

ALBARAKA ISLAMIC BANK B.S.C. (E.C.)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES

INTERIM CONDENSED BALANCE SHEET AS AT SEPTEMBER 30, 2008

	Notes	(Unaudited) September 30, 2008	(Audited) December 31, 2007
Rupees in '000			
ASSETS			
Cash and balances with treasury banks		3,276,754	3,480,878
Balances with other banks		1,861,617	4,131,352
Due from financial institutions		-	-
Investments	6	1,172,732	1,153,825
Financings	7	14,266,957	12,585,549
Operating fixed assets	8	128,890	102,697
Deferred tax assets		-	-
Other assets		1,018,601	622,812
		21,725,551	22,077,113
LIABILITIES			
Bills payable		235,583	231,462
Due to financial institutions		1,108,217	1,309,411
Deposits and other accounts		16,967,924	16,964,566
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		142,633	144,026
Other liabilities		1,129,494	982,895
		19,583,851	19,632,360
NET ASSETS		2,141,700	2,444,753
REPRESENTED BY			
Head office capital account	9	2,046,185	2,046,185
Reserves		-	-
Unremitted profit		120,621	400,348
		2,166,806	2,446,533
Surplus/(Deficit) on revaluation of assets		(25,106)	(1,780)
		2,141,700	2,444,753
CONTINGENCIES AND COMMITMENTS	10	-	-

The annexed notes form an integral part of these interim condensed financial statements.

SHAFQAAT AHMED
Country Head

AYYAZ AHMAD
Chief Financial Officer

ALBARAKA ISLAMIC BANK B.S.C. (E.C.)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
INTERIM CONDENSED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED SEPTEMBER 30, 2008 (UNAUDITED)

Note	Three months ended September 30, 2008	Nine months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2007
	-----Rupees in '000-----			
Profit/return in financings, investments and placements earned	452,045	1,246,701	352,585	1,083,484
Less: Return on deposits and other dues expensed	351,253	923,603	275,230	803,567
Net spread	100,792	323,098	77,355	279,917
Provision against non-performing financings	(52,030)	(84,689)	(3,233)	(1,854)
Provision against consumer financing	(90)	(1,256)	(1,237)	(3,167)
Provision against diminution in the value of investments	-	-	-	-
Bad debts written off directly	-	-	-	-
Income after provisions	48,672	237,153	72,885	274,896
OTHER INCOME				
Fee, commission and brokerage income	32,027	92,434	33,532	92,233
Dividend income	6,913	9,850	6,698	7,734
Income from dealing in foreign currencies	52,807	122,113	29,218	55,729
Net Gain/ (Loss) on sale of investments	-	5,603	2,636	13,585
Unrealized loss on revaluation of investment classified as held for trading	(34,124)	(34,434)	-	-
Other Income/ (Loss)	342	630	(224)	20,167
Total other income	57,965	196,196	71,860	189,448
	106,637	433,349	144,745	464,344
OTHER EXPENSES				
Administrative expenses	114,756	338,589	84,636	235,594
Other provisions/write offs	-	-	42	42
Other charges	54	120	98	260
Total other expenses	114,810	338,709	84,776	235,896
Extra ordinary/unusual items	(8,173)	94,640	59,969	228,448
PROFIT BEFORE TAXATION	(8,173)	94,640	59,969	228,448
Taxation – Current	(61,225)	26,825	(4,242)	5,035
- Prior years	-	-	-	-
- Deferred	61,936	439	14,785	46,777
	711	27,264	10,543	51,812
PROFIT AFTER TAXATION	(8,884)	67,376	49,426	176,636
Unremitted profit brought forward	129,505	53,245	282,030	154,820
Unremitted profit	120,621	120,621	331,456	331,456
Basic earnings per share	12	-	-	-
Diluted earnings per share	12	-	-	-

The annexed notes form an integral part of these interim condensed financial statements.

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ALBARAKA ISLAMIC BANK B.S.C. (E.C.)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
INTERIM CONDENSED CASH FLOW STATEMENT
FOR THE PERIOD ENDED SEPTEMBER 30, 2008 (UNAUDITED)

	Note	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Rupees in '000			
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		94,640	228,448
Dividend income		(9,850)	(7,734)
		84,790	220,714
Adjustments:			
Depreciation		20,277	14,505
Amortization		1,355	1,447
Provision against non-performing Financings		85,945	5,021
(Gain) on sale of fixed assets		(630)	(987)
Gain on sale of "available for sale " investments		-	(11,331)
Unrealised remeasurement (Gain)/ loss on "held for trading investments"		34,434	(19,180)
		141,381	(10,525)
		226,171	210,189
(Increase)/ Decrease in operating assets			
Held-for-trading securities		(28,497)	39,822
Financings		(1,767,353)	(508,481)
Others assets (excluding advance taxation)		(349,731)	(445,605)
		(2,145,581)	(914,264)
Increase/ (Decrease) in operating liabilities			
Bills payable		4,121	81,657
Borrowings from financial institutions		(199,049)	(773,832)
Deposits		3,358	(76,987)
Other liabilities (excluding current taxation)		146,599	207,525
		(44,971)	(561,637)
		(1,964,381)	(1,265,712)
Income tax paid		(72,656)	(22,027)
<i>Net cash generated from operating activities:</i>		(2,037,037)	(1,287,739)
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		-	(48,669)
Net investments in held-to-maturity securities		(50,000)	(29,919)
Dividend income		9,621	6,874
Investments in operating fixed assets		(48,065)	(21,076)
Sale proceeds of operating fixed assets disposed-of		870	1,362
<i>Net cash (used in) / generated from investing activities:</i>		(87,574)	(91,428)
CASH FLOW FROM FINANCING ACTIVITIES			
Remittances from head office		-	-
Profit remittances made to head office		(347,103)	-
<i>Net cash (used in) / generated from financing activities:</i>		(347,103)	-
Effects of exchange rate changes on cash and cash equivalent:		-	(1,601)
Increase in cash and cash equivalents		(2,471,714)	(1,380,768)
Cash and cash equivalents at beginning of the year		7,600,081	7,615,095
Cash and cash equivalents at end of the year	13	5,128,367	6,234,327

The annexed notes form an integral part of these interim condensed financial statements.

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ALBARAKA ISLAMIC BANK B.S.C. (E.C.)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2008 (UNAUDITED)

	Head office capital account	Unremitted profit	Total
	-----Rupees in '000-----		
Balance as on January 01, 2007	2,036,390	154,820	2,191,210
Profit for the period	-	176,636	176,636
Exchange adjustments on revaluation of capital	(1,601)	-	(1,601)
Balance as on September 30, 2007	<u>2,034,789</u>	<u>331,456</u>	<u>2,366,245</u>
Balance as on January 01, 2008	2,046,185	400,348	2,446,533
Profit for the period	-	67,376	67,376
Remittances made to head office		(347,103)	(347,103)
Balance as on September 30, 2008	<u>2,046,185</u>	<u>120,621</u>	<u>2,166,806</u>

The annexed notes form an integral part of these interim condensed financial statements.

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ALBARAKA ISLAMIC BANK B.S.C. (E.C.)
(Incorporated in Bahrain with limited liability) - PAKISTAN BRANCHES
NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2008

1. STATUS AND NATURE OF BUSINESS

- 1.1 Al-Baraka Islamic Bank B.S.C. (E.C.) - Pakistan Branches (the Bank), operates as a branch of a foreign bank incorporated and domiciled in Bahrain on February 21, 1984 and is a member of Al-Baraka Banking Group. The Bank commenced its operations in Pakistan in December 1991. The Pakistan branches operate as scheduled Islamic Bank under a license issued by the State Bank of Pakistan (SBP) and are principally engaged in business of banking as defined in the Banking Companies Ordinance, 1962. The Registered office of the Bank is situated at 95-B Hali Road Gulberg II, Lahore and it presently operates through 20 branches (2007: 18 branches) in Pakistan.
- 1.2 The management of the Bank is in the process of converting the Bank into locally incorporated bank and the management expects to culminate this process by the close of this year. However, these financial statements have been prepared on going concern basis as the management intends to amalgamate the Bank with proposed locally incorporated bank in accordance with the proposed scheme of merger on the basis of book values of its assets and liabilities on the date of amalgamation.

2. BASIS OF PRESENTATION

- 2.1 These interim condensed financial statements are unaudited and have been prepared in accordance with the requirements of State Bank of Pakistan.
- 2.2 The Bank provides financing mainly through shariah compliant financial products. Except for Murabaha transactions (which are accounted for under the Islamic Financial Accounting Standard - 1), the purchases, sales and rentals arising under these arrangements are not reflected in these interim condensed financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of rental / profit thereon.
- 2.3 The disclosures made in these interim condensed financial statements have been limited based on the format prescribed by the SBP vide BSD Circular Letter No. 2, dated May 12, 2004 and by IAS 34 "Interim Financial Reporting" and do not include all the information required in the annual financial statements. Accordingly, these interim condensed financial statements should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2007.

3. STATEMENT OF COMPLIANCE

- 3.1 These interim condensed financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) and SBP. Wherever the requirements of the Companies Ordinance, 1984, the 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, the Banking Companies Ordinance, 1962 or the requirements of the said directives shall prevail.
- 3.2 The SBP vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirement of various circulars issued by the SBP.
- 3.3 The Securities and Exchange Commission of Pakistan has notified for adoption of "Islamic Financial Accounting Standard 2 - Ijarah (IFAS-2)" issued by the Institute of Chartered Accountants of Pakistan (ICAP) which is applicable for accounting periods beginning January 1, 2008. Consequent to the issuance of IFAS-2, the six (6) full-fledged Islamic Banks approached ICAP to seek certain clarifications on its implementation.

Pending above clarifications, the Bank has continued recognizing Ijarah transactions consistent with the policy used for the preparation of audited financial statements for the year ended December 31, 2007. During the nine month period ended September 30, 2008, the Bank has disbursed the Ijarah financing aggregating to Rs. 818.048 million.

4. BASIS OF MEASUREMENT

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

- 5.1 The preparation of financial statements in conformity with approved accounting standards and statutory requirements require the use of critical accounting estimates. It also requires management to exercise its judgments in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are the same as disclosed in the annual financial statements of the Bank for the year ended December 31, 2007 except as following:
- 5.2 Until the previous year, the Bank used to charge full year depreciation on additions made before June 30, while half year's depreciation was charged on assets acquired thereafter and similarly no depreciation was charged in respect of disposals made before June 30, while half year's depreciation was charged on assets disposed off thereafter. Pursuant to the requirements of IAS-16 "Property, plant and equipment", the Bank has changed its method for charging the depreciation. Under the new treatment, depreciation charge commences from the month in which the asset is available for use and continues until the month of disposal. This change has been accounted for as a change in accounting estimate in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Had there been no change in the accounting estimate, the depreciation charged would be higher by Rs. 2.521 million while the carrying value of assets and net income before tax shall be lower by the same amount.

Note	September 30, 2008			December 31, 2007			
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total	
-----Rupees in '000-----							
6. INVESTMENTS							
Investments by types :							
Held-for-trading securities							
Fully paid up ordinary shares - listed	120,286	-	120,286	91,788	-	91,788	
Available-for-sale securities							
National Investment Trust Units	60,000	-	60,000	60,000	-	60,000	
Meezan Islamic Income Funds (MIIF) Units	10,000	-	10,000	10,000	-	10,000	
Fully paid ordinary shares - unquoted	4,447	-	4,447	4,447	-	4,447	
	74,447	-	74,447	74,447	-	74,447	
Held-to-maturity securities							
WAPDA Sukuk Bonds	6.1	750,000	-	750,000	750,000	-	750,000
Sitara Chemical industries Sukuk Bonds	6.2	150,000	-	150,000	150,000	-	150,000
Karachi Shipyard and Engineering Works Sukuk	6.3	100,000	-	100,000	100,000	-	100,000
Govt. of Pakistan Sukuk Bonds	6.4	50,000	-	50,000	-	-	-
		1,050,000	-	1,050,000	1,000,000	-	1,000,000
Investment at cost		1,244,733	-	1,244,733	1,166,235	-	1,166,235
Less: Provision for diminution in value of investments		4,447	-	4,447	4,447	-	4,447
Investments (net of provisions)		1,240,286	-	1,240,286	1,161,788	-	1,161,788
Deficit on revaluation of Held-for-trading securities		(39,658)	-	(39,658)	(5,225)	-	(5,225)
(Deficit)/surplus on revaluation of available for sale securities		(27,896)	-	(27,896)	(2,738)	-	(2,738)
		(67,554)	-	(67,554)	(7,963)	-	(7,963)
Total investments at market value		1,172,732	-	1,172,732	1,153,825	-	1,153,825

- 6.1 150,000 certificates having face value of Rs.750 million carry profit at six months Kibor plus 35 basis points. These will mature in 2012 and are secured against unconditional and irrevocable first demand guarantee from Government of Pakistan. These certificates have been pledged with SBP on account of capital.
- 6.2 Certificate having face value Rs. 150 million carries profit at three months Kibor plus 100 basis points. This will mature in 2012 and is secured by specific and exclusive hypothecation charge in respect of musharika assets in favour of the investors to the extent of their entire legal ownership rights of Sitara Chemical Industries Limited.
- 6.3 Certificate having face value Rs. 100 million carries profit at six months Kibor plus 40 basis points. This will mature in 2015 and is secured against unconditional and irrevocable sovereign guarantee from Government of Pakistan
- 6.4 500 certificates having face value Rs. 100,000 each amounting to Rs. 50 million carry profit on the basis of rental announced by SBP prior to start of each half year. The profit will be bench marked against the latest weighted average yield of 6 month market T-Bills. These certificates will mature in 2011 and are secured by assets leased and held on trust

7. FINANCINGS	Note	September 30,	December 31,
		2008	2007
		Rupees in '000	
In Pakistan			
Murabaha financing		7,992,466	6,994,844
Export refinance (Islamic) - Murabaha financing		1,705,524	1,867,245
Musharaka financing		1,681,419	941,812
Payment against guarantees		5,674	5,674
		11,385,083	9,809,575
Net investment in ijarah financing - In Pakistan		2,113,815	2,231,160
Bills discounted and purchased (excluding treasury bills)			
Payable outside Pakistan		1,051,786	742,596
Financings - gross		14,550,684	12,783,331
Provision for non-performing Financings	7.1	272,862	188,173
General provision against consumer financing		10,865	9,609
		283,727	197,782
Financings - net of provision		14,266,957	12,585,549

7.1 Financings include Rs. 356,614 thousands (2007: Rs. 231,669 thousands) which have been placed under non-performing status as detailed below:-

	September 30, 2008			
	Domestic	Overseas	Provision Required	Provision Held
	Rupees in '000'			
<u>Category of Classification</u>				
Substandard	62,479	-	15,580	15,580
Doubtful	71,150	-	35,481	35,481
Loss	222,985	-	221,801	221,801
	356,614	-	272,862	272,862
	December 31, 2007			
	Domestic	Overseas	Provision Required	Provision Held
	Rupees in '000'			
<u>Category of Classification</u>				
Substandard	7,045	-	1,678	1,678
Doubtful	5,911	-	2,955	2,955
Loss	218,713	-	183,540	183,540
	231,669	-	188,173	188,173

	Note	September 30, 2008 Rupees in '000	December 31, 2007
8. OPERATING FIXED ASSETS			
Capital work-in-progress - advances to suppliers		-	28,638
Property and equipment	8.1	126,372	70,484
Intangible assets		2,518	3,575
		<u>128,890</u>	<u>102,697</u>
8.1 Property and equipment			
Opening book value		70,484	65,914
Add: Additions during the period / year -cost	8.1.1	76,405	24,661
		146,889	90,575
Less: Deletions during the period / year		6,113	4,991
		140,776	85,584
Less: Depreciation during the period / year		14,404	15,100
Book value at the end of the period / year		<u>126,372</u>	<u>70,484</u>
8.1.1 Additions during the period / year			
Furniture and fixtures		5,642	3,301
Computer and Office equipments		21,740	8,439
Vehicles		8,584	3,814
Leasehold improvements		40,439	9,107
		<u>76,405</u>	<u>24,661</u>
9. HEAD OFFICE CAPITAL ACCOUNT			
<u>Capital held as:</u>			
1. Interest free deposit in approved foreign exchange :			
i) Revalued remittance from head office - opening balance	9.1	1,286,390	1,286,390
ii) Revaluation surplus allowed by the State Bank		9,795	9,795
		<u>1,296,185</u>	<u>1,296,185</u>
2. Deposit of unencumbered approved securities		750,000	750,000
	9.2	<u>2,046,185</u>	<u>2,046,185</u>
9.1	This represents an amount of US dollar 21.108 (2007: US dollar 30.893) million deposited with the State Bank of Pakistan in compliance with sub section (3) of section 13 of the Banking Companies Ordinance, 1962.		
9.2	In accordance with the requirements of BSD Circular no. 6 dated October 28, 2005, the Bank was required to increase Head Office capital to Rs. 3 billion by December 31, 2006. However, the Bank had been granted specific exemption in this regard till September 30, 2007 from SBP vide its letter no. BSD/SU-1/608/219 dated January 26, 2007. However, later during last year, the Bank had been granted exemption from increasing the capital based on the fact that the capital of Bank's Head Office in Bahrain has increased to US \$ 100 million.		

10. CONTINGENCIES AND COMMITMENTS	September 30, 2008	December 31, 2007
	Rupees in '000	
10.1 Direct credit substitutes- Guarantees of indebtedness		
i) Government	1,852,214	1,645,733
ii) Financial Institutions	40,111	43
iii) Others	176,033	296,346
	<u>2,068,357</u>	<u>1,942,122</u>
10.2 Transaction-related contingent liabilities		
Letters of credit	1,653,019	1,904,325
Others- Shipping Guarantees	63,218	39,455
	<u>1,716,237</u>	<u>1,943,780</u>
10.3 Trade related contingent liabilities		
Acceptances	985,814	1,601,956
	<u>985,814</u>	<u>1,601,956</u>
10.4 Commitments in respect of forward exchange contracts		
Purchase	1,457,182	160,384
Sale	782,973	866,072
	<u>1,457,182</u>	<u>160,384</u>
	<u>782,973</u>	<u>866,072</u>

10.5 Other Commitments

The bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility unilaterally with drawn.

11. TAXATION

Due to recent amendments in Income Tax laws, head office expenses would be allowed as deduction against taxable income provided such expenses are incorporated in the financial statements of the Bank. The management of the Bank is considering to formulate policy in this respect and upon finalization; such expenses would be incorporated in the annual financial statements. However, such expenses approximating to Rs. 60.808 million has been claimed as deduction for the purpose of computation of tax liability of the Bank.

12. EARNINGS PER SHARES

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

13. CASH AND CASH EQUIVALENT

Cash and balances with treasury banks	3,276,754	3,480,878
Balances with other banks	1,861,617	4,131,352
Bank overdrawn	(10,004)	(12,149)
	<u>5,128,367</u>	<u>7,600,081</u>

14. RELATED PARTY TRANSACTION

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

	September 30, 2008		December 31, 2007	
	Country Head and Senior Executives	Other related parties	Country Head and Senior Executives	Other related parties
	Rupees in '000			
ASSETS				
Other receivables	-	15,967	-	-
LIABILITIES				
Deposits	61,505	1,244,573	63,604	159,770
Return payable on deposits	518	1,771	1,011	1,075
			Nine months ended September 30, 2008	Nine months ended September 30, 2007
			Rupees in '000	

Other significant transactions with related parties during the period were as follows:

Deposits received during the period	2,365,932	264,160
Deposits withdrawn during the period	2,034,896	248,629
Profit remitted during the period	347,103	-
Return on deposits and other dues expensed	11,322	6,478
Profit/return in financings, investments and placements earned	-	11,343

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

15. DATE OF AUTHORIZATION FOR ISSUE

These accounts are authorized for issue on **October 28, 2008**.

16. GENERAL

16.1 Figures have been rounded off to nearest thousand.

16.2 Captions in respect of which there are no amounts have not been reproduced in these interim condensed financial statements except in case of balance sheet and profit and loss account.

SHAFQAAT AHMED
Country Head

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Chief Financial Officer