAMATION		<u>(769,208)</u>	<u>769,208</u>	<u>-</u>

6.4 The net gain on amalgamation has been recognized at the date of the amalgamation i.e. 29 October 2010 and consequently the profit and loss account for the year ended 31 December 2010 has been restated to reflect the same in accordance with the requirements of IFRS 3.

6.5 Intangible assets acquired upon amalgamation.

	Note	Rupees '000
Core Deposits	6.5.1	684,000
Brand	6.5.2	383,145
		<u>1,067,145</u>

6.5.1 The intangible asset comprises of core deposits of the Pakistan branches of AlBaraka and represents the funding benefit that would be available to the Bank on account of availability of funding through deposit customers rather than from the whole or inter-bank markets.

Valuations of core deposits intangible asset rest on the premise that the acquired customer relationships provide a stream of future benefits to the acquirer. These benefits last until the deposit relationship terminates.

The fair value of this identifiable intangible asset has been determined using discounted cash flow method, by an independent valuer.

6.5.2 This intangible asset represents Bank's ability to attract new customers and generate superior returns from existing customers due to Brand recognition.

The fair value of this intangible has been determined using relief from royalty method by an independent valuer. The management considers that the benefits from usage of Brand will be available to the Bank for indefinite time period.

	Note	2011 ----- (Rupees '000) -----	2010 ----- (Rupees '000) -----
7. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
- local currency		770,700	636,175
- foreign currency		229,493	256,139
		1,000,193	892,314
With SBP in			
- local currency current account	7.1	1,967,916	3,041,791
- foreign currency current account	7.2	5,023	7,569
- foreign currency deposit account	7.3	347,413	281,418
		2,320,352	3,330,778
With National Bank of Pakistan in			
- local currency current account		324,936	237,165
- local currency deposit account	7.4	300,000	-
		3,945,481	4,460,257

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

7.2 This represents US dollar settlement account maintained with the SBP.

7.3 This represents balances maintained with SBP in US Dollars in respect of cash reserve requirement and special cash reserve requirement against the bank's foreign currency deposits. The balances are maintained on a non - remunerative basis.

7.4 The expected rate of return on these deposits is 10.85% (2010: Nil) per annum and have matured in January 2012.

	Note	2011 ----- (Rupees '000) -----	2010 ----- (Rupees '000) -----
8. BALANCES WITH OTHER BANKS			
In Pakistan			
- on current accounts		67,793	4,286
- on deposit accounts	8.1	6,029,381	4,100,150
		6,097,174	4,104,436
Outside Pakistan			
- on current accounts		1,467,112	3,027,032
- on deposit accounts		12,900	278,152
		1,480,012	3,305,184
		7,577,186	7,409,620

8.1 The expected return on these deposits ranges from 6.5% to 11.35% (2010: 5% to 13%) per annum.

9. DUE FROM FINANCIAL INSTITUTIONS

Receivable against commodity murabaha	-	80,000
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9.1 Particulars of due from financial institutions

In local currency	-	80,000
In foreign currencies	-	-
	-	80,000

10. INVESTMENTS

10.1 Investments by types

Note	2011			2010			
	Held by Bank	Given as Collateral	Total	Held by Bank	Given as Collateral	Total	
	----- Rupees in '000 -----						
Available for sale							
	10.4	25,335,620	-	25,335,620	14,560,752	-	14,560,752
	10.5	3,768	-	3,768	3,768	-	3,768
	10.6	52,200	-	52,200	52,200	-	52,200
	10.7	10,440	-	10,440	36,546	-	36,546
		25,402,028	-	25,402,028	14,653,266	-	14,653,266
Held to maturity securities							
	10.4	832,902	-	832,902	1,012,500	-	1,012,500
Investments at cost							
		26,234,930	-	26,234,930	15,665,766	-	15,665,766
	10.3	(53,741)	-	(53,741)	(51,723)	-	(51,723)
Investments (net of provision)							
		26,181,189	-	26,181,189	15,614,043	-	15,614,043
	21	(1,773)	-	(1,773)	3,546	-	3,546
Total investments at market value *							
		26,179,416	-	26,179,416	15,617,589	-	15,617,589

10.2 Investments by segments

Note	2011	2010
	----- (Rupees '000) -----	
Sukuk certificates / bonds		
	21,653,000	11,506,000
	4,515,522	4,067,252
10.4	26,168,522	15,573,252
Fully paid-up ordinary shares		
	3,768	3,768
	52,200	52,200
10.6	52,200	52,200
Mutual funds - open ended		
	10,440	36,546
10.7	10,440	36,546
Investments at cost		
	26,234,930	15,665,766
10.3	(53,741)	(51,723)
Investments (net of provision)		
	26,181,189	15,614,043
21	(1,773)	3,546
Total investments at market value *		
	26,179,416	15,617,589

* Unlisted investments are carried at cost less provision for diminution in value of investment, if any.

10.3 Particulars of provision for diminution in value of investments:

10.3.1	Opening balance	51,723	46,649
	Charged during the year	2,018	5,074
	Closing balance	53,741	51,723

10.3.2 Particulars of provision in respect of type and segment

Investment in Sukuk certificates / bonds				
	New Allied Electronics Industries (Private) Limited	10.3.3	25,000	25,000
Unlisted Company (ordinary shares)				
	Takaful Pakistan Limited	10.3.4	28,741	26,723
			53,741	51,723

10.3.3 This represents provision against the total outstanding principal of sukuk certificates of New Allied Electronics Industries (Private) Limited held by the Bank.

10.3.4 This represents the excess of the cost of ordinary shares of the investee company over the break up value of the investee company's net assets.

10.4 Sukuk certificates / bonds

Name of the investee company	Note	2011		2010	
		Number of certificates	Cost ----- (Rupees '000) -----	Number of certificates	Cost ----- (Rupees '000) -----
Available for sale					
Coastal Refinery Limited	10.4.2	N/A	N/A	340,000	340,000
New Allied Electronics Industries (Private) Limited		80,000	80,000	25,000	25,000
National Industrial Parks Development and Management Company		396,000	396,000	1,983,865	1,985,345
Sitara Energy Limited		2,000	2,000	5,344	10,033
Karachi Shipyard & Engineering Works Limited		-	107,600	-	525,625
House Building Finance Corporation Limited		34,000	34,000	84,743	118,634
Educational Excellence Limited		54,000	54,000	134,600	201,787
Engro Fertilizers Limited		10,000	10,000	50,049	50,062
PACE Pakistan Limited		80,000	80,000	359,019	398,266
AL Razi Healthcare		60,000	N/A	300,000	300,000
Pakistan Stone Development Company		80,000	-	400,000	-
Government of Pakistan Ijara Sukuk		216,470	106,000	21,653,000	10,606,000
				25,335,620	14,560,752
Held to maturity securities					
WAPDA First Sukuk Company Limited		150,000	150,000	768,194	750,000
Karachi Shipyard & Engineering Works Limited		-	20,000	-	112,500
Government of Pakistan Ijara Sukuk		-	500	-	50,000
Sitara Chemical Industries Limited		30,000	30,000	64,708	100,000
				832,902	1,012,500
				26,168,522	15,573,252

10.4.1 Other particulars of sukuk bonds are as follows:

Particulars	Certificates denomination in PKR	Profit rate per annum	Profit payment	Redemption terms
Coastal Refinery Limited	5,000	6 month KIBOR + 3.75 %	Semi annually	Payable in 10 consecutive semi annual installments commencing from the 18th month from the date of first drawdown.
New Allied Electronics Industries (Private) Limited	312.5	3 month KIBOR + 2.6 %	Quarterly	Payable in 16 equal quarterly installments commencing from the 15th month from the date of first drawdown .
National Industrial Parks Development and Management Company	5,000	6 month KIBOR + 0.6 %	Semi annually	Bullet payment on maturity.
Sitara Energy Limited	5,000	6 month KIBOR + 1.95 %	Semi annually	Payable in 10 equal semi annual installments starting from 6 months after issue date.
House Building Finance Corporation Limited	5,000	6 month KIBOR + 1.00 %	Semi annually	Payable in 10 equal semi annual installments starting from the 12th month after issue date.
Educational Excellence Limited	5,000	6 month KIBOR + 2.50 %	Quarterly	Payable in 16 equal quarterly installments commencing from the 12th month from the date of drawdown.
Engro Fertilizers Limited	5,000	3 month KIBOR + 1.5 %	Semi annually	In 2 consecutive, equal, semi-annual installments, the first such installment falling due on the 90th month from the date of first contribution.
Pace Pakistan Limited	5,000	3 month KIBOR + 3.5 %	Quarterly	Payable in 10 equal quarterly installments along with principle and profit commencing from 12th month of drawdown.
AL Razi Healthcare	5,000	6 month KIBOR + 2.5 % for first 2 years 6 month KIBOR + 3.6 % for remaining years	Monthly	Will be paid in equal monthly installments starting from December 2012.
Pakistan Stone Development Company	5,000	6 month KIBOR + 1.00 %	Semi annually	In 8 equal semi annual installments. First installment will be due after the 18th Month.
Government of Pakistan Ijara Sukuk	100,000	6 month Treasury Bills	Semi annually	The principal will be redeemed on maturity in September 2012, November 2013, December 2013, March 2014, May 2014 and December 2014.
WAPDA First Sukuk Company Limited	5,000	6 month KIBOR + 0.35 %	Semi annually	The principal will be redeemed on maturity in October 2012.
Sitara Chemical Industries Limited	3,750	3 month KIBOR + 1.00 %	Quarterly	Payable in 12 equal quarterly installments starting from April 2010.

10.4.2 Total participation of Rs. 340 million (2010: Rs. 340 million) has been made by the Bank, however the sukuk certificates are yet to be issued.

10.5 Particulars of investments in ordinary shares of listed companies

Company Name	Number of shares	Paid up value per share	Total paid up value	Cost	Market Value
				----- Rupees in '000 -----	
Available for sale					
Huffaz Seamless Pipes Limited	227,403	10	2,274	3,768	1,840
	17			3,768	1,840

10.5.1 Quality of available for sale securities

	2011		2010	
	Amount (Rupees in '000)	Rating	Amount (Rupees in '000)	Rating
Sukuks				
Coastal Refinery Limited	340,000	Unrated	340,000	Unrated
New Allied Electronics Industries (Private) Limited	25,000	Non-performing	25,000	D
National Industrial Parks Development and Management Company	1,983,865	GOP Guaranteed	1,985,345	GOP Guaranteed
Sitara Energy Limited	5,344	Unrated	10,033	Unrated
Karachi Shipyard & Engineering Works Limited	-	N/A	525,625	GOP Guaranteed
House Building Finance Corporation Limited	84,743	A	118,634	A+
Educational Excellence Limited	134,600	Unrated	201,787	Unrated
Engro Fertilizers Limited	50,049	AA-	50,062	AA-
PACE Pakistan Limited	359,019	Non-performing	398,266	A+
AL Razi Healthcare	300,000	Unrated	300,000	Unrated
Pakistan Stone Development Company	400,000	GOP Guaranteed	-	
Government of Pakistan Ijara Sukuk	21,653,000	GOP Guaranteed	10,606,000	Unrated
Ordinary shares				
Huffaz Seamless Pipes Limited	3,768	Unrated	3,768	Unrated
Takaful Pakistan Limited	52,200	BBB+	52,200	A-
Crown Textiles Limited *	-	Unrated	-	Unrated
Mutual Fund units				
National Investment Trust	-	AM2-	25,887	4-Star
Meezan Islamic Income Fund	10,440	A(f)	10,659	A(f)
Total	25,402,028		14,653,266	

10.6 Unlisted Company (ordinary shares)

	2011	2010	2011	2010	Percentage of equity holding %	Latest available audited financial statements	Name of the chief executive
	Number of shares		Rupees in '000				
Takaful Pakistan Limited (related party)	5,100,000	5,100,000	52,200	52,200	17	31 December 2010	Ashraf Ali Siddiqui
Crown Textile Mills Limited *	444,656	444,656	-	-	-	-	-
			<u>52,200</u>	<u>52,200</u>			

* These were transferred at nil value upon amalgamation of Pakistan branches of Al Baraka with and into the Bank.

10.7 Details of investment in mutual funds - open ended

	2011	2010	2011	2010
	Number of units		Cost (Rupees '000)	
National Investment Trust	-	941,698	-	25,887
Meezan Islamic Income Funds	208,795	208,795	10,440	10,659
			<u>10,440</u>	<u>36,546</u>

Note
2011
2010
(Rupees '000)

11. FINANCINGS

	Note	2011	2010
		(Rupees '000)	Restated
Inside Pakistan			
- Murabaha finance	11.1	16,845,977	16,154,017
- Export refinance under Islamic scheme		1,886,818	3,070,538
- Ijarah assets under IFAS 2		2,249,663	1,990,987
- Net investment in ijarah	11.2	575,310	1,230,113
- Service Ijarah		49,428	-
- Diminishing musharaka financing		4,865,928	5,101,946
- Payment against guarantees		9,901	5,901
- Salam financing		2,398,933	653,157
- Financings against bills - payable outside Pakistan		202,202	589,498
- Musawamah Financing		-	5,166
- Istasna financings		500,000	-
- Qarz-e-Hasna	11.3	17,579	18,911
- Rahnuma Travel Services		85	144
Financings-gross		<u>29,601,824</u>	<u>28,820,378</u>
Provision for non-performing financings - specific	11.6	1,979,064	2,205,185
Provision for non-performing financings - general	11.6	12,052	15,932
Financing - net of provision		<u>27,610,708</u>	<u>26,599,261</u>
11.1 Murabaha receivable - gross		17,397,154	16,641,207
Deferred murabaha income		(551,177)	(487,190)
Murabaha financing		<u>16,845,977</u>	<u>16,154,017</u>

11.2 Net investment in ijarah

	2011				2010			
	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	385,890	88,592	-	474,482	612,992	484,716	-	1,097,708
Residual value	138,585	45,747	-	184,332	155,124	148,996	-	304,120
Minimum ijarah payments	524,475	134,339	-	658,814	768,116	633,712	-	1,401,828
Profit for future periods	70,729	12,775	-	83,504	106,596	65,119	-	171,715
Present value of minimum ijarah payments	453,746	121,564	-	575,310	661,520	568,593	-	1,230,113

11.3 This represents mark-up free financings to staff advanced under the Bank's human resource policies.

11.4 Particulars of financings

	2011	2010
	----- (Rupees '000) -----	
		Restated
11.4.1 In local currency	26,407,723	25,450,545
In foreign currencies	1,202,985	1,148,716
	<u>27,610,708</u>	<u>26,599,261</u>
11.4.2 Short-term	22,588,013	22,070,129
Long term	5,022,695	4,529,132
	<u>27,610,708</u>	<u>26,599,261</u>

11.5 Advances include Rs. 4,466.038 million (2010: Rs 4,352.573 million) which have been placed under non-performing status as detailed below:

Category of classification	2011			Provision required	Provision held
	Domestic	Overseas	Total		
	Rupees in '000				
Substandard	694,402	-	694,402	125,757	125,757
Doubtful	775,131	-	775,131	163,745	163,745
Loss	2,996,505	-	2,996,505	1,689,562	1,689,562
	<u>4,466,038</u>	-	<u>4,466,038</u>	<u>1,979,064</u>	<u>1,979,064</u>

Category of classification	2010 (Restated)			Provision required	Provision held
	Domestic	Overseas	Total		
	Rupees in '000				
Substandard	703,675	-	703,675	166,675	166,675
Doubtful	941,443	-	941,443	285,335	285,335
Loss	2,707,455	-	2,707,455	1,753,175	1,753,175
	<u>4,352,573</u>	-	<u>4,352,573</u>	<u>2,205,185</u>	<u>2,205,185</u>

11.5.1 The above provision against non-performing financings has been computed after considering the benefit of Forced Sale Value (FSV) of collateral amounting to Rs. 2,564.674 (2010: Rs. 1,116.527) million. The FSV benefit recognized is not allowed for distribution of cash or stock dividend to shareholders.

During the year, the SBP has amended the Prudential Regulations for classification and provisioning against non-performing financings with respect to the eligible collaterals and securities held against non-performing financings (NPFs) with effect from 30 September 2011. As per the revised regulation, the Bank is allowed to take the benefit of Forced Sale Value (FSV) of the pledged stocks, plant and machinery under charge and mortgaged residential, commercial and industrial properties held as collateral as under:

Mortgaged residential, commercial, and industrial properties (land & building only)	75% for first year 60% for second year 45% for third year 30% for fourth year, and 20% for fifth year
Plant & Machinery under charge	30% for first year 20% for second year, and 10% for third year
Pledged stock	40% for three years

Previously, the Bank was allowed to take the benefit of FSV of the pledged stocks and mortgaged residential, commercial and industrial properties held as collateral against NPFs to the extent of 40 percent for computing provisioning requirements. This change in provisioning methodology has been applied prospectively with effect from 30 September 2011, which has resulted in decrease in provision against NPFs for the year of Rs. 144.422 million and a consequent increase in profit for the year 93.875 million.

11.5.2 SBP vide its letters BSD/BRP-1/001485/2012 and BPRD/BLRD-3/DMG/2011-1035 dated 02 February 2012 and 26 January 2011 respectively has allowed relaxation from provisioning requirement against certain credit facilities having a provisioning impact of Rs.239.010 million as of 31 December 2011.

11.6 Particulars of provision against non-performing financings

Note	2011			2010 (Restated)		
	Specific	General	Total	Specific	General	Total
----- Rupees in '000 -----						
Opening balance	2,205,185	15,932	2,221,117	313,387	7,582	320,969
Charge for the year	250,896	-	250,896	767,704	206	767,910
Reversals	(476,220)	(3,880)	(480,100)	(8,405)	(204)	(8,609)
	(225,324)	(3,880)	(229,204)	759,299	2	759,301
Written off during the year	(797)	-	(797)	-	-	-
Transfer from Pakistan Branches of AlBaraka	-	-	-	1,132,499	8,348	1,140,847
Closing balance	1,979,064	12,052	1,991,116	2,205,185	15,932	2,221,117

11.6.1 Particulars of provisions against non-performing financings

	2011			2010 (Restated)		
	Specific	General	Total	Specific	General	Total
----- Rupees in '000 -----						
In local currency	1,951,415	12,052	1,963,467	2,205,185	15,932	2,221,117
In foreign currencies	27,649	-	27,649	-	-	-
	1,979,064	12,052	1,991,116	2,205,185	15,932	2,221,117

11.7 Particulars of loans and financings to executives, directors, associated companies etc.

	Note	2011	2010
----- (Rupees '000) -----			
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other person*			
Balance at the beginning of the year		502,097	369,453
Financing during the year		61,071	82,546
Repayments during the year		(197,746)	(109,255)
Transfer upon amalgamation		-	159,353
Balance at the end of the year		365,422	502,097
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of the year		-	-
Financing during the year		-	-
Repayments during the year		-	-
Balance at end of the year		-	-
Debts due by associated and subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at the beginning of the year		2,982	12,845
Financing during the year		-	-
Repayments during the year		(2,982)	(9,863)
Balance at the end of the year		-	2,982

* These represent financings given by the Bank to its employees as per the terms of their employment.

12. OPERATING FIXED ASSETS

			Restated
Capital work-in-progress	12.1	597,402	645,112
Property and equipment	12.2	1,186,070	1,278,491
Intangible assets	12.3	1,014,693	1,106,666
		2,798,165	3,030,269
12.1 Capital work-in-progress			
Advances to suppliers and contractors	12.1.1	383,642	368,332
Advance against purchase of property	12.1.2	276,680	276,780
Provision for impairment		62,920	-
		213,760	276,780
		597,402	645,112

12.1.1 This includes expenditure amounting to Rs. 205.648 (2010: Rs. 195.292) million for implementation of new core banking system of the Bank.

12.1.2 This includes advance payment made by the Bank amounting to Rs. 251.680 (2010: Rs. 251.680) million for the purchase of two floors in the Karachi Financial Towers (KFT) against an aggregate purchase price of Rs. 533.408 million. The KFT project is being developed by Ensha NLC Developers (Private) Limited and is currently suspended. However, in terms of the deed of indemnity issued by Ensha LLC to the Bank, Ensha LLC shall indemnify the Bank for any loss suffered or required to be booked in the financial statements in respect of the above advance payment. Further, in the event that the KFT project is not revived and substantial progress is not made within a period of three years commencing from the date of the deed of indemnity, Ensha LLC will pay to the Bank the full extent of the advance payment. Accordingly, subsequent to the year end, the Bank has claimed Rs. 62.920 million from Ensha LLC on account of above indemnity.

12.2 Property and equipment

	2011							
	COST			ACCUMULATED DEPRECIATION			Written down value as at 31 December 2011	Rate of depreciation %
	As at 01 January 2011	Additions / (disposals) / (write offs*)	As at 31 December 2011	As at 01 January 2011	Charge for the year / (on disposals) / (on write offs*)	As at 31 December 2011		
	Rupees in '000							
Leasehold land	532,600	-	532,600	-	-	-	532,600	-
Building and improvements on leasehold land	398,323	10,223 (4,025) (1,729) *	402,792	42,330	28,466 (738) (256) *	69,802	332,990	5% - 10%
Furniture and fixtures	142,768	1,800 (40) *	144,528	28,188	15,146 (12) *	43,322	101,206	10%
Computer and office equipments	411,514	9,604 (3,911)	417,207	185,503	61,183 (1,224)	245,462	171,745	20% - 33%
Vehicles	16,921	25,582 (5,552)	36,951	2,128	8,202 (5,310)	5,020	31,931	20%
	1,502,126	47,209 (13,488) (1,769) *	1,534,078	258,149	112,997 (7,272) (268) *	363,606	1,170,472	
Assets held under finance lease								
Vehicles	85,859	- (9,126)	76,733	51,345	16,821 (7,031)	61,135	15,598	20%
2011	1,587,985	47,209 (22,614) (1,769) *	1,610,811	309,494	129,818 (14,303) (268) *	424,741	1,186,070	
	2010							
	COST			ACCUMULATED DEPRECIATION			Written down value as at 31 December 2010	Rate of depreciation %
	As at 01 January 2010	Additions / (disposals) / (write offs*)	As at 31 December 2010	As at 01 January 2010	Charge for the year / (on disposals) / (on write offs*)	As at 31 December 2010		
	Rupees in '000							
Leasehold land	532,600	-	532,600	-	-	-	532,600	-
Building and improvements on leasehold land	309,144	129,721 (174) (40,368) *	398,323	26,772	19,896 (21) (4,317) *	42,330	355,993	5% - 10%
Furniture and fixtures	99,038	45,795 (270) (1,795) *	142,768	15,396	13,193 (106) (295) *	28,188	114,580	10%
Computer and office equipments	352,624	63,418 (1,382) (3,146) *	411,514	124,258	64,818 (643) (2,930) *	185,503	226,011	20% - 33%
Vehicles	1,485	15,436	16,921	786	1,342	2,128	14,793	20%
	1,294,891	254,370 (1,826) (45,309) *	1,502,126	167,212	99,249 (770) (7,542) *	258,149	1,243,977	
Assets held under finance lease								
Vehicles	100,180	- (14,321)	85,859	42,937	18,908 (10,500)	51,345	34,514	20%
2010	1,395,071	254,370 (16,147) (45,309) *	1,587,985	210,149	118,157 (11,270) (7,542) *	309,494	1,278,491	

12.3 Intangible assets	Note	2011	2010
		----- (Rupees '000) -----	
Computer software and core deposits	12.3.1	631,548	723,521
Brand		383,145	383,145
		<u>1,014,693</u>	<u>1,106,666</u>

12.3.1	2011							
	COST			ACCUMULATED AMORTISATION			Written down value as at 31 December 2011	Rate of amortisation %
As at 01 January 2011	Additions	As at 31 December 2011	As at 01 January 2011	Charge for the year	As at 31 December 2011			
	Rupees in '000-----							
Computer software	140,904	3,975	144,879	101,383	22,328	123,711	21,168	20%-33%
Core deposits	684,000	-	684,000	-	73,620	73,620	610,380	8.33%-10%
	<u>824,904</u>	<u>3,975</u>	<u>828,879</u>	<u>101,383</u>	<u>95,948</u>	<u>197,331</u>	<u>631,548</u>	

12.3.1	2010 (Restated)							
	COST			ACCUMULATED AMORTISATION			Written down value as at 31 December 2010	Rate of amortisation %
As at 01 January 2010	Additions	As at 31 December 2010	As at 01 January 2010	Charge for the year	As at 31 December 2010			
	Rupees in '000-----							
Computer software	112,762	28,142	140,904	68,075	33,308	101,383	39,521	20%-33%
Core deposits	-	684,000	684,000	-	-	-	684,000	8.33%-10%
	<u>112,762</u>	<u>712,142</u>	<u>824,904</u>	<u>68,075</u>	<u>33,308</u>	<u>101,383</u>	<u>723,521</u>	

12.4 Disposal of assets

Details of disposal of fixed assets where cost exceeds Rs. 1 million or book value is greater than Rs. 0.25 million, whichever is lower are as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Profit / (loss)	Mode of disposal	Particulars of purchaser
----- Rupees in '000 -----							
Motor vehicles							
Suzuki Cultus	682	383	299	339	40	Bank's policy	Mr. Kashif Ahmad - Ex Employee
Honda City	995	647	348	365	17	Bank's policy	Mr. M. Nasir Khan - Ex Employee
Honda Civic	1,576	735	841	981	140	Bank's policy	Mr. M. Ismail - Ex Employee
BMW	5,476	5,476	-	1,369	1,369	Bank's policy	Mr. Shafqaat Ahmad - CEO
	<u>8,729</u>	<u>7,241</u>	<u>1,488</u>	<u>3,054</u>	<u>1,566</u>		
Others							
Transformer Gemnet Isolation	1,650	523	1,127	750	(377)	Negotiation	Samba Bank Limited
Genset Generator	1,470	368	1,102	665	(437)	Negotiation	S.M Jaffer & Co. - Karachi
Office equipment and lease hold improvements	4,456	882	3,574	-	(3,574)	Negotiation	Others
	<u>7,576</u>	<u>1,773</u>	<u>5,803</u>	<u>1,415</u>	<u>(4,388)</u>		
Items having book value of less than Rs. 0.25 million or cost of Rs. 1 million is as follows:							
Various	6,309	5,289	1,020	1,229	209		
2011	<u>22,614</u>	<u>14,303</u>	<u>8,311</u>	<u>5,698</u>	<u>(2,613)</u>		
2010	<u>16,147</u>	<u>11,270</u>	<u>4,877</u>	<u>5,222</u>	<u>345</u>		

13. DEFERRED TAX ASSETS - NET	2011	2010
	----- (Rupees '000) -----	
Deferred tax debits arising in respect of		
Provision against non performing financings	401,755	323,226
Provision against diminution in value of investments	18,809	18,103
Provision against other assets	1,666	17,098
Pre-commencement expenditure	-	12,878
Deferred tax asset in respect of minimum tax to be carried forward and adjusted against tax liability of future years	107,619	41,103
Unused tax losses	683,714	861,316
	<u>1,213,563</u>	<u>1,273,724</u>
Deferred tax credits arising due to		
Fixed assets - leased	220	1,296
Assets subject to ijarah under IFAS 2	-	90,273
Tax effect of fixed assets owned	131,319	89,499
Tax effect on fixed assets leased after 2008	51,073	63,246
Tax effect of revaluation of investments classified as available-for-sale	-	355
	<u>182,612</u>	<u>244,669</u>
	<u>1,030,951</u>	<u>1,029,055</u>

13.1 The above net deferred tax asset has been recognised in accordance with the Bank's accounting policy. The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

	Note	2011 ---- (Rupees '000) ----	2010
14. OTHER ASSETS			
Profit / return accrued in local currency		1,254,091	887,066
Advances, deposits and prepayments		158,886	230,392
Receivable against sale of shares		81,000	81,000
Advance against murabaha		1,424,628	1,041,668
Advance against ijarah financing		120,140	11,758
Advance taxation (payments less provision)		232,749	226,746
Unrealised gain on re-measurement of forward exchange contracts		36,529	45,052
Branch adjustment account		8,507	-
Receivable in respect of defined benefit plan	33 & 33.3.1	11,903	8,020
Stationery in hand		4,860	3,574
Others		74,416	55,896
		<u>3,407,709</u>	<u>2,591,172</u>
Less: Provision held against other assets	14.1	(4,737)	(53,559)
Other assets (net of provision)		<u>3,402,972</u>	<u>2,537,613</u>
14.1 Provision held against other assets			
Opening balance		53,559	-
Charge for the year		-	48,800
Reversals		(48,800)	-
Write off		(22)	-
Taken over on amalgamation		-	4,759
		<u>4,737</u>	<u>53,559</u>
15. BILLS PAYABLE			
In Pakistan		438,703	415,815
Outside Pakistan		12,327	11,785
		<u>451,030</u>	<u>427,600</u>
16. DUE TO FINANCIAL INSTITUTIONS			
In Pakistan	16.2	1,736,120	2,756,892
Outside Pakistan		-	-
		<u>1,736,120</u>	<u>2,756,892</u>
16.1 Particulars of due to financial institutions with respect to currencies			
In local currency	16.2	1,736,120	2,756,892
In foreign currencies		-	-
		<u>1,736,120</u>	<u>2,756,892</u>
16.2 Details of due to financial institutions			
Borrowings from State Bank of Pakistan under Islamic export refinance scheme	16.3	1,736,120	2,752,726
UnSecured			
Overdrawn balances		-	4,166
		<u>1,736,120</u>	<u>2,756,892</u>
16.3 This represents musharaka contribution by SBP against Islamic export refinance scheme. Expected profit rate ranges from 9% to 10% (2010: 8.5% to 10.0%) per annum. The maximum limit approved by SBP under Islamic Export Refinance is Rs. 2.8 (2010: 2.8) billion.			
17. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		29,104,794	24,606,329
Savings deposits		20,547,624	14,415,110
Current accounts - non-remunerative		7,344,980	7,252,480
Margin deposits		347,425	299,045
		<u>57,344,823</u>	<u>46,572,964</u>
Financial Institutions			
Remunerative deposits		4,187,058	2,742,064
Non-remunerative deposits		27,145	9,181
		<u>4,214,203</u>	<u>2,751,245</u>
		<u>61,559,026</u>	<u>49,324,209</u>
17.1 Particulars of deposits			
In local currency		58,492,921	46,632,221
In foreign currencies		3,066,105	2,691,988
		<u>61,559,026</u>	<u>49,324,209</u>
18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			

	2011			2010		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	Rupees in '000					
Not later than one year	5,717	594	5,123	16,178	2,639	13,539
Later than one year but not later than five years	-	-	-	6,400	636	5,764
Later than five years	-	-	-	-	-	-
	<u>5,717</u>	<u>594</u>	<u>5,123</u>	<u>22,578</u>	<u>3,275</u>	<u>19,303</u>

19. OTHER LIABILITIES	Note	2011 ----- (Rupees '000) -----	2010
Return on deposits and borrowings:			
- payable in local currency		1,019,682	720,633
- payable in foreign currencies		1,672	1,748
Accrued expenses		98,641	83,557
Payable to Emirates Financial Holdings Limited		1,441	1,441
Payable to AlBaraka		95,704	310,694
Retention money		-	335
Security deposit against ijarah		671,308	716,836
Charity payable	19.1, 19.1.1 & 19.1.2	82,651	31,526
Branch adjustment account		-	52,372
Unrealised loss on re-measurement of forward exchange contracts		-	14,124
Excise duty / income tax withheld		9,510	8,147
Payable in respect of defined benefit plan	33.3.1	-	23,995
Unearned commission and ijarah rental income		182,649	31,780
Advance payments from customers		86,637	94,475
Others	19.2	19,202	24,920
		<u>2,269,097</u>	<u>2,116,583</u>

19.1 Movement of charity payable

Opening balance	31,526	23,293
Amount transferred during the year - delayed payment charges / deficient Murabahas	57,294	5,375
Payments / utilisation during the year	(6,169)	(14,361)
Transfer upon amalgamation	-	17,219
Closing balance	<u>82,651</u>	<u>31,526</u>

19.1.1 According to the instructions of the Shariah Advisor, any income earned by the Bank from Shariah non-compliant avenues should be donated by the Bank for charitable purposes directly by the Bank.

19.1.2 Charity equal to or in excess of Rs 100,000 was paid to the following organizations / individuals:

Rising sun institute	1,000	-
Lady Willington Hospital	586	-
Sina Health, Education & Welfare Trust	500	-
Shaukat Khanum Memorial Cancer Hospital	500	-
Afzal Memorial Thalassaemia Foundation	500	-
King Edward Medical College	370	-
Patient's Aid Foundation	300	-
Burns & Children Welfare Organization	300	-
Care Foundation	300	-
Citizens Foundation	300	-
Ms. Bashirunnisa	300	-
Ghulam Nabi Rind Development Organization	200	-
Mr. Mehmood Sultan	200	-
Old Age Home	125	-
Al Farooq-e-Azam Welfare Trust	100	-
Inmol Patients Welfare Society	100	-
Behbood Association Karachi	-	2,000
	<u>5,681</u>	<u>2,000</u>

19.2 Includes Rs. 0.657 million in respect of exchange difference which arose on translation of the share subscription money received in foreign currency from Mal Al Khaleej Investment L.L.C in respect of right shares issued during the year ended 31 December 2008.

20. SHARE CAPITAL
20.1 Authorised Capital

2011	2010	Note	2011 ----- (Rupees '000) -----	2010
Number of shares				
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs 10 each	<u>10,000,000</u>	<u>10,000,000</u>

20.2 Issued, subscribed and paid up capital

2011	2010	Note	2011 ----- (Rupees '000) -----	2010
Number of shares				
450,000,000	450,000,000	Ordinary shares of Rs 10 each	4,500,000	4,500,000
443,520,000	443,520,000	fully paid in cash	4,435,200	4,435,200
<u>893,520,000</u>	<u>893,520,000</u>	issued for consideration other than cash	<u>8,935,200</u>	<u>8,935,200</u>

20.3 Major shareholders as at 31 December 2011 were as follows:

Name of shareholder	2011		2010	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
AlBaraka Islamic Bank (Bahrain) B.S.C. (c)	577,543,500	64.64%	577,548,000	64.64%
Mal Al Khaleej Investment L.L.C.	158,360,039	17.72%	158,360,039	17.72%
Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi	110,311,487	12.35%	110,311,487	12.35%
Emirates Financial Holdings Limited	34,707,190	3.88%	34,707,190	3.88%
	880,922,216	98.59%	880,926,716	98.59%

2011
----- (Rupees '000) -----
2010

21. (DEFICIT) / SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

(Deficit) / Surplus on revaluation of available for sale securities:

Ordinary shares - listed	(1,928)	(218)
Mutual Funds	155	3,764
	(1,773)	3,546
Related deferred tax asset / (liability)	-	(355)
	(1,773)	3,191

22. CONTINGENCIES AND COMMITMENTS

22.1 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, shipping guarantees favouring:

i) Government	4,455,074	4,043,731
ii) Banking companies and other financial institutions	25,861	2,700
iii) Others	648,650	468,706
	5,129,585	4,515,137

22.2 Trade-related contingent liabilities

Letters of credit	2,929,314	3,056,606
Others - Shipping Guarantees	38,331	5,855
Acceptances	1,103,451	1,163,589

22.3 Commitments in respect of forward exchange contracts

Purchase	1,397,914	1,823,726
Sale	1,534,041	3,639,681

22.4 Commitments to incur capital expenditure

Commitments in respect of purchase of property	281,906	281,906
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22.5 Commitments for lease liability

Commitments in respect of rentals under ijarah are:

- not later than one year	14,415	20,036
- later than one year and not later than five years	7,282	26,206
- later than five years	-	-
	21,697	46,242

22.6 Other Contingencies

22.6.1 The Bank had entered into agreement with Mr. Furqan A. Sheikh for the exchange of Bank's property situated at Main Khayaban-e-Tanzeem, Phase V, DHA, Karachi with a building to be constructed in Modern Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi by 31 March 2010. The Bank also paid Rs. 25 million as an advance against such building. The property situated at Main Khayaban-e-Tanzeem is not in the possession of the Bank. The Bank's considers that as the construction work on the Modern Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi was not completed on the said date, the said agreement stands cancelled and hence the amount paid shall be either refunded to the Bank or adjusted against future rental payments for the above referred property.

During the year 2010, a law suit has been filed by Mr. Furqan A. Sheikh against the Bank seeking appointment of arbitrator for the execution of agreement between Mr. Furqan A. Sheikh and the Bank as referred above. The management, based on the opinion of its legal consultant is confident that the case will be decided in the favour of the Bank and hence no provision has been considered necessary in these financial statements in respect of loss on exchange of property amounting to Rs. 160.751 (2010: 160.751) million that may be occasioned upon the implementation of the above referred property exchange agreement or on account of non-refund of the advance paid by the Bank.

22.6.2 During the year 2010, a constitutional petition and certain suits have been filed by Mr. Faisal Vawda in the Honorable High Court of Sindh against the Bank wherein Mr. Vawda has claimed that he was offered 24 million ordinary shares of the Bank at an aggregate value of Rs. 300 million as sale consideration against the commercial property sold to the Bank. He further claimed that in addition to the said property, he has also paid Rs. 60 million towards the purchase consideration for the above referred shares. However, the said shares or any other consideration against the property has not been received by him. Based on the above, Mr. Vawda has alleged the Bank of involvement in illegal business and has requested the High Court to direct the SBP to refrain from according approval / sanction to the merger between the Bank and AlBaraka Islamic Bank. The Bank contends that the aforesaid allegations of Mr. Vawda are baseless and without any merit and that the subject property has been duly purchased and paid for by the Bank. Further, in the opinion of legal advisor of the Bank, the petitioner is not likely to be successful in securing the reliefs prayed in the said petitions.

In terms of the merger agreement dated 16 August 2010 between sponsors shareholders of the Bank and AlBaraka, the Emirates Financial Holdings LLC will keep the Bank fully indemnified, safe and secured against all losses, costs, claims, damages of any nature whatsoever resulting to the Bank on account of the Mr. Faisal Vawda Litigations including any additional or ancillary litigation or proceedings filed by Faisal Vawda Group in relation to the subject matter of the Faisal Vawda Litigations.

22.6.3 Income tax claims amounting to Rs. 116.512 million have not been acknowledged by the Bank. The Bank has filed appeals before Appellate Tribunal Inland Revenue (ATIR) against the orders in respect of assessment years 2001-2002, 2002-2003 and tax years 2003 to 2009. Moreover, the Income Tax Department has also filed appeals before ATIR against the orders in respect of assessment years 2001-2002, 2002-2003 and tax year 2003 to 2006 issued by Commissioner Inland Revenue (CIR) (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.

22.6.4 In respect of tax year 2011, the Additional Commissioner Inland Revenue (ACIR) has issued notice under section 122(9) read with section 122 (5A) of the Income Tax Ordinance, 2001 (the Ordinance) for proposed amendment of deemed assessment order in which certain disallowances, have been made. The reply to the notice has been filed through tax consultant; however the order of the ACIR is awaited.

	2011	2010
	----- (Rupees '000) -----	
22.6.5 Claim not acknowledged as debt	<u>30,000</u>	<u>30,000</u>
23. PROFIT / RETURN EARNED ON FINANCINGS, INVESTMENTS AND PLACEMENTS		
On financing to		
- Customers	3,294,823	1,460,668
- Employees	15,726	16,697
On investments in		
- Available for sale securities	2,567,837	554,977
- Held to Maturity securities	131,403	35,751
On deposits with banks	636,056	62,333
On placements against commodity murabaha	-	65,133
On due from financial institutions	53,333	3,235
	<u>6,699,178</u>	<u>2,198,794</u>

	Note	2011 ----- (Rupees '000) -----	2010
24. RETURN ON DEPOSITS AND OTHER DUES EXPENSED			
Return on deposits and other accounts		4,811,274	1,585,198
Export refinance under Islamic scheme		189,948	73,410
		<u>5,001,222</u>	<u>1,658,608</u>
25. GAIN ON SALE OF SECURITIES			
Gain / (loss) on sale of sukuk certificates		17,674	(22,026)
Gain on sale of listed shares		-	38,000
		<u>17,674</u>	<u>15,974</u>
26. OTHER INCOME			
Rent on property / lockers		2,349	2,301
Financial advisory fee		2,320	5,838
Others		7,377	15,297
		<u>12,046</u>	<u>23,436</u>
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other staff benefits		695,431	522,241
Contribution to defined contribution plan	34	38,397	26,656
Charge for defined benefit plan	33.7	27,110	19,112
Non-executive directors' fees, allowances and other expenses	35	6,583	-
Rent, taxes, insurance, electricity, etc.		432,340	307,837
Legal and professional charges		26,453	78,741
License fee		34,832	47,161
Communication		82,775	68,054
Brokerage and commission		8,400	26,840
Traveling and conveyance		67,542	55,044
Repairs and maintenance		51,025	25,465
Training and development		394	1,731
Stationery and printing		29,514	21,111
Advertisement and publicity		19,309	17,129
Auditors' remuneration	27.1	5,000	4,519
Depreciation	12.2	129,818	118,157
Amortisation	12.3	95,948	33,308
Security charges		68,025	49,183
Newspaper and periodicals		1,522	2,208
Financial charges	27.3	24,308	27,243
Entertainment		19,593	14,074
Bank charges		14,955	4,187
Miscellaneous expenses		31,457	38,589
		<u>1,910,731</u>	<u>1,508,590</u>
27.1 Auditors' remuneration			
Fee for statutory audit - annual		1,500	814
Fee for limited scope review - Half yearly		450	350
Fee for other audit, reviews and certifications		3,050	3,300
Out-of-pocket expenses		-	55
		<u>5,000</u>	<u>4,519</u>
27.2 Other provisions / write offs			
Reversal of provision / provision against other assets		(48,800)	48,800
Fixed assets written off - net of recovery		1,501	37,373
Others	12.1.2	62,920	-
		<u>15,621</u>	<u>86,173</u>
27.3 This represents financial charges paid on assets subject to finance lease and rentals paid on assets under Ijarah.			
28. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		136	376

	Note	2011 ----- (Rupees '000) -----	2010 ----- (Rupees '000) -----
29. TAXATION			
For the year			
Current	29.1	(72,228)	(27,375)
Deferred		1,896	546,266
		(70,332)	518,891
For prior year			
Current		-	13,821
Deferred		-	-
		-	13,821
		(70,332)	532,712

29.1 The charge for current tax represents minimum tax in accordance with section 113 of the Income Tax Ordinance, 2001.

30. EARNINGS / (LOSS) PER SHARE - BASIC AND DILUTED

Profit / (loss) after taxation for the year		<u>410,370</u>	<u>(1,039,595)</u>
		2011	2010
		Number of shares	
Weighted average number of ordinary shares		<u>893,520,000</u>	<u>475,517,589</u>
		Rupees	
Earnings / (loss) per share - Basic and diluted for the year		<u>0.46</u>	<u>(2.19)</u>

	Note	2011 ----- (Rupees '000) -----	2010 ----- (Rupees '000) -----
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31. CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks	7	3,945,481	4,460,257
Balances with other banks	8	7,577,186	7,409,620
		<u>11,522,667</u>	<u>11,869,877</u>

32. STAFF STRENGTH

	2011	2010
	----- Number -----	
Permanent	941	993
Temporary / on contractual basis	120	100
Consultants	-	12
Bank's own staff strength at the end of the year	<u>1,061</u>	<u>1,105</u>
Outsourced	177	217
Total Staff Strength	<u>1,238</u>	<u>1,322</u>

33. DEFINED BENEFIT PLAN
33.1 General description

The Bank operates funded gratuity scheme for all its permanent employees. The benefits under the gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service, in lump sum. The benefit is equal to one month's last drawn basic salary for each completed year of service, subject to a minimum of three years of service.

33.2 Principal actuarial assumptions

	2011 Per annum	2010 Per annum
- Discount rate	12.50%	14%
- Expected rate of increase in salaries	12.50%	14%
- Expected rate of return on plan assets	12.50%	14%

	Note	2011 ----- (Rupees '000) -----	2010
33.3 Reconciliation of (receivable) / payable to defined benefit plan			
Present value of defined benefit obligations		134,652	127,806
Fair value of plan assets		(146,838)	(115,597)
Net actuarial losses not recognised		(13,387)	(13,322)
Negative past service cost - non vested		13,670	17,088
		<u>(11,903)</u>	<u>15,975</u>
33.3.1 Break down of (receivable) / payable to defined benefit plan as at 31 December 2010:			
Payable to Pakistan branches of AlBaraka defined benefit plan	19		23,995
Receivable from Emirates Global Islamic Bank Limited defined benefit plan	14		(8,020)
			<u>15,975</u>
33.4 Movement in defined benefit obligation			
Obligation at the beginning of the year		127,806	110,798
Current service cost		28,774	31,787
Interest cost		17,893	14,287
Benefits paid		(32,475)	(12,582)
Actuarial gain on obligation		(7,346)	604
Negative past services - non vested		-	(17,088)
Obligation at the end of the year		<u>134,652</u>	<u>127,806</u>
33.5 Movement in fair value of plan assets			
Fair value at the beginning of the year		115,597	87,392
Expected return on plan assets		16,184	10,816
Contributions		54,988	30,581
Benefits paid		(32,475)	(12,582)
Actuarial loss on plan assets		(7,456)	(610)
Fair value at the end of the year		<u>146,838</u>	<u>115,597</u>
33.6 Movement in (receivable) / payable to defined benefit plan			
Opening balance		15,976	10,589
Charge for the year		27,110	35,968
Bank's contribution to the fund made during the year		(54,988)	(30,581)
Closing balance		<u>(11,902)</u>	<u>15,976</u>
33.7 Charge for defined benefit plan			
Current service cost		28,774	31,788
Interest cost		17,893	14,287
Expected return on plan assets		(16,184)	(10,816)
Past service cost		45	-
Net actuarial (gain) / loss recognised		(3,418)	709
		<u>27,110</u>	<u>35,968</u>
33.7.1 Break down of charge for defined benefit plan as at 31 December 2010:			
Charge for Emirates Global Islamic Bank Limited defined benefit plan			19,112
Charge for Pakistan branches of AlBaraka defined benefit plan			16,856
			<u>35,968</u>
33.8 Actual return on plan assets			
Expected return on plan assets		16,184	10,816
Actuarial loss on plan assets		(7,456)	(610)
		<u>8,728</u>	<u>10,206</u>

33.9 Historical information

	2011	2010	2009
	-----Rupees in '000 -----		
Defined benefit obligation	134,652	127,806	38,902
Fair value of plan assets (Surplus) / deficit	<u>146,838</u> <u>(12,186)</u>	<u>115,597</u> <u>12,209</u>	<u>46,580</u> <u>(7,678)</u>
Experience adjustments on plan obligation	<u>7,346</u>	<u>(604)</u>	<u>2,816</u>
Experience adjustments on plan assets	<u>(7,456)</u>	<u>(610)</u>	<u>2,546</u>

**33.10 Components of plan assets
as a percentage of total plan assets**

	2011 Rupees in '000		2010 Rupees in '000	
		%		%
Mutual Fund Units	7,897	5%	9,640	8%
Bank balances	<u>138,941</u>	95%	<u>105,957</u>	92%
	<u>146,838</u>		<u>115,597</u>	

33.11 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the gratuity fund as per actuarial's expected charge for the next financial year which amounts to Rs. 21.358 million.

34. DEFINED CONTRIBUTION PLAN

The Bank also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the bank and the employees, to the fund at a rate of 10% of basic salary.

	2011 ----- (Rupees '000) -----	2010
Contribution from the Bank	38,397	26,656
Contribution from the employees	<u>38,397</u>	<u>26,656</u>
	<u>76,794</u>	<u>53,312</u>

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2011	2010	2011	2010	2011	2010
	----- Rupees in '000 -----					
Managerial remuneration	14,400	41,590	-	-	201,977	149,549
Charge for defined benefit plan	1,200	1,714	-	-	15,574	10,540
Contribution to defined contribution plan	1,440	2,056	-	-	18,627	12,679
Rent and house maintenance	4,320	6,172	-	-	57,257	38,288
Utilities allowance	1,440	2,058	-	-	19,086	12,762
Medical allowance	1,440	2,061	-	-	19,086	12,759
Bonus	-	1,802	-	-	5,792	11,036
Conveyance	189	-	3,567	-	236	268
Fee	-	-	3,016	-	-	11,446
Other	2,635	122	-	-	27,842	-
	<u>27,064</u>	<u>57,575</u>	<u>6,583</u>	<u>-</u>	<u>365,477</u>	<u>259,327</u>
Number of persons	<u>1</u>	<u>1</u>	<u>10</u>	<u>6</u>	<u>214</u>	<u>261</u>

35.1 In addition to the above, the Bank also provides cars to the Chief Executive Officer and certain executives for their own use.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity'. These securities are carried at amortised cost in order to comply with the requirements of BSD Circular No.14 dated 24 September 2004.

Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

Fair value of fixed term loans, sukuk certificate / bonds other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in relevant note to these financial statements.

The repricing profile, effective rates and maturity are stated in note 43 and 45 to these financial statements.

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

36.2 Off - balance sheet financial instruments

	2011		2010	
	Book value	Fair value	Book value	Fair value
-----Rupees in '000-----				
Forward purchase of foreign exchange	<u>1,352,486</u>	<u>1,397,914</u>	<u>1,823,726</u>	<u>1,832,552</u>
Forward agreement for borrowing	-	-	-	-
Forward sale of foreign exchange	<u>1,525,255</u>	<u>1,534,041</u>	<u>3,639,681</u>	<u>3,624,135</u>
Forward agreement for lending	-	-	-	-

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2011				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
----- Rupees in '000 -----					
Total income	20,692	3,624,324	306,219	3,228,317	1,684
Total expenses	4,310	115,216	4,967,545	1,683,795	-
Net income / (loss)	16,382	3,509,108	(4,661,326)	1,544,522	1,684
Segment return on assets (ROA) (%)	37.28%	9.37%	10.67%	9.94%	0.35%
Segment cost of funds (%)	8.90%	8.90%	8.90%	8.90%	8.90%

	2011				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
----- Rupees in '000 -----					
Segment assets (gross of provisions)	55,500	38,661,360	2,870,409	32,469,451	479,275
Segment non performing financings (NPFs)	-	-	114,207	4,351,831	-
Segment provision required against NPFs	-	-	52,799	1,938,317	-
Segment liabilities	-	3,272	42,812,870	22,743,321	460,933

	2010				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
----- Rupees in '000 -----					
Total income	42,560	841,205	109,612	1,311,145	141,293
Total expenses	22,353	98,019	1,970,723	1,394,314	-
Net income / (loss)	20,207	743,186	(1,861,111)	(83,169)	141,293
Segment return on assets (ROA) (%)	17.70%	14.25%	14.85%	20.37%	-
Segment cost of funds (%)	4.13%	9.78%	9.02%	15.61%	-

	2010 (Restated)				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
----- Rupees in '000 -----					
Segment assets (gross of provisions)	1,732,243	22,554,225	8,131,499	18,243,531	12,323,283
Segment non performing financings (NPFs)	-	-	263,550	4,089,023	-
Segment provision required against NPFs	-	-	134,106	2,087,011	-
Segment liabilities	1,683	20,727	52,579,702	1,799,783	242,693

38. RELATED PARTY TRANSACTIONS

38.1 Related parties comprise of parent Bank, associates, entities having directors in common with the Bank, staff retirement funds, key management personnel and major shareholders of the Bank.

The details of transactions with related parties during the year are as follows:

	2011	2010
	------(Rupees '000)-----	
<u>Key management personnel</u>		
Financings		
At 01 January	209,216	95,869
Disbursed during the year	28,709	29,236
Repaid / adjustment during the year	(189,285)	(12,224)
Taken over on amalgamation	-	96,335
At year end	48,640	209,216
Deposits		
At 01 January	137,541	20,227
Deposited during the year	362,291	314,394
Repaid / adjustment during the year	(363,964)	(297,508)
Taken over on amalgamation	-	100,428
At year end	135,868	137,541
Other Balances		
Return payable on deposit	4,506	1,670
Profit receivable on financings	92	17
Transactions, income and expenses		
Profit earned on financings	1,861	4,113
Return on deposits expenses	11,557	4,810
Salaries, allowances and benefits	113,433	106,216
<u>Parent Bank</u>		
Other balances		
Payable against expenses incurred on behalf of the bank	95,704	310,694
<u>Major shareholders and entities having directors in common with the Bank</u>		
Financings		
At 01 January	2,982	12,845
Disbursed during the year	-	-
Repaid during the year	(2,982)	(9,863)
At year end	-	2,982
Deposits		
At 01 January	249,537	225,686
Deposited during the year	419,039	366,682
Repaid / adjustment during the year	(212,777)	(459,926)
Transfer upon amalgamation	-	117,095
At year end	455,799	249,537
Other Payables		
At 01 January	1,861	5,514
Disbursed during the year	-	5,557
Repaid during the year	-	(9,210)
At year end	1,861	1,861
Other balances		
Return payable on deposits	4,792	13
Profit receivable on financings	-	293
Investments	52,200	52,200
Provision for diminution in value of investment	28,741	26,723
Non funded exposure	22,353	21,282
Transactions, income and expenses		
Profit earned on financings	52	1,757
Return on deposits expenses	38,569	4,995
<u>Retirement benefit plan</u>		
Contribution to defined contribution plan	38,397	26,656
Contribution to defined benefit plan	27,110	19,112

39. CAPITAL - ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

39.1 Capital Management

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Goals of managing capital

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

- To be an appropriately capitalized institution, as defined by regulatory authorities and comparable to the peers;
- Maintain strong ratings and to protect the Bank against unexpected events;
- Availability of adequate capital at a reasonable cost so as to enable the Bank to expand; and achieve low overall cost of capital with appropriate mix of capital elements.

Statutory minimum capital requirement and management of capital

As per the relaxation allowed by the SBP, the Bank shall maintain paid up capital (free of losses) of at least Rs 6 billion at all times and raise the paid up capital (free of losses) to Rs 8 billion in the year 2012 and Rs 10 billion in the year 2013. As of 31 December 2011, the paid up capital of the Bank is Rs 8,935.2 million. Further, the Bank has reserves of Rs. 82.074 million and discount on issue of shares and accumulated losses of Rs 767.290 and Rs 1,723.728 million respectively.

In addition, the Bank is required to maintain Capital Adequacy Ratio of 15% during the exemption period.

Details of minimum capital requirements are disclosed in note 1.2 to the financial statements.

Bank's regulatory capital analysed into two tiers

Tier 1 capital, includes fully paid up capital (including bonus shares), balance in share premium account, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for investments in the equity of subsidiaries engaged in banking and financial activities and deficit on revaluation of available for sale investments.

Tier 2 capital, includes general provisions for loan losses (upto a maximum of 1.25 percent risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 45 percent of the balance in the related revaluation reserves), foreign exchange translation reserves, etc.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

The required capital adequacy ratio is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorised as either trading book or Banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk and market risk.

The calculation of Capital Adequacy enables the Bank to assess the long-term soundness. As the Bank carries on the business on a wide area network basis, it is critical that it is able to continuously monitor the exposure across the entire organisation and aggregate the risks so as to take an integrated approach / view. The Bank has complied with Capital Adequacy Ratio Requirements. Further, there has been no material change in the Bank's management of capital during the period.

	31 December 2011	31 December 2010 (Rupees in '000) Restated
39.2 Regulatory capital structure		
Tier I Capital		
Paid up capital	8,935,200	8,935,200
Discount on issue of shares	(767,290)	(767,290)
Reserves	82,074	-
Accumulated loss	(1,723,728)	(2,052,024)
Less: Goodwill, intangible etc.	(1,014,693)	(1,106,666)
Calculation difference (expected losses vs eligible provisions)	-	-
Deficit on revaluation of available-for-sale investments	(1,773)	(218)
Total Tier I Capital	5,509,790	5,009,002
Tier II Capital		
Subordinated Debt (upto 50% of total Tier 1 Capital)	-	-
General provisions subject to 1.25% of total risk weighted assets	12,052	15,932
Revaluation reserve	-	1,436
Less: Calculation difference (expected losses vs eligible provisions)	-	-
Investment in commercial entities (50%)*	-	-
Total Tier II Capital	12,052	17,368
Eligible Tier III Capital	-	-
Total Regulatory Capital Base	(a) 5,521,842	5,026,370

39.3 The capital to risk weighted assets ratio, calculated in accordance with the SBP guidelines on capital adequacy is as follows:

	2011		2010 (Restated)	
	Capital Requirement	Risk adjusted value	Capital Requirement	Risk adjusted value
	----- Rupees in '000 -----		----- Rupees in '000 -----	
Credit risk				
<u>Portfolios subject to standardized approach</u>				
<u>On-Balance Sheet Items:</u>				
Sovereign and Central Banks	502	5,023	757	7,569
Public Sector Entities (PSEs)	9,978	99,784	6,864	68,637
Banks and Securities Firms	158,043	1,580,425	152,936	1,529,359
Corporates Portfolio	2,097,557	20,975,568	1,708,738	17,087,377
Retail Non Mortgages	13,219	132,190	95,432	954,322
Mortgages – Residential	24,609	246,089	59,396	593,955
Securitized Assets	-	-	-	-
Equities	184	1,840	363	3,628
Unlisted	3,519	35,189	3,822	38,216
Fixed Assets	178,347	1,783,474	192,360	1,923,603
Other Assets	341,529	3,415,291	346,424	3,464,237
Past Due Exposures	196,656	1,966,559	139,484	1,394,840
Off balance sheet items:				
Non-Market Related:	321,182	3,211,816	330,321	3,303,214
Market Related:	5,500	54,996	85,533	855,327
Risk-weighted exposures				
Market Risk				
<u>Capital Requirement for portfolios subject to Standardized Approach</u>				
Interest rate risk		-	-	-
Equity position risk		-	-	-
Foreign Exchange Risk	29,376	293,764	57,497	574,966
Position in Options		-	-	-
Operational Risk				
<u>Capital Requirement for operational risks</u>	230,527	2,305,271	115,888	1,158,875
TOTAL	(b) 3,610,728	36,107,279	3,295,815	32,958,125
Capital Adequacy Ratio				
Total eligible regulatory capital held	(a) 5,521,842		5,026,370	
Total Risk Weighted Assets	(b) 36,107,279		32,958,125	
Capital Adequacy Ratio	(a / b) 15.29%		15.25%	

40. RISK MANAGEMENT

This section presents information about Bank's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

- Credit risk is the risk of loss resulting from client or counterparty default.
- Market risk is exposure to market variables such as interest rates, exchange rates and equity indices.
- Liquidity risk is the potential for loss to the Bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring an unacceptable cost.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events.

Representations of risk are for a given period and Bank's risk management will constantly evolve as its business activities change in response to credit, market, product and other developments. The Bank manages the risk through a framework of risk management, policies and principles, organisational structures, and risk measurement and monitoring processes that are closely aligned with the business activities of the bank.

Risk management principles

- The board of directors (the Board) provides overall risk management supervision. The Board risk management committee regularly monitors the Bank's risk profile.
- The Bank has set up objectives and policies to manage the risks that arise in connection with the Bank's activities. The risk management framework and policies of the Bank are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate the salient risk elements in the operations of the Bank.
- The establishment of the overall financial risk management objectives is consistent and tandem with the strategy to create and enhance shareholders value, whilst guided by a prudent and robust framework of risk management policies.
- The structure of risk management function is closely aligned with the organisational structure of the Bank.

Risk management organisation

The Board of Directors through its sub-committee called 'Board Risk Management Committee' (BRMC) oversees the overall risk of the Bank. The Risk Management Department (RMD) is the organisational arm performing the functions of identifying, measuring, monitoring and controlling the various risk and assists the apex level committee and the various sub-committees in conversion of policies into action.

The BRMC comprises of four directors and the Chief Risk Officer. One of the non executive directors of the Bank chairs the risk management committee, which is responsible for planning, management and control of the aforementioned risks of the Bank.

The BRMC has delegated some of its tasks of risk management to sub committees which are as follows:

Name of the committee	Chaired by
Credit committee	CEO
Asset and liability management committee (ALCO)	CEO

Credit committee is responsible for approving and monitoring all financing transactions and also the overall quality of the financing portfolio. For this purpose it has formulated credit policy so as to effectively monitor the risk profile of the Bank's asset portfolio and to ensure strict adherence to the State Bank of Pakistan's Prudential Regulations, Banking Companies Ordinance, 1962 and any other regulatory requirement.

Asset and Liability Committee (ALCO) has the responsibility for the formulation of overall strategy and oversight of the assets liability management function. ALCO monitors the maintenance of balance sheet liquidity ratios, depositor's concentration both in terms of overall funding mix and avoidance of reliance on large individual deposits. The Board of Directors have approved a comprehensive liquidity management policy.

The Board has constituted an audit committee. The audit committee works to ensure that the best practices of the code of corporate governance and other policies and procedures are being complied with.

The Bank's risk management, compliance and internal audit and legal departments support the risk management function. The role of the risk management department is to quantify the risk and the quality and integrity of the bank's risk-related data. The compliance department ensures that all the directives and guidelines issued by State Bank of Pakistan (SBP) are being complied with in order to mitigate the compliance and operational risks. Internal audit department reviews the compliance of internal control procedures with internal and regulatory standards.

40.1 Credit Risk

Credit risk is the risk of loss to Bank as a result of failure by a client or counterparty to meet its contractual obligations when due. Exposure to credit risks for the Bank arises primarily from lending activities.

The management of credit risk is governed by credit policies approved by the Board. The procedures set out the relevant approval authorities, limit, risks, credit ratings and other matters involved in order to ensure sound credit granting standards.

The Bank has a well defined credit structure duly approved by the Board under which delegated authorities at various levels are operating and which critically scrutinise and sanction credit. The emphasis is to provide short to medium term trade related financings to reputable names, which are self liquidating and Shariah compliant. The risk appraisal system of the Bank has enabled it to build a sound portfolio.

The Board of Directors has approved the Internal Credit Risk Rating Policy for customers, establishing a rating mechanism for identifying and measuring the credit risk against each obligor / transaction. The mechanism considers factors such as management, financial health and macro / micro economic factors and the facility structuring. The Internal Credit Risk Rating System which has been implemented in the Bank assigns risk grades to credit portfolio in nine categories whereas three grades have been assigned to classified loans. The system has started playing a significant role in the decision making, monitoring and capital adequacy processes relating to credit risk management.

The Bank classifies a claim as impaired if it considers it likely that it will suffer a loss on that claim as a result of the obligor's inability to meet its commitments (including profit payments, principal repayments or other payments due) after realisation of any available collateral. Allowances or provisions are determined in accordance with the requirements of the SBP. The authority to establish allowances, provisions and credit valuation adjustments for impaired claims, is vested in Credit Operations Department and is according to the SBP regulations.

40.1.1 Segmental information

40.1.1.1 Segments by class of business

	2011					
	Financing (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	970,790	3.28%	8,253,199	13.41%	79,582	0.64%
Mining and quarrying	31,205	0.11%	383,991	0.62%	-	0.00%
Textile	5,355,223	18.09%	1,742,741	2.83%	641,154	5.16%
Chemical and pharmaceuticals	2,160,418	7.30%	1,541,874	2.50%	1,036,539	8.33%
Cement	5,728	0.02%	13,518	0.02%	22,496	0.18%
Sugar	2,205,649	7.45%	390,224	0.63%	72,100	0.58%
Footwear and leather garments	938,308	3.17%	420,384	0.68%	115,258	0.93%
Automobile and transportation equipment	876,418	2.96%	228,532	0.37%	108,014	0.87%
Electronics and electrical appliances	1,170,275	3.95%	793,497	1.29%	1,539,655	12.38%
Construction	2,470,771	8.35%	810,006	1.32%	892,099	7.17%
Power (electricity), gas, water, sanitary	-	0.00%	-	0.00%	25,112	0.20%
Wholesale and retail trade	647,172	2.19%	165,155	0.27%	532,515	4.28%
Exports / imports	337,767	1.14%	654,816	1.06%	706,660	5.68%
Transport, storage and communication	463,673	1.57%	379,964	0.62%	98,801	0.79%
Financial	174,091	0.59%	5,391,853	8.76%	3,737,552	30.05%
Insurance	31,443	0.11%	200,770	0.33%	-	0.00%
Services	629,277	2.13%	2,006,851	3.26%	269,325	2.17%
Individuals	1,188,571	4.02%	22,854,356	37.13%	18,957	0.15%
Others	9,945,045	33.60%	15,327,295	24.90%	2,540,420	20.43%
	29,601,824	100.00%	61,559,026	100.00%	12,436,239	100.00%
	2010					
	Financing (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	32,238	0.11%	1,709,653	3.47%	102,961	0.69%
Mining and quarrying	2,434	0.01%	43,023	0.09%	-	0.00%
Textile	7,068,659	24.53%	1,342,108	2.72%	1,131,382	7.60%
Chemical and pharmaceuticals	2,093,756	7.26%	1,762,296	3.57%	1,293,180	8.69%
Cement	22,850	0.08%	19,883	0.04%	2,700	0.02%
Sugar	1,299,277	4.51%	463,016	0.94%	-	0.00%
Footwear and leather garments	917,123	3.18%	282,961	0.57%	137,109	0.92%
Automobile and transportation equipment	563,189	1.95%	168,778	0.34%	72,738	0.49%
Electronics and electrical appliances	648,415	2.25%	677,991	1.37%	687,800	4.62%
Construction	1,638,290	5.68%	911,503	1.85%	664,249	4.46%
Power (electricity), gas, water, sanitary	70,599	0.24%	127,228	0.26%	458,138	3.08%
Wholesale and retail trade	1,666,134	5.78%	539,085	1.09%	264,870	1.78%
Exports / imports	662,372	2.30%	710,414	1.44%	864,280	5.81%
Transport, storage and communication	244,634	0.85%	541,785	1.10%	100,040	0.67%
Financial	219,064	0.76%	2,751,246	5.58%	6,349,862	42.67%
Insurance	40,394	0.14%	259,294	0.53%	-	0.00%
Services	702,803	2.44%	15,558,908	31.54%	240,244	1.61%
Individuals	1,540,684	5.35%	8,511,863	17.26%	34,070	0.23%
Others	9,387,463	32.57%	12,943,174	26.24%	2,476,737	16.64%
	28,820,378	100.00%	49,324,209	100.00%	14,880,360	100.00%

40.1.1.2 Segment by sector

	2011					
	Financing (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / government	3,324,344	11.23%	2,475,191	4.02%	210,756	1.69%
Private	26,277,480	88.77%	59,083,835	95.98%	12,225,483	98.31%
	29,601,824	100.00%	61,559,026	100.00%	12,436,239	100.00%

	2010					
	Financing (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / government	3,981,158	13.81%	2,920,300	5.92%	514,222	3.46%
Private	24,839,220	86.19%	46,403,909	94.08%	14,366,138	96.54%
	28,820,378	100.00%	49,324,209	100.00%	14,880,360	100.00%

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

	2011		2010 (Restated)	
	Classified Financing	Specific Provisions Held	Classified Financing	Specific Provisions Held
	------(Rupees in '000)-----			
Agriculture, forestry, hunting and fishing	15,956	6,271	15,956	7,347
Mining and quarrying	-	-	-	-
Chemical & pharmaceuticals	240	-	84,176	11,375
Cement	-	-	-	-
Textile	1,527,930	929,299	1,431,246	935,667
Sugar	-	-	-	-
Footwear & leather garments	36,341	33,895	39,241	36,067
Automobile & transportation equipment	29,906	29,906	30,640	30,640
Electronics and electrical appliances	8,808	1,763	1,763	1,763
Construction	871,519	261,474	1,328,544	590,687
Wholesale / retail trade	276,689	70,207	19,698	2,438
Exports / imports	34,651	31,818	157,015	101,140
Transport, storage and communication	27,850	2,000	52,000	6,574
Financial	1,898	1,033	1,898	1,065
Insurance	-	-	-	-
Services	4,090	-	37,383	21,302
Individuals	104,754	35,227	92,827	35,863
Others	1,525,406	576,171	1,060,186	423,257
	4,466,038	1,979,064	4,352,573	2,205,185

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

	2011		2010 (Restated)	
	Classified Financing	Specific Provisions Held	Classified Financing	Specific Provisions Held
	------(Rupees in '000)-----			
Public / government	-	-	-	-
Private	4,466,038	1,979,064	4,352,573	2,205,185
	4,466,038	1,979,064	4,352,573	2,205,185

40.2 Credit Risk – General Disclosures, Basel II Specific

The Bank has adopted Standardised Approach, under Basel II.

40.3 Credit Risk: Standardized Approach

Currently the Bank does not have any policy whereby customers have to be rated by a rating agency. Therefore, the bank uses unsolicited / solicited ratings of JCR-VIS, PACRA and other foreign agencies wherever applicable.

Following are the types of exposure for which each agency is used:

Exposure	MOODY'S	S&P	JCR-VIS	PACRA	FITCH
Corporate	✓	✓	✓	✓	-
Banks	-	✓	✓	✓	-
Sovereigns	-	-	-	-	-
SME's	----- fixed risk weight -----				
Securitisations	-	-	-	-	-

Most of the Bank's asset base is short or medium term. Therefore, the Bank uses the entity's rating to assess the risk of our exposure without any adjustments.

For exposure amounts after risk mitigation subject to the standardised approach, amount of bank's / DFI's outstandings (rated and unrated) in each risk bucket as well as those that are deducted are as follows:

Exposure	Rating category No.	Amount outstanding	Deduction CRM* Rupees in '000	Net Amount
Corporate	1	1,065,737	-	1,065,737
	2	327,572	5,034	322,538
	3,4	691,949	18,716	673,233
	5,6	718,869	1,681	717,188
	Unrated	19,738,782	886,645	18,852,137
Banks	1,2,3	7,889,225	-	7,889,225
	Unrated	12,900	-	12,900
Sovereigns etc.		28,798,542	23,987,071	4,811,471
PSEs	1	283,000	-	283,000
	Unrated	3,363,280	-	3,363,280
Unrated (others)	Unrated	8,652,383	3,338,914	5,313,469
Total		<u>71,542,239</u>	<u>28,238,061</u>	<u>43,304,178</u>

* CRM= Credit Risk Mitigation

Main types of collateral taken by the bank are:

- Cash margin
- Lien on deposits / government securities
- Hypothecation on stocks / assets
- Mortgage on properties

Eligible financial collateral and other eligible collateral after the application of haircuts.

The Bank has adopted simple approach to credit risk mitigation under Basel II and therefore has not applied any haircuts to the collateral. Moreover the Bank's eligible collateral only includes cash / liquid securities.

41. GEOGRAPHICAL SEGMENT ANALYSIS

	2011			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	----- Rupees in '000 -----			
Pakistan	480,702	72,544,879	6,524,483	12,436,239
Others	-	-	-	-
	<u>480,702</u>	<u>72,544,879</u>	<u>6,524,483</u>	<u>12,436,239</u>
	2010			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	----- Rupees in '000 -----			
Pakistan	(1,572,307)	60,763,664	6,119,077	14,880,360
Others	-	-	-	-
	<u>(1,572,307)</u>	<u>60,763,664</u>	<u>6,119,077</u>	<u>14,880,360</u>

42. MARKET RISK

42.1 Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In the absence of trading book, the Bank is only exposed to benchmark rate risk in the banking book.

The main objective of the Bank's market risk management is to minimise market risk in the banking book and to facilitate business growth within a controlled and transparent risk management framework.

Market risk in banking book arise from investment in fixed income securities, equities and dealing in foreign exchange transactions.

Market risk is being monitored by Asset and Liability Committee (ALCO), comprising of CEO, CFO, CRO and senior executives. The committee performs following functions in relation to market risk:

- Regular periodic review of market risk, based on economic review reports, interest sensitive gap reports and simulated income reports etc.
- Keeps an eye on the structure / composition of Bank's assets and liabilities and decide upon product pricing for deposits and advances.
- Develop future business strategy in view of the latest trends in interest rate in the market, economic conditions and local regulatory requirements.
- Review and recommend to the Board of Directors, new opportunities for generating revenues.

42.2 Foreign Exchange Risk

	2011				2010 (Restated)			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
----- Rupees in '000 -----								
Pakistan rupee	53,656,007	47,556,784	142,923	6,242,146	52,108,034	48,217,686	1,653,763	5,544,111
United States dollar	17,023,140	16,844,958	41,545	219,727	7,810,165	5,270,223	(2,026,118)	513,824
Great Britain pound	598,979	466,378	(120,301)	12,300	292,430	447,014	159,937	5,353
Euro	851,599	798,859	(64,167)	(11,427)	295,114	486,577	212,418	20,954
AED	228,456	213,390	-	15,066	198,389	175,218	-	23,171
JPY	177,314	136,409	-	40,905	50,396	44,408	-	5,989
Deutsche Mark	-	-	-	-	-	-	-	-
Swiss Frank	9,384	3,618	-	5,766	9,136	3,461	-	5,675
	72,544,879	66,020,396	-	6,524,483	60,763,664	54,644,587	-	6,119,077

Foreign exchange risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Bank manages this risk by setting and monitoring dealer, currency, inter exposures, stop loss and counter party limits for on and off balance sheet financial instruments.

The exposures of the Bank to foreign exchange risk is also restricted by the statutory limit on aggregate exposure prescribed by the State Bank of Pakistan.

42.3 Equity position risk

Equity position risk is the risk arising from taking positions in the equities and all instruments that have a market behaviour similar to equities.

Counter parties limits, as also fixed by the State Bank of Pakistan, are considered to limit risk concentration. The bank invests in those equities which are Shariah compliant as advised by the Shariah advisor.

43. MISMATCH OF INTEREST RATE SENSITIVE ASSETS AND LIABILITIES

		2011										Non-profit bearing financial instruments
		Exposed to Yield/ Interest rate risk										
Effective yield	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										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0% - 10.85%	3,945,481	300,000	-	-	-	-	-	-	-	-	3,645,481
Balances with other banks	6.20% - 11.25%	7,577,186	5,442,281	600,000	-	-	-	-	-	-	-	1,534,905
Due from financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	11.79% - 15.75%	26,179,416	12,434	-	-	1,444,236	12,004,287	11,945,000	750,000	-	-	23,459
Financings	4% - 22.27 %	27,610,708	4,934,513	7,390,734	7,069,474	1,067,489	1,666,147	2,139,058	801,451	206,605	208,505	2,126,732
Other assets	-	1,387,293	-	-	-	-	-	-	-	-	-	1,387,293
		66,700,084	10,689,228	7,990,734	7,069,474	2,511,725	13,670,434	14,084,058	1,551,451	206,605	208,505	8,717,870
Liabilities												
Bills payable	-	451,030	-	-	-	-	-	-	-	-	-	451,030
Due to financial institutions	9% - 10%	1,736,120	694,448	1,041,672	-	-	-	-	-	-	-	-
Deposits and other accounts	5% - 12%	61,559,026	9,879,145	11,429,750	11,348,645	10,002,674	2,774,028	6,385,517	2,258,108	-	-	7,481,159
Sub-ordinated loans	0.00%	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	13.2% - 20.5%	5,123	426	854	1,281	2,562	-	-	-	-	-	-
Other liabilities	-	2,269,097	-	-	-	-	-	-	-	-	-	2,269,097
		66,020,396	10,574,019	12,472,276	11,349,926	10,005,236	2,774,028	6,385,517	2,258,108	-	-	10,201,286
On-balance sheet gap		679,688	115,209	(4,481,542)	(4,280,452)	(7,493,511)	10,896,406	7,698,541	(706,657)	206,605	208,505	(1,483,416)
Non financial assets												
Operating fixed assets		2,798,165										
Other assets		2,015,679										
Deferred tax asset - net		1,030,951										
		5,844,795										
Non financial liabilities												
Other liabilities		-										
Total net assets		6,524,483										
Off-balance sheet financial instruments												
Forward Foreign exchange contracts- Purchase		1,397,914	-	-	-	-	-	-	-	-	-	1,397,914
Forward Foreign exchange contracts- Sale		1,534,041	-	-	-	-	-	-	-	-	-	1,534,041
Off-balance sheet gap		(136,127)	-	-	-	-	-	-	-	-	-	(136,127)
Total yield/profit risk sensitivity gap			115,209	(4,481,542)	(4,280,452)	(7,493,511)	10,896,406	7,698,541	(706,657)	206,605	208,505	
Cumulative yield/profit risk sensitivity gap			115,209	(4,366,333)	(8,646,785)	(16,140,296)	(5,243,890)	2,454,651	1,747,994	1,954,599	2,163,104	

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

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

2010 (Restated)												
Exposed to Yield/ Interest rate risk											Non-profit bearing financial instruments	
Effective yield	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	-	4,460,257	-	-	-	-	-	-	-	-	-	4,460,257
Balances with other banks	5% - 15.5%	7,409,620	4,100,150	-	-	-	-	-	-	-	-	3,309,470
Due from financial institutions	10% - 14.25%	80,000	-	80,000	-	-	-	-	-	-	-	-
Investments	14.45% - 19%	15,617,589	-	112,500	1,506,000	-	10,032	10,541,787	2,552,308	825,625	-	69,337
Financings	3% - 20 %	26,599,261	4,187,466	7,311,165	8,002,455	2,512,668	1,679,689	318,793	290,030	352,169	395,179	1,549,647
Other assets	-	2,537,613	-	-	-	-	-	-	-	-	-	2,537,613
		56,704,340	8,287,616	7,503,665	9,508,455	2,512,668	1,689,721	10,860,580	2,842,338	1,177,794	395,179	11,926,324
Liabilities												
Bills payable	-	427,600	-	-	-	-	-	-	-	-	-	427,600
Due to financial institutions	8% - 12%	2,756,892	295,341	994,281	1,467,270	-	-	-	-	-	-	-
Deposits and other accounts	5% - 13%	49,324,209	21,589,423	6,291,419	3,736,932	6,755,837	990,796	919,795	1,374,758	99,025	-	7,566,225
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	13% - 22%	19,303	1,128	2,256	3,386	6,769	5,764	-	-	-	-	-
Other liabilities	-	2,116,583	-	-	-	-	-	-	-	-	-	2,116,583
		54,644,587	21,885,892	7,287,956	5,207,588	6,762,606	996,560	919,795	1,374,758	99,025	-	10,110,408
On-balance sheet gap		2,059,753	(13,598,276)	215,709	4,300,867	(4,249,938)	693,161	9,940,785	1,467,580	1,078,769	395,179	1,815,916
Non financial assets												
Operating fixed assets		3,030,269										
Other assets		-										
Deferred tax asset - net		1,029,055										
		4,059,324										
Non financial liabilities												
Other liabilities		-										
Total net assets		<u>6,119,077</u>										
Off-balance sheet financial instruments												
Forward Foreign exchange contracts- Purchase		1,823,726	-	-	-	-	-	-	-	-	-	1,823,726
Forward Foreign exchange contracts- Sale		3,639,681	-	-	-	-	-	-	-	-	-	3,639,681
Off-balance sheet gap		<u>(1,815,955)</u>										<u>(1,815,955)</u>
Total yield/profit risk sensitivity gap			(13,598,276)	215,709	4,300,867	(4,249,938)	693,161	9,940,785	1,467,580	1,078,769	395,179	
Cumulative yield/profit risk sensitivity gap			<u>(13,598,276)</u>	<u>(13,382,567)</u>	<u>(9,081,700)</u>	<u>(13,331,638)</u>	<u>(12,638,477)</u>	<u>(2,697,692)</u>	<u>(1,230,112)</u>	<u>(151,343)</u>	<u>243,836</u>	

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

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

44. LIQUIDITY RISK

Liquidity risk is the potential for loss to the Bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring an unacceptable cost.

Asset and Liability Committee (ALCO) has the responsibility for the formulation of overall strategy and oversight of the assets liability management function. ALCO monitors the maintenance of balance sheet liquidity ratios, depositor's concentration both in terms of overall funding mix and avoidance of reliance on large individual deposits. The Board of Directors have approved a comprehensive liquidity management policy.

45. MATURITIES OF ASSETS AND LIABILITIES

2011

	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
----- Rupees in '000 -----										
Assets										
Cash and balances with treasury banks	3,945,481	1,975,831	488,997	458,667	342,206	174,807	504,973	-	-	-
Balances with other banks	7,577,186	6,977,186	600,000	-	-	-	-	-	-	-
Due from financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	26,179,416	35,893	-	-	1,444,235	12,004,287	11,945,001	750,000	-	-
Financings	27,610,708	6,871,508	7,393,879	7,248,225	1,074,401	1,667,075	2,139,058	801,451	206,606	208,505
Operating fixed assets	2,798,165	12,339	24,684	634,430	74,052	155,301	141,119	282,237	658,063	815,940
Deferred tax assets - net	1,030,951	-	-	-	-	-	-	1,030,951	-	-
Other assets	3,402,972	1,403,962	1,544,768	232,749	209,590	11,903	-	-	-	-
	72,544,879	17,276,719	10,052,328	8,574,071	3,144,484	14,013,373	14,730,151	2,864,639	864,669	1,024,445
Liabilities										
Bills payable	451,030	451,030	-	-	-	-	-	-	-	-
Due to financial institutions	1,736,120	694,448	1,041,672	-	-	-	-	-	-	-
Deposits and other accounts	61,559,026	10,999,000	13,004,771	12,838,577	11,117,553	3,357,601	7,983,416	2,258,108	-	-
Liabilities against assets subject to finance lease	5,123	426	854	1,281	2,562	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,269,097	1,039,899	377,437	-	180,453	-	671,308	-	-	-
	66,020,396	13,184,803	14,424,734	12,839,858	11,300,568	3,357,601	8,654,724	2,258,108	-	-
Net assets	6,524,483	4,091,916	(4,372,406)	(4,265,787)	(8,156,084)	10,655,772	6,075,427	606,531	864,669	1,024,445
Share capital	8,935,200									
Discount on issuance of shares	(767,290)									
Reserves	82,074									
Accumulated Loss	(1,723,728)									
Surplus on revaluation of assets	(1,773)									
	<u>6,524,483</u>									

2010 (Restated)

	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
Assets										
Cash and balances with treasury banks	4,460,257	4,460,257	-	-	-	-	-	-	-	-
Balances with other banks	7,409,620	7,409,620	-	-	-	-	-	-	-	-
Due from financial institutions	80,000	-	80,000	-	-	-	-	-	-	-
Investments	15,617,589	29,027	-	-	-	10,032	10,632,097	4,020,808	925,625	-
Financings	26,599,261	5,526,300	7,315,137	8,007,418	1,221,274	1,802,934	983,500	801,890	443,729	497,079
Operating fixed assets	3,030,269	178,250	22,540	33,810	222,460	135,424	412,935	431,496	536,338	1,057,016
Deferred tax assets - net	1,029,055	-	-	-	-	-	-	1,029,055	-	-
Other assets	2,537,613	1,112,503	764,347	240,065	115,943	245,815	24,952	12,993	2,442	18,553
	60,763,664	18,715,957	8,182,024	8,281,293	1,559,677	2,194,205	12,053,484	6,296,242	1,908,134	1,572,648
Liabilities										
Bills payable	427,600	427,600	-	-	-	-	-	-	-	-
Due to financial institutions	2,756,892	295,341	994,281	1,467,270	-	-	-	-	-	-
Deposits and other accounts	49,324,209	29,155,646	6,291,420	3,736,932	6,755,837	990,796	919,795	1,374,758	99,025	-
Liabilities against assets subject to finance lease	19,303	1,128	2,256	3,386	6,769	5,764	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,116,583	106,252	216,795	326,949	431,788	456,231	428,667	73,114	61,640	15,147
	54,644,587	29,985,967	7,504,752	5,534,537	7,194,394	1,452,791	1,348,462	1,447,872	160,665	15,147
Net assets	6,119,077	(11,270,010)	677,272	2,746,756	(5,634,717)	741,414	10,705,022	4,848,370	1,747,469	1,557,501
Share capital	8,935,200									
Discount on issuance of shares	(767,290)									
Accumulated Loss	(2,052,024)									
Surplus on revaluation of assets	3,191									
	<u>6,119,077</u>									

46. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events.

The Bank ensures that the key operational risks are managed in a timely and effective manner by raising awareness of operational risk, improving early warning information and allocating risk ownership and responsibilities. The Bank has developed policies, guidelines and manuals necessary for the mitigation of operational risk.

The Bank is also supervised by the Shariah Supervisory Board which sets out guidelines, policies and procedures for the Bank to ensure that all its activities and products are Shariah compliant. The internal audit function of the Bank performs regular audit on various operations of the Bank and monitors the key risk exposure areas to ensure that internal control procedures are in place and those procedures are able to mitigate risk associated with operational activities.

A business continuity program and a disaster recovery plan have also been formulated and approved by the Board of Directors to ensure uninterrupted flow of operations of the Bank.

47. GENERAL

47.1 The Pakistan branches of AlBaraka amalgamated with and into the Bank effective 29 October 2010. Accordingly the comparative figures in respect of profit and loss account and statements of comprehensive income and cash flows reflects the results of operations of the Ex-Emirates Global Islamic Bank Limited for the 10 months (approx.) period ended 29 October 2010 and the amalgamated Bank for the two months (approx.) period ended 31 December 2010 and hence, are not comparable with the figures reported for the current year.

47.2 Certain of the prior year's figures have been restated / rearranged to conform to the presentation adopted in the current year. Such restatement / rearrangement did not affect previously reported net loss or total equity other than as described in note 6 to the financial statements.

47.3 Figures have been rounded off to the nearest thousand rupees.

48. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 06, 2012 by the Board of Directors of the Bank.