

(DRAFT)

AUDITORS' REPORT TO THE DIRECTORS

We have audited the annexed balance sheet of **ALBARAKA ISLAMIC BANK B.S.C.(E.C.) - Pakistan Branches** as at **December 31, 2007** and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof (hereinafter referred to as the "financial statements") for the year then ended, in which are incorporated the unaudited certified returns from the branches except for five branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the **ALBARAKA ISLAMIC BANK B.S.C. (E.C.) - Pakistan Branches** as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962, and the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the branches' business; and

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- iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the branches and the transactions of the branches which have come to our notice have been within the powers of the branches;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved International Accounting Standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984, in the manner so required and give a true and fair view of the state of the branches' affairs as at **December 31, 2007** and its true balance of the profit, cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Branches and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

LAHORE:

CHARTERED ACCOUNTANTS

ALBARAKA ISLAMIC BANK B.S.C. (E.C.)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
BALANCE SHEET AS AT DECEMBER 31, 2007

	Note	2007	2006
Rupees in '000			
ASSETS			
Cash and balances with treasury banks	8	3,480,878	3,355,669
Balances with other banks	9	4,131,352	4,259,426
Due from financial institutions		-	-
Investments	10	1,153,825	1,166,870
Financings	11	12,585,549	9,693,182
Operating fixed assets	12	102,697	71,418
Deferred tax assets		-	-
Other assets	13	622,812	321,697
		<u>22,077,113</u>	<u>18,868,262</u>
LIABILITIES			
Bills payable	14	231,462	155,680
Due to financial Institutions	15	1,309,411	1,895,027
Deposits and other accounts	16	16,964,566	13,821,441
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	17	144,026	78,860
Other liabilities	18	982,895	726,248
		<u>19,632,360</u>	<u>16,677,256</u>
NET ASSETS		<u><u>2,444,753</u></u>	<u><u>2,191,006</u></u>
REPRESENTED BY			
Head office capital account	19	2,046,185	2,036,390
Reserves		-	-
Unremitted profit		400,348	154,820
		<u>2,446,533</u>	<u>2,191,210</u>
(Deficit)/Surplus on revaluation of assets	20	(1,780)	(204)
		<u><u>2,444,753</u></u>	<u><u>2,191,006</u></u>
CONTINGENCIES AND COMMITMENTS	21	-	-

The annexed notes 1 to 41 form an integral part of these 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
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
		Rupees in '000	
Profit / return on financings, investments and placements earned	22	1,493,035	1,111,711
Return on deposits and other dues expensed	23	1,089,913	824,124
Net spread		<u>403,122</u>	<u>287,587</u>
Provision against non-performing financings	24	(17,277)	(880)
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		<u>(17,277)</u>	<u>(880)</u>
Net spread after provisions		385,845	286,707
OTHER INCOME			
Fee, commission and brokerage income		126,749	99,774
Dividend income		8,642	11,038
Income from dealing in foreign currencies		82,166	52,157
Net Gain on sale of investments	25	50,834	1,775
Unrealized loss on revaluation of investments classified as held for trading		(5,225)	(21,424)
Other income	26	987	2,565
Total other income		<u>264,153</u>	<u>145,885</u>
		649,998	432,592
OTHER EXPENSES			
Administrative expenses	27	335,010	261,067
Other provisions / write offs		163	(289)
Other charges	28	283	1,391
Total other expenses		<u>335,456</u>	<u>262,169</u>
		314,542	170,423
Extra ordinary/unusual items		-	-
PROFIT BEFORE TAXATION		<u>314,542</u>	<u>170,423</u>
Taxation – Current	29	2,889	777
- Prior years		-	-
- Deferred	29	66,125	25,707
		<u>69,014</u>	<u>26,484</u>
PROFIT AFTER TAXATION		245,528	143,939
Unremitted profit brought forward		<u>154,820</u>	<u>349,735</u>
Unremitted profit		<u>400,348</u>	<u>493,674</u>
Basic Earnings per share	30	-	-
Diluted Earnings per share	30	-	-

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ALBARAKA ISLAMIC BANK B.S.C. (E.C.)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES		Rupees in '000	
Profit before taxation		314,542	170,423
Dividend income		(8,642)	(11,038)
		<u>305,900</u>	<u>159,385</u>
Adjustments:			
Depreciation		19,714	17,896
Amortization		1,929	1,835
Provision against non-performing Financings		17,277	880
Gain on sale of fixed assets		(987)	(2,565)
Gain on sale of "available for sale " securities		(20,243)	-
Other provisions		-	(289)
Unrealized (gain)/loss on revaluation of investments classified as held for trading		(16,948)	21,424
		<u>742</u>	<u>39,181</u>
		<u>306,642</u>	<u>198,566</u>
(Increase) / decrease in operating assets			
Held-for-trading securities		27,488	(51,089)
Financings		(2,909,644)	(2,275,934)
Others assets (excluding advance taxation)		(271,160)	(145,091)
		<u>(3,153,316)</u>	<u>(2,472,114)</u>
Increase / (decrease) in operating liabilities			
Bills payable		75,782	64,655
Borrowings from financial institutions		(597,765)	442,945
Deposits		3,143,125	3,509,608
Other liabilities (excluding current taxation)		256,648	223,003
		<u>2,877,790</u>	<u>4,240,211</u>
		<u>31,116</u>	<u>1,966,663</u>
Income tax paid		(33,014)	(7,310)
Net cash flow from operating activities		<u>(1,898)</u>	<u>1,959,353</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		25,243	(55,000)
Net investments in held-to-maturity securities		(5,029)	(977,773)
Dividend income		8,810	10,750
Investments in operating fixed assets		(53,297)	(23,774)
Sale proceeds of operating fixed assets disposed-off		1,362	2,936
Net cash flow from investing activities		<u>(22,911)</u>	<u>(1,042,861)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Remittances from head office		-	-
Remittances made to head office		-	(338,854)
Net cash flow from financing activities		-	(338,854)
Effects of exchange rate changes on cash and cash equivalents		9,795	33,581
Increase in cash and cash equivalents		<u>(15,014)</u>	<u>611,219</u>
Cash and cash equivalents at beginning of the year		7,615,095	7,003,876
Cash and cash equivalents at end of the year	31	<u><u>7,600,081</u></u>	<u><u>7,615,095</u></u>

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

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Country Head

AYYAZ AHMAD
Chief Financial Officer

ALBARAKA ISLAMIC BANK B.S.C. (E.C.)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

	Head office capital account	Unremitted profit	Total
	-----Rupees in '000-----		
Balance as at January 01, 2006	2,002,809	349,735	2,352,544
Profit for the year	-	143,939	143,939
Remittances made to head office	-	(338,854)	(338,854)
Exchange adjustments on revaluation of capital	33,581	-	33,581
Balance as at December 31, 2006	<u>2,036,390</u>	<u>154,820</u>	<u>2,191,210</u>
Profit for the year	-	245,528	245,528
Exchange adjustments on revaluation of capital	9,795	-	9,795
Closing balance December 31, 2007	<u><u>2,046,185</u></u>	<u><u>400,348</u></u>	<u><u>2,446,533</u></u>

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

SHAFQAAT AHMED
Country Head

AYYAZ AHMAD
Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

1. STATUS AND NATURE OF BUSINESS

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 PICIC house, 14 Shahrah-e-Aiwan-e-Tijarat, Lahore and it presently operates through 18 branches (2006: 11 branches) in Pakistan.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the requirements of the SBP.

The Bank provides financing mainly through Sharia compliant financial products. Murabaha transaction (which are accounted for under the Islamic financial accounting standard - 1), the purchases, sales, rentals arising under these arrangements are reflected in these financial statements.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirement of the Banking Companies Ordinance, 1962, Companies Ordinance, 1984, the directives issued by SBP including format for the financial statements of banks issued by SBP through BSD Circular No. 04 dated February 17, 2006 and International Financial Reporting and Accounting Standards issued by the International Accounting Standard Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted in Pakistan. However, the requirements of the Banking Companies Ordinance, 1962, the Companies Ordinance, 1984, and the directives of the SBP have been followed in case where their requirements are not consistent with the requirements of the IFRSs and the interpretations.

The SECP has approved the adoption of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, "Investment Property". The requirements of these standards have not been taken into account for the purpose of these financial statements as the implementation of the said standards has been deferred by SBP, vide BSD circular number 10 dated August 26, 2002, for banks in Pakistan till further instructions. However, investments have been classified and valued in accordance with the requirements of various circulars issued by SBP.

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

4.1 The following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning from the dates specified below are either not relevant to Bank's operations or are not expected to have significant impact.

	Effective from accounting period on or after
IAS-1- Presentation of Financial Statements (Revised September 2007)	January 1, 2008
IAS 23- Borrowing Costs (Revised March 2007)	January 1, 2008
IAS 27 (Revised) -Consolidated and Separate Financial Statements	July 1, 2009
IFRS 3- Business Combinations	July 1, 2009
IFRIC 11- Group and Treasury Share Transactions	March 1, 2007
IFRIC 12- Services Concession Arrangements	January 1, 2008
IFRIC 13- Customer Loyalty Programme	July 1, 2008

4.2 The SECP has approved the adoption of IFAS-2 "Ijarah" and becomes operative for financial statements covering period beginning on or after first day of July 2007. It would effect the presentation of "Net Investment in Ijarah Financing" and related disclosures.

5. BASIS OF MEASUREMENT

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

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

6.1 Investments

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

6.2 Impairment of equity investments

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

6.3 Income taxes

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

6.4 Defined benefit plan

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

6.5 Operating fixed assets.

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

6.6 Provision against non-performing financings

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

6.7 Changes in accounting estimates

Pursuant to BSD 7 dated October 12, 2007 benefit of Forced Sale value (FSV) against all Non Performing Loans (except against Housing Finance) for calculating provisioning requirement has been withdrawn with effect from December 31, 2007. This change

has been accounted for as a change in accounting estimate whereby current and future periods are corrected. Had there been no change in accounting estimate, the provision charge for the year would have been lower by Rs. 22,320 million. Due to impracticability, the future impact is not disclosed.

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

7.1 Cash and cash equivalents

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

7.2 Revenue recognition

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

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

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

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

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

7.3 Financings

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

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

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

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

7.4 Investments

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

Held for trading

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

Held to maturity

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

Available for sale

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

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

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

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

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

7.5 Fixed assets and depreciation

Tangible

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

Full year's depreciation is charged on additions made before June 30, while half year's depreciation is provided on assets acquired thereafter. Likewise in respect of the assets disposed off before June 30, no depreciation is charged while half year's depreciation is recorded in respect of assets disposed thereafter.

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

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

Residual value, useful life and depreciation method are reviewed and adjusted, if appropriate, at each financial year end. Capital work in progress is stated at cost.

Intangible

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

7.6 Impairment of assets

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

7.7 Taxation

Current

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

Deferred

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

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

During the year, the Seventh Schedule of the Income Tax Ordinance 2001 has been introduced for taxation of banks in Pakistan. Rule of the schedule inter alia provide that all provision for classified advances and off balance items created under the SBP Prudential Regulations except for the provisions falling under the category of "sub-standard" will be allowed as a claimed in the financial statements. The schedule is applicable for the year ending December 31, 2008. Currently, provisions for classified advances and off balance items are allowed as a deduction if they fulfil the criteria set out in section 29 of the Income Tax Ordinance, 2001. The Schedule, however does not contain any transitory provisions with respect to reclaim or allowability of provisions made before the applicability of the schedule which have either been voluntarily added back or disallowed by tax authorities in the past assessment. The matter of introduction of such transitory provisions has been taken up with Federal Board of Revenue by Pakistan Banks Association and based on discussions to date the Bank's management is confident that such provision will be enacted in the Schedule. Accordingly, the deferred tax calculations assumes that the bank would be able to get the benefit of the assets so recognized on such provisions that have not been allowed as a deduction for tax purposes in the past.

7.8 Staff retirement benefits**Defined Contribution Plan**

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

Defined Benefit Plan

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

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

Compensated absences

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

7.9 Foreign currency transactions

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

7.10 Offsetting of financial assets and liabilities

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

7.11 Provision

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

7.12 Financial Instruments

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

7.13 Inventories

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

7.14 Related party transactions

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

7.15 Segment reporting

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

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

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

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

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

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

8. CASH AND BALANCES WITH TREASURY BANKS	Note	2007 Rupees in '000	2006
In hand			
Local currency		121,491	143,689
Foreign currencies		65,441	51,499
		186,932	195,188
With State Bank of Pakistan in			
Local currency current account	(8.1)	1,825,413	960,209
Local currency capital deposit account	(8.2)	-	155,655
		1,825,413	1,115,864
Foreign currency cash reserve account - non-remunerative	(8.3)	114,700	158,366
Foreign currency capital deposit account	(8.2)	1,296,185	1,880,735
Foreign currency deposit account	(8.4)	8,743	5,516
		1,419,628	2,044,617
With National Bank of Pakistan in			
Local currency current account		48,905	-
		48,905	-
		<u>3,480,878</u>	<u>3,355,669</u>

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

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

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

8.4 The profit on this account ranges from 2% to 2.5% (2006: 2 % to 2.5 %) per annum.

9. BALANCES WITH OTHER BANKS

In Pakistan			
On current accounts		5,716	20,382
On deposit accounts	(9.1)	3,939,706	4,028,276
		3,945,422	4,048,658
Outside Pakistan			
On current accounts		26,444	9,716
On deposit accounts	(9.2)	159,486	201,052
		185,930	210,768
		<u>4,131,352</u>	<u>4,259,426</u>

9.1 This represents balances with local banks on profit and loss sharing basis. The expected profit on these accounts ranges from 1% to 9.90% (2006: 1% to 9.85%) per annum , while marutiry of these ranges from one day to less than one year.

9.2 This represents nostro accounts maintained with foreign banks outside Pakistan. Profit on these ranges from 2.90% to 5.11% (2006: 2.90% to 5.23%) per annum.

	Note	2007			2006		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
-----Rupees in '000-----							
10. INVESTMENTS							
10.1 Investments by types :							
Held-for-trading securities							
Fully paid up ordinary shares - listed		91,788	-	91,788	119,276	-	119,276
Available-for-sale securities							
National Investment Trust (NIT) Units		60,000	-	60,000	40,000	-	40,000
United Composite Islamic Funds (UCIF) Units		-	-	-	25,000	-	25,000
Meezan Islamic Income Funds (MIIF) Units		10,000	-	10,000	10,000	-	10,000
Fully paid ordinary shares - unlisted		4,447	-	4,447	4,447	-	4,447
		74,447	-	74,447	79,447	-	79,447
Held-to-maturity securities							
Term deposit receipt		-	-	-	244,971	-	244,971
Sukuk bonds							
WAPDA First Sukuk Company Limited (10.1.1)		750,000	-	750,000	750,000	-	750,000
Sitara Chemical Industries Limited (10.1.2)		150,000	-	150,000	-	-	-
Karachi Shipyard and Engineering Works (10.1.3)		100,000	-	100,000	-	-	-
		1,000,000	-	1,000,000	994,971	-	994,971
Investment at cost		1,166,235	-	1,166,235	1,193,694	-	1,193,694
Less: Provision for diminution in value of investments	(10.3)	4,447	-	4,447	4,447	-	4,447
Investments (net of provisions)		1,161,788	-	1,161,788	1,189,247	-	1,189,247
Deficit on revaluation of Held-for-trading securities (10.5)		(5,225)	-	(5,225)	(22,173)	-	(22,173)
Deficit on revaluation of Available for sale securities (19)		(2,738)	-	(2,738)	(204)	-	(204)
		(7,963)	-	(7,963)	(22,377)	-	(22,377)
Total investments at market value		1,153,825	-	1,153,825	1,166,870	-	1,166,870

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

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

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

	Note	2007 Rupees in '000	2006 Rupees in '000
10.2 Investments by segments :			
Federal Government Securities:			
Sukuk bonds		850,000	750,000
		850,000	750,000
Fully paid up ordinary shares/units			
- Listed (10.2.1)		91,788	119,276
- Unlisted (10.2.2)		4,447	4,447
- Mutual Fund Units (10.2.3)		70,000	75,000
		166,235	198,723
Term deposit receipt		-	244,971
Sukuk -Sitara Chemical Industries Limited		150,000	-
		150,000	244,971
Total investment at cost		1,166,235	1,193,694
Less: Provision for diminution in value of investments	(10.3)	4,447	4,447
Investments (Net of Provisions)		1,161,788	1,189,247
Deficit on revaluation of Held-for-trading securities (10.2.1)		(5,225)	(22,173)
Deficit on revaluation of Available-for-sale securities		(2,738)	(204)
		(7,963)	(22,377)
Total investments at market value		1,153,825	1,166,870

10.2.1 Details of investment in listed companies:

2007	2006	Ordinary shares of Rs. 10 each	Name of Company	2007		2006	
				Cost	Market value	Cost	Market value
100,000	250,000		Pakistan Telecommunication Company Ltd	5,128	4,205	14,280	11,075
200,000	150,000		Fauji Cement Company Ltd	4,143	2,980	4,650	4,275
-	100,000		D G Khan Cement Company Ltd	-	-	7,565	6,296
-	200,000		Pakistan Cement Company Ltd.	-	-	3,700	2,120
-	350,000		Maple Leaf Cement Company Ltd	-	-	12,693	6,090
150,000	240,000		Sui Southern Gas Pipelines Ltd	5,427	3,922	8,478	5,640
-	300,000		Pakistan PTA Ltd	-	-	2,730	1,470
182,500	110,000		Pakistan Petroleum Ltd	45,764	44,722	26,671	25,520
80,000	-		Attock Refinery Ltd	20,603	20,104	-	-
-	100,000		Oil and Gas Development Company Ltd	-	-	13,158	11,470
40,000	50,000		Engro Chemical Pakistan Ltd	10,723	10,630	10,772	8,450
-	50,000		Pakistan State Oil Company Ltd	-	-	14,579	14,700
				<u>91,788</u>	<u>86,563</u>	<u>119,276</u>	<u>97,106</u>

10.2.2 Details of investment in unlisted companies:

	Note	No. of Shares	Cost as on Dec. 31, 07 Rs. in '000'
Shareholding less than 10% - unlisted:			
Crown Textile Limited		444,656	<u>4,447</u>

10.2.3 Details of investment in mutual funds:

	No. of Units	Cost as on Dec. 31, 07 Rs. in '000'	Name of Chief Executive
National Investment Trust Units	941,698	60,000	Mr. Tariq Iqbal Khan
Meezan Islamic Income Funds (MIIF) Units	208,795	10,000	Mr. Mohammad Shoalb
		<u>70,000</u>	

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		2007	2006		
		Rupees in '000			
10.3	Particulars of provision				
	Opening balance	4,447		4,447	
	Charge for the year	-		-	
	Reversals	-		-	
	Closing balance	<u>4,447</u>		<u>4,447</u>	
10.3.1	Particulars of provision in respect of type and segment				
	Available-for-sale securities				
	Crown Textiles Limited (Textile)				
	444,656 (2006:444,656) ordinary shares of Rs.10 each	<u>4,447</u>		<u>4,447</u>	
		<u>4,447</u>		<u>4,447</u>	
10.4	Quality of available-for-sale securities	2007		2006	
		Amount	Rating	Amount	Rating
	National Investment Trust Units	56,361	4-Star	39,796	4-Star
	United Composite Islamic Fund (UCIF) Units	-	-	25,000	Unrated
	Meezan Islamic Income Fund (MIIF) Units	<u>10,901</u>	5- Star	<u>10,000</u>	Unrated
		<u>67,262</u>		<u>74,796</u>	
	Crown Textiles Limited	<u>4,447</u>	Unrated	<u>4,447</u>	Unrated
10.5	Unrealized loss on revaluation of investments classified as held for trading				
	Unrealized loss on revaluation of investments classified as held for trading is given in Note 10.2.				
11	FINANCINGS	2007		2006	
		Rupees in '000			
	In Pakistan				
	Murabaha financing	6,994,844		5,159,410	
	Export refinance (Islamic) - Murabaha financing	1,867,245		989,721	
	Export refinance (conventional)	-		1,259,463	
	Musharaka financing	941,812		568,695	
	Payment against guarantees	<u>5,674</u>		<u>15,624</u>	
		9,809,575		7,992,913	
	Net investment in ijarah financing - In Pakistan (11.2)	2,231,160		1,581,681	
	Bills discounted and purchased (excluding treasury bills)				
	Payable outside Pakistan	<u>742,596</u>		<u>301,445</u>	
	Financings - gross	<u>12,783,331</u>		<u>9,876,039</u>	
	Provision for non-performing Financing (11.4)	<u>188,173</u>		<u>177,647</u>	
	General provision against consumer financing (11.5)	<u>9,609</u>		<u>5,210</u>	
		<u>197,782</u>		<u>182,857</u>	
	Financings - net of provision	<u>12,585,549</u>		<u>9,693,182</u>	
11.1	Particulars of Financings (Gross)				
11.1.1	In local currency	11,362,349		9,344,599	
	In foreign currencies	<u>1,420,982</u>		<u>531,440</u>	
		<u>12,783,331</u>		<u>9,876,039</u>	
11.1.2	Short term (for up to one year)	11,204,289		8,749,152	
	Long term (for over one year)	<u>1,579,042</u>		<u>1,126,887</u>	
		<u>12,783,331</u>		<u>9,876,039</u>	

11.2 Net investment in

Ijarah financing	2007				2006			
	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	832,614	1,525,175	72	2,357,861	545,457	1,156,531	32,917	1,734,905
Residual value	21,785	291,250	2,013	315,048	12,689	151,878	-	164,567
Minimum Ijarah payments	854,399	1,816,425	2,085	2,672,909	558,146	1,308,409	32,917	1,899,472
Profit for future periods	(205,140)	(236,608)	(1)	(441,749)	(144,880)	(171,450)	(1,461)	(317,791)
Present value of minimum Ijarah rentals receivables	649,259	1,579,817	2,084	2,231,160	413,266	1,136,959	31,456	1,581,681

11.3 Financings include Rs.231,669 thousands(2006:Rs. 246,826 thousands) which have been placed under non-performing status as detailed below:-

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

Category of Classification	2006								
	-----Rupees in '000-----								
	Classified Financings			Provision Required			Provision Held		
Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total	
Substandard	17,227	-	17,227	1,889	-	1,889	1,889	-	1,889
Doubtful	4,650	-	4,650	2,325	-	2,325	2,325	-	2,325
Loss	224,949	-	224,949	173,433	-	173,433	173,433	-	173,433
	246,826	-	246,826	177,647	-	177,647	177,647	-	177,647

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	Note	2007	2006
11.4 Particulars of provision against non-performing financings- specific		Rupees in '000	
Opening balance		177,647	189,124
Charge for the year		28,200	22,099
Reversals		(15,322)	(23,668)
Amounts written off	(11.6)	(2,352)	(9,908)
Closing balance		<u>188,173</u>	<u>177,647</u>
11.4.1 Particulars of provision against non-performing financings			
In local currency		188,173	177,647
In foreign currencies		-	-
		<u>188,173</u>	<u>177,647</u>
11.5 Particulars of general provisions against consumer financing			
Opening balance		5,210	2,761
Charge for the year		4,399	2,449
Amounts written off		-	-
Closing balance	(11.5.2)	<u>9,609</u>	<u>5,210</u>
11.5.1 Particulars of general provisions against consumer financing			
In local currency		9,609	5,210
In foreign currencies		-	-
		<u>9,609</u>	<u>5,210</u>
11.5.2			
This represents general provision against consumer finance maintained at the amount of 1.5% against fully secured performing portfolio and 5% of unsecured performing portfolio as required by the Prudential Regulations issued by SBP.			
11.6 Particulars of write offs		2007	2006
		Rupees in '000	
11.6.1 Against provisions		2,352	9,908
Directly charged to profit and loss account		-	-
		<u>2,352</u>	<u>9,908</u>
11.6.2 Write offs of Rs. 500,000 and above	(11.7)	2,352	9,908
Write offs of below Rs. 500,000		-	-
		<u>2,352</u>	<u>9,908</u>
11.7 Details of loan write off of Rs. 500,000 and above			
In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31st December 2007 is given at Annexure-1.			
11.8 Particulars of loans and Financings to directors, associated companies, etc.		2007	2006
		Rupees in '000	
Debts due by key management personnel, executives or officers of the bank or any of them either severally or jointly with any other persons			
Balance at beginning of year		51,607	37,391
Financing granted during the year		76,803	36,300
Repayments		(37,400)	(22,084)
Balance at end of year		<u>91,010</u>	<u>51,607</u>
12. OPERATING FIXED ASSETS			
Capital work-in-progress - advances to contractors		28,638	-
Property and equipment	(12.1)	70,484	65,914
Intangible assets	(12.2)	3,575	5,504
		<u>102,697</u>	<u>71,418</u>

12.1 Operating fixed assets

Particulars	COST			DEPRECIATION			Book value closing as at December 31, 2007	Rate %
	Opening Balance as at January 01, 2007	Additions/ (Deletions)/	Closing Balance as at December 31, 2007	Opening Balance as at January 01, 2007	For the Year	Closing Balance as at December 31, 2007		
	-----Rupees in '000-----							
Furniture and fixture	16,526	3,301 (426)	19,401	8,068	2,257 (349)	9,976	9,425	10
Computer and office equipments	63,707	8,439 (554)	71,592	43,264	8226 (554)	50,936	20,656	20
Vehicles	27,859	3,814 (4,011)	27,662	15,432	4,891 (3,711)	16,612	11,050	20
Leasehold improvements	43,168	9,107	52,275	18,582	4,340	22,922	29,353	10
2007	151,260	24,661 (4,991)	170,930	85,346	19,714 (4,614)	100,446	70,484	
Furniture and fixture	13,694	2,832	16,526	6,736	1,332	8,068	8,458	10
Computer and office equipments	56,303	7,404	63,707	34,557	8,707	43,264	20,443	20
Vehicles	28,484	8,146 (8,771)	27,859	19,536	4,296 (8,400)	15,432	12,427	20
Leasehold improvements	37,976	5,192	43,168	15,021	3,561	18,582	24,586	10
2006	136,457	23,574 (8,771)	151,260	75,850	17,896 (8,400)	85,346	65,914	

12.1.1 Included in property and equipment are fully depreciated items still in use having cost of Rs. 40,634 million (2006: Rs. 37.661 million).

12.1.2 Detail of disposals of operating fixed assets

Particulars of assets	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Profit	Mode of Disposal	Particular of buyers
-----Rupees in '000-----							
Vehicle							
Cultus	598	299	299	440	141	Negotiation	Mr.Liaqat ali (Employee)
Toyato Corolla	809	809	-	202	202	Bank policy	Mr. Arif Chaudhry (Employee)
Honda Civic	1,165	1,165	-	284	284	Bank policy	Mr. Ahmad Shuja Kidwai (Employee)
Toyota Corolla	889	889	-	222	222	Bank policy	Mr.Ebad Ahmad Khan (Employee)
Suzuki Cultus	550	550	-	138	138	Bank policy	Mr. Syed Safdar Hassan (Employee)

12.2 Intangible assets

Particulars	COST			AMORTIZATION			Book value closing as at December 31, 2007	Rate %
	Opening Balance as at January 01, 2007	Additions	Closing Balance as at December 31, 2007	Opening Balance as at January 01, 2007	For the Year	Closing Balance as at December 31, 2007		
	-----Rupees in '000-----							
Computer software	10,076	-	10,076	4,572	1,929	6,501	3,575	20
2007	10,076	-	10,076	4,572	1,929	6,501	3,575	
Computer software	8,276	1,800	10,076	2,737	1,835	4,572	5,504	20
2006	8,276	1,800	10,076	2,737	1,835	4,572	5,504	

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

	Note	2007	2006
		Rupees in '000	
13. OTHER ASSETS			
Profit / return on financings, investment and placement accrued in local currency	(13.1.1)	134,689	120,017
Profit / return on financings, investment and placement accrued in foreign currency		-	-
Advances, deposits, advance rent and other prepayments		117,750	90,648
Advance against murabaha		267,378	50,000
Advance taxation (payments less provisions)		86,709	53,695
Branch adjustment account		941	-
Unrealized gain on forward foreign exchange contracts		2,176	2,266
Stationery and stamps		1,524	1,028
Receivable from defined benefit plan	(33.2)	-	489
Others		16,619	8,415
		<u>627,786</u>	<u>326,558</u>
Less: Provision held against other assets	(13.2)	(4,974)	(4,861)
Other Assets (Net of Provision)		<u>622,812</u>	<u>321,697</u>

13.1.1 Profit / return accrued is net of profit / return suspended amounting to Rs.5.700 (2006: 6.849) million.

13.2 PROVISION AGAINST OTHER ASSETS

Opening balance	4,861	5,188
Charge for the year	163	252
Reversals	-	(541)
Amount written off	(50)	(38)
Closing balance	<u>4,974</u>	<u>4,861</u>

	Note	2007	2006
Rupees in '000			
14. BILLS PAYABLE			
In Pakistan		223,602	150,112
Outside Pakistan		7,860	5,568
		<u>231,462</u>	<u>155,680</u>
15. DUE TO FINANCIAL INSTITUTIONS			
In Pakistan		1,297,262	1,895,027
Outside Pakistan		12,149	-
		<u>1,309,411</u>	<u>1,895,027</u>
15.1 Particulars of due to financial institutions with respect to currencies			
In local currency		1,297,262	1,895,027
In foreign currencies		12,149	-
		<u>1,309,411</u>	<u>1,895,027</u>
15.2 Details of due to financial institutions			
<i>Secured:</i>			
Borrowings from State Bank of Pakistan			
Under export refinance scheme - conventional	(15.2.1)	-	1,163,868
Under Islamic export refinance scheme	(15.2.2)	1,297,262	731,159
<i>Unsecured:</i>			
Overdrawn nostro accounts		12,149	-
		<u>1,309,411</u>	<u>1,895,027</u>
15.2.1	This represents borrowing from SBP against export refinance scheme. The bank has discontinued conventional export refinance during the year.		
15.2.2	This represents musharaka contribution by State Bank of Pakistan against Islamic export refinance scheme. Expected profit rate is 6.5%(2006:6.5%) per annum.The maximum limit approved by SBP under Islamic Export Refinance is Rupees1.49 billion.		
16. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		5,339,582	4,601,519
Saving deposits		6,140,081	3,341,230
Current accounts - non-remunerative		1,669,701	1,209,114
Margin accounts		180,245	148,273
		13,329,609	9,300,136
Financial Institutions			
Remunerative deposits		3,634,340	4,520,565
Non-remunerative deposits		617	740
		<u>3,634,957</u>	<u>4,521,305</u>
		<u>16,964,566</u>	<u>13,821,441</u>

	Note	2007	2006
		Rupees in '000	
16.1 Particulars of deposits			
In local currency		16,058,519	12,751,343
In foreign currencies		906,047	1,070,098
		<u>16,964,566</u>	<u>13,821,441</u>
17. DEFERRED TAX LIABILITIES			
Deferred credits arising due to			
Net investment in ijarah financing		148,027	99,951
Deferred debits arising in respect of			
Accelerated depreciation of operating fixed assets		(1,601)	(779)
Unrealised loss on revaluation of held-for-trading investments		(1,442)	-
Unrealised loss on revaluation of available for sale securities		(958)	-
Unused tax losses		-	(20,312)
		<u>144,026</u>	<u>78,860</u>
18. OTHER LIABILITIES			
Return on deposits and other dues payable in local currency		307,614	254,427
Return on deposits and other dues payable in foreign currency		5,066	7,869
Unearned commission		27,778	22,651
Accrued expenses		11,230	10,679
Advance payments from customers		5,629	4,818
Inter branch adjustment		-	407
Unremitted head office expenses		6,538	6,538
Payable to defined benefit plan	(33.2)	7,298	-
Security deposits against ijarah financing		318,598	178,534
Accounts payable		14,571	22,345
Excise duty/ income tax withheld		7,030	6,653
Deferred income on murabaha	(18.1)	229,131	192,992
Charity Fund payable	(18.2)	22,792	12,636
Unrealized loss on forward foreign exchange contracts		9,602	1,436
Other payables		10,018	4,263
		<u>982,895</u>	<u>726,248</u>
18.1 Deferred income on murabaha			
Opening balance		192,992	150,837
Income during the year		800,418	501,167
Recognized during the year		<u>(764,279)</u>	<u>(459,012)</u>
Closing balance		<u>229,131</u>	<u>192,992</u>
18.2 Charity Fund payable			
Opening Balance		12,636	-
Additions during the year		10,156	12,636
Payments during the year		-	-
Closing Balance		<u>22,792</u>	<u>12,636</u>

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

19. HEAD OFFICE CAPITAL ACCOUNT

Note	2007	2006
	Rupees in '000	
Capital held as:		
1. Interest free deposit in cash in Pak Rupees	(8.2)	155,655
2. Interest free deposit in approved foreign exchange :		
i) Revalued remittance from head office - opening balance	(19.1)	1,286,390
ii) Revaluation surplus allowed by the State Bank		9,795
		1,880,735
3. Deposit of unencumbered approved securities	(9.1.2)	750,000
	(19.2)	2,046,185
		2,036,390

19.1 This represents an amount of US dollar 21.108(2006: 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.

19.2 In accordance with the requirements of BSD Circular no. 6 dated Oct 28, 2005, the Bank was required to increase Head Office capital to Rs. 3 billion by December 31, 2006. However, the Bank has been granted specific exemption in this regard till September 30, 2007 from State Bank of Pakistan (SBP) vide its letter no. BSD/SU-1/608/219 dated January 26, 2007. However, later during the year, the Bank has 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.

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

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

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

20. (DEFICIT)/SURPLUS ON REVALUATION OF ASSETS

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

National Investment Trust Units	(3,639)	(204)
Meezan Islamic Income Fund	901	-
	(2,738)	(204)
Less : related deferred tax	958	-
Net Deficit	(1,780)	(204)

21. CONTINGENCIES AND COMMITMENTS

21.1 Direct credit substitutes - Guarantees of indebtedness

i) Government	1,645,733	874,967
ii) Financial institutions	43	13,266
iii) Others	296,346	656,002
	1,942,122	1,544,235

21.2 Transaction-related contingent liabilities

i) Letters of credit	1,904,325	1,285,093
ii) Others - Shipping Guarantees	39,455	34,306
	1,943,780	1,319,399

21.3 Trade-related contingent liabilities

Acceptances	1,601,956	1,324,529
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21.4 Other contingencies

This represents additional income tax liability amounting to Rs. 31.511 (2006: Rs. 7.698) million in respect of assessment years from 2001 to 2003 and tax year 2003 which is not acknowledged by the Bank. Moreover, the Income Tax Department has also filed appeals against assessment orders in respect of these years issued by CIT (Appeals). Appeals filed by the Bank and the Department to the Income Tax Tribunal are pending for decision. Management of the Bank has evaluated, after consulting their income tax advisor, that appeals are likely to be decided in favor of the Bank and, hence, no provision has been made for the same in these financial statements.

21.5 Commitments in respect of forward exchange contracts

Purchase	160,384	559,546
Sale	866,072	603,726

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

21.6 Other Commitments

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

Commitment against capital expenditure amounts to Rs.18.911 million (2006:NIL).

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

	Note	2007	2006
		Rupees in '000	
22. PROFIT/RETURN ON FINANCINGS, INVESTMENTS AND PLACEMENTS EARNED			
a) On loans and Financings (other than murabaha) to:			
i) Customers		328,198	292,758
ii) Financial institutions		-	348
		328,198	293,106
b) On murabaha to:			
i) Customers		741,158	430,503
ii) Financial institutions		23,121	28,510
	(22.1)	764,279	459,013
c) On investments in:			
Held to maturity securities		82,952	73,587
d) On deposits with financial institutions		317,606	286,005
		<u>1,493,035</u>	<u>1,111,711</u>
22.1 Murabaha sale price		20,125,980	17,790,486
Less: Purchase price		<u>19,325,562</u>	<u>17,289,318</u>
		800,418	501,168
Add: Deferred murabaha income as on January 01		192,992	150,837
Less: Deferred murabaha income as on December 31		<u>(229,131)</u>	<u>(192,992)</u>
		<u>764,279</u>	<u>459,013</u>
23. RETURN ON DEPOSITS AND OTHER DUES EXPENSED			
Deposits		993,064	728,201
Other short term borrowings:			
on conventional export refinance	(15.2.1)	18,435	81,017
on Islamic export refinance		78,414	14,906
		<u>96,849</u>	<u>95,923</u>
		<u>1,089,913</u>	<u>824,124</u>
24. PROVISION AGAINST NON-PERFORMING FINANCINGS			
Provision / (Reversal of provision) against non performing financings	(24.1)	12,878	(1,569)
Provision against consumer financing		4,399	2,449
		<u>17,277</u>	<u>880</u>
24.1	It includes the effect of withdrawal of benefit of Forced Sale Value as mentioned in Note 6.7.		
25. NET GAIN ON SALE OF INVESTMENTS			
Ordinary shares of listed companies		30,590	1,775
Mutual Fund		8,913	-
National investment trust units		11,331	-
		<u>50,834</u>	<u>1,775</u>
26. OTHER INCOME			
This represents profit on disposal of operating fixed assets.			

	2007	2006
	Rupees in '000	
27. ADMINISTRATIVE EXPENSES		
Salaries, allowances, etc.	(27.1)	138,560
Staff medical		6,308
Charge for defined benefit plan	(33.6)	15,061
Charge for defined contribution plan	(34)	6,388
Rent, taxes, insurance, electricity, etc.		59,652
Legal and professional charges		3,311
Fee and subscription		3,492
Communications		17,086
Repairs and maintenance		9,134
Stationery and printing		8,170
Advertisement and publicity		4,530
Auditors' remuneration	(27.2)	964
Depreciation	(12.1)	19,714
Amortization	(12.2)	1,929
Bank charges		4,358
Travelling and conveyance		22,100
Entertainment		3,911
Security services		5,340
Brokerage commission		1,024
Others		3,978
		<u>335,010</u>
		<u>261,067</u>
27.1	This includes remuneration of sharia advisor desk amounting to Rs. 1.660 million (2006: Rs.1.702 million).	
27.2 AUDITORS' REMUNERATION	2007	2006
	Rupees in '000	
Audit fee	550	550
Special certifications and sundry advisory services	300	300
Out of pocket expenses	114	101
	<u>964</u>	<u>951</u>
28. OTHER CHARGES		
	This represents penalties imposed by State Bank of Pakistan.	
29. TAXATION		
For the year - current	2,889	777
Deferred tax	66,125	25,707
	<u>69,014</u>	<u>26,484</u>
29.1 Relationship between tax expense and accounting profit		
Accounting profit before taxation	<u>314,542</u>	<u>170,423</u>
Tax at applicable tax rate of 35% (2006: 35%)	110,090	59,648
Tax effect of permanent differences	<u>(41,076)</u>	<u>(33,164)</u>
Tax charge for the year	<u>69,014</u>	<u>26,484</u>

30. BASIC EARNINGS PER SHARE

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.

31. CASH AND CASH EQUIVALENTS	Note	2007	2006
		Rupees in '000	
Cash and balance with treasury banks	(8)	3,480,878	3,355,669
Balance with other banks	(9)	4,131,352	4,259,426
Overdrawn nostro accounts	(15.2)	(12,149)	-
		<u>7,600,081</u>	<u>7,615,095</u>

32. STAFF STRENGTH	2007	2006
	Number	
Permanent	276	238
Temporary/on contractual basis	88	68
Daily wagers	-	-
Bank's own staff strength at the end of the year	<u>364</u>	<u>306</u>
Outsourced	-	-
Total staff strength	<u>364</u>	<u>306</u>

33. DEFINED BENEFIT PLAN

33.1 Principal actuarial assumptions

The latest actuarial valuation had been carried out as at December 31, 2007 by using projected unit credit actuarial cost method. The significant assumptions used for actuarial valuation are as follows:

	2007	2006
Discount rate	10.0% p.a	10.0% p.a
Expected rate of salary increase	10.0% p.a	10.0% p.a
Expected return on plan assets	10.0% p.a	10.0% p.a

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

		2007	2006
		Rupees in '000	
Present value of defined benefit obligations	(33.2.1)	50,618	35,966
Fair value of plan assets	(33.2.2)	(30,039)	(24,186)
Net actuarial (losses) not recognized		(13,281)	(12,269)
	(18 & 13)	<u>7,298</u>	<u>(489)</u>

33.2.1 Present value of defined benefit obligations

As at January 1	35,966	31,563
Current service cost	8,050	5,546
Interest cost	3,597	3,156
Benefits paid	(1,584)	(5,363)
Past service cost-Vested	3,715	-
Actuarial loss	874	1,064
As at December 31	<u>50,618</u>	<u>35,966</u>

	Note	2007	2006			
		Rupees in '000				
33.2.2 Fair value of plan assets						
As at January 1		24,186	3,295			
Expected return on plan assets		967	213			
Contributions		7,274	26,223			
Benefits paid		(1,584)	(5,363)			
Actuarial (loss)/ gain		(804)	(182)			
As at December 31		<u>30,039</u>	<u>24,186</u>			
33.3 Movement in payable to defined benefit plan						
Opening balance		(489)	16,640			
Charge for the year		15,061	9,094			
Contribution to fund made during the year		(7,274)	(26,223)			
Closing balance		<u>7,298</u>	<u>(489)</u>			
33.4 Composition of plan assets		2007		2006		
		Rs. in '000	%	Rs. in '000	%	
Term finance certificate		-	-	1,335	6%	
Bank deposit account	(33.4.1)	30,039	100%	22,851	94%	
		<u>30,039</u>	<u>100%</u>	<u>24,186</u>	<u>100%</u>	
33.4.1	It consists of Khazana Account maintained with the Bank.					
33.5 Experience adjustments on obligations and plan assets						
		2007	2006	2005	2004	2003
Present value of defined benefit obligations		50,618	35,966	31,563	20,876	18,478
Fair value of plan assets		(30,039)	(24,186)	(3,295)	(4,401)	(6,171)
(Surplus) / Deficit		<u>20,579</u>	<u>11,780</u>	<u>28,268</u>	<u>16,475</u>	<u>12,307</u>
Actuarial (loss)/gain on Obligation		(874)	(1,064)	(7,218)	-	(925)
Actuarial (loss)/gain on Assets		(804)	(182)	(410)	-	(260)
33.6 Charge for defined benefit plan						
Current service cost					8,050	5,546
Interest cost					3,597	3,156
Expected return on plan assets					(967)	(213)
Actuarial gains and losses - recognized					666	605
Past Service Cost-Vested					3,715	-
					<u>15,061</u>	<u>9,094</u>
33.7 Actual return on plan assets					<u>163</u>	<u>254</u>
34. DEFINED CONTRIBUTION PLAN						

The Bank operates an approved provident fund scheme for all its permanent employees, which are administered by a board of trustees. Equal monthly contributions are made by the Bank and employees to the fund at the rate of 10 percent (2006: 10 percent) of basic salaries of employees. The contribution made by the bank during the year is Rs. 6,388 (2006: 5,012) thousands.

35. COMPENSATION OF COUNTRY HEAD AND EXECUTIVES	Country Head		Executives	
	2007	2006	2007	2006
	-----Rupees in '000-----			
Managerial remuneration	4,416	3,840	28,620	18,756
Charge for defined benefit plan	505	439	2,954	2,088
Contribution to defined contribution plan	391	340	2,425	1,505
Rent and house maintenance	1,760	1,530	11,477	7,135
Utilities	536	513	3,060	1,957
Medical	55	45	943	555
Others	62	45	538	420
	<u>7,725</u>	<u>6,752</u>	<u>50,017</u>	<u>32,416</u>
Number of persons	<u>1</u>	<u>1</u>	<u>31</u>	<u>19</u>

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

36. FAIR VALUE OF FINANCIAL INSTRUMENTS	2007		2006	
	Book value	Fair value	Book value	Fair value
	-----Rupees in '000-----			
Assets				
Cash balances with treasury banks	3,480,878	3,480,878	3,355,669	3,355,669
Balances with other banks	4,131,352	4,131,352	4,259,426	4,259,426
Investments	1,153,825	1,189,450	1,166,870	1,203,123
Financings	12,585,549	12,814,680	9,693,182	9,500,190
Other assets	404,243	404,243	172,283	172,283
	<u>21,755,847</u>	<u>22,020,603</u>	<u>18,647,430</u>	<u>18,490,691</u>
Liabilities				
Bills payable	231,462	231,462	155,680	155,680
Due to financial institutions	1,309,411	1,309,411	1,895,027	1,895,027
Deposits and other accounts	16,964,566	16,964,566	13,821,441	13,821,441
Other liabilities	627,784	627,784	525,035	525,035
	<u>19,133,223</u>	<u>19,133,223</u>	<u>16,397,183</u>	<u>16,397,183</u>
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	160,384	160,384	559,546	559,546
Forward sale of foreign exchange	<u>866,072</u>	<u>866,072</u>	<u>603,726</u>	<u>603,726</u>

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

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
	-----Rupees in '000-----				
2007					
Total income	82,952	126,488	116,595	1,432,942	3,436
Total expenses	<u>70,724</u>	<u>68,409</u>	<u>109,411</u>	<u>1,198,670</u>	<u>657</u>
Net income	12,228	58,079	7,184	234,272	2,779
Segment assets (gross)	1,016,802	412,996	1,298,994	19,546,103	-
Segment non-performing loans	-	-	18,176	223,102	-
Segment provision required	-	-	12,389	185,393	-
Segment liabilities	-	-	17,086,184	2,393,078	153,098
Segment return on net assets (ROA) (%)	10.83%	20.48%	13.09%	10.35%	-
Segment cost of funds (%)	7.16%	7.16%	7.16%	4.80%	-
2006					
Total income	73,587	350,374	92,804	753,007	9,249
Total expenses	<u>49,901</u>	<u>266,567</u>	<u>56,252</u>	<u>730,074</u>	<u>1,892</u>
Net income	23,686	83,807	36,552	22,933	7,357
Segment assets (gross)	765,867	4,769,188	917,059	12,593,795	-
Segment non-performing loans	-	-	98,865	147,961	-
Segment provision required	-	-	64,410	113,237	-
Segment liabilities	-	-	13,914,446	2,609,712	153,098
Segment return on net assets (ROA) (%)	10.19%	9.86%	11.11%	10.98%	-
Segment cost of funds (%)	6.72%	6.72%	6.72%	5.65%	-

38. RELATED PARTY TRANSACTIONS

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 at 31 December were as follows:

	2007		2006	
	Country Head & Executives	Other related parties	Country Head & Executives	Other related parties
	-----Rupees in '000-----			
Assets				
Investments	-	-	-	244,971
Balance with banks	-	-	-	-
Income/ Mark-up accrued in local currency	-	-	-	-

Liabilities

Deposits	63,604	159,770	53,494	44,021
Mark-up/ Return payable	1,011	1,075	1,412	612

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

	2007	2006
	Rupees in '000	
Funds placed during the year	-	-
Fund withdrawn during the year	244,500	52,450
Deposits received during the year	488,607	278,940
Deposits withdrawn during the year	365,092	326,557
Profit remitted during the year	-	338,854
Mark-up/return expensed	9,910	4,574
Mark-up/return earned	13,956	15,823

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

39. CAPITAL ADEQUACY

The risk weighted assets to capital ratio, calculated in accordance with the State Bank's guidelines on capital adequacy was as follows:

	2007	2006
	Rupees in '000	
Regulatory Capital Base		
Tier I Capital		
Shareholders capital/assigned capital	2,046,185	2,036,390
Reserves	(3,639)	(204)
Unappropriated / Unremitted profits (net of losses)	400,348	154,820
Less: Adjustments	-	-
Total Tier I Capital	<u>2,442,894</u>	<u>2,191,006</u>
Tier II Capital		
Subordinated debt (up to 50% of total Tier I Capital)	451	-
General provisions subject to 1.25% of Total Risk Weighted Assets	9,609	5,210
Revaluation reserve	-	-
Total Tier II Capital	<u>10,060</u>	<u>5,210</u>
Eligible Tier III Capital	-	-
Total Regulatory Capital	<u>2,452,954</u>	<u>2,196,216</u>

	2007		2006	
	-----Rupees in '000-----			
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
Risk weighted exposures				
Credit risk				
Balance sheet items:				
Cash and other liquid assets	7,612,230	836,051	7,860,066	900,879
Money at call	-	-	-	-
Investments	1,067,262	189,082	824,796	54,898
Financings	12,585,549	11,219,781	9,693,182	8,851,237
Fixed assets	102,697	102,697	71,418	71,418
Other assets	622,812	519,345	321,697	252,135
	<u>21,990,550</u>	<u>12,866,956</u>	<u>18,771,159</u>	<u>10,130,567</u>
Off balance sheet items				
Loan repayment guarantees and acceptances	1,601,956	1,585,763	1,324,529	1,324,529
Purchase and resale agreements	-	-	-	-
Performance bonds etc	1,942,122	899,115	1,578,541	739,483
Revolving underwriting commitments	-	-	-	-
Stand by letters of credit	1,943,780	924,684	1,285,093	630,515
Outstanding foreign exchange contracts :				
-Purchase	160,384	642	559,546	2,238
-Sale	866,072	3,464	603,726	2,415
	<u>6,514,314</u>	<u>3,413,668</u>	<u>5,351,435</u>	<u>2,699,180</u>
Credit risk-weighted exposures		<u>16,280,624</u>		<u>12,829,747</u>
Market risk				
General market risk		324,987		179,413
Specific market risk		86,563		97,106
Market risk-weighted exposures		<u>411,550</u>		<u>276,519</u>
Total risk weighted exposures		<u>16,692,174</u>		<u>13,106,266</u>
Capital adequacy ratio [(a) / (b) x 100]		<u>14.70%</u>		<u>16.76%</u>

40. RISK MANAGEMENT

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

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

40.1 Credit Risk

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

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

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

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

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

	2007	2006
	Rupees in '000	
Maximum amount under credit risk exposure -without taking into account collaterals	<u>18,493,538</u>	<u>15,441,175</u>
Maximum amount under credit risk exposure - taking into account collaterals	<u>5,907,989</u>	<u>5,747,993</u>

40.1.1 SEGMENTAL INFORMATION

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

2007						
40.1.1.1 Segments by class of business	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees	Percent	Rupees	Percent	Rupees	Percent
	in '000		in '000		in '000	
Agriculture, forestry, hunting and fishing	1,172	0.01%	18,217	0.11%	14,992	0.27%
Mining and quarrying	4,803	0.04%	5,508	0.03%	3,293	0.06%
Textile	5,077,185	39.72%	301,043	1.77%	1,285,057	23.42%
Chemical and pharmaceuticals	453,805	3.55%	725,245	4.28%	552,855	10.07%
Cement	10,003	0.08%	21,880	0.13%	97,618	1.78%
Sugar	243,448	1.90%	62,911	0.37%	12,487	0.23%
Footwear and leather garments	512,732	4.01%	45,478	0.27%	199,368	3.63%
Automobile and transportation equipment	508,178	3.98%	141,149	0.83%	167,205	3.05%
Electronics and electrical appliances	137,329	1.07%	26,607	0.16%	71,501	1.30%
Construction	458,560	3.59%	135,989	0.80%	267,968	4.88%
Power (electricity), gas, water, sanitary	493	0.00%	88,732	0.52%	63,549	1.16%
Wholesale and retail trade	137,380	1.07%	58,159	0.34%	33,960	0.62%
Exports/imports	158,112	1.24%	181,128	1.07%	548,787	10.00%
Transport, storage and communication	222,232	1.74%	151,399	0.89%	69,715	1.27%
Financial	82,136	0.64%	3,635,723	21.43%	58,105	1.06%
Insurance	4,527	0.04%	444,081	2.62%	-	0.00%
Services	300,700	2.35%	293,755	1.73%	121,389	2.21%
Individuals	540,296	4.23%	4,894,500	28.85%	18,666	0.34%
Others	3,930,240	30.75%	5,733,062	33.79%	1,901,343	34.65%
	<u>12,783,331</u>	<u>100.00%</u>	<u>16,964,566</u>	<u>100.00%</u>	<u>5,487,858</u>	<u>100.00%</u>
2006						
Segments by class of business	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees	Percent	Rupees	Percent	Rupees	Percent
	in '000		in '000		in '000	
Agriculture, forestry, hunting and fishing	10,765	0.11%	6,461	0.05%	-	0.00%
Mining and quarrying	1,435	0.01%	358,807	2.60%	-	0.00%
Textile	4,448,526	45.04%	409,441	2.96%	1,084,915	25.90%
Chemical and pharmaceuticals	326,914	3.31%	885,295	6.41%	503,471	12.02%
Cement	767	0.01%	9,712	0.07%	103,367	2.47%
Sugar	170,886	1.73%	7,000	0.05%	4,642	0.11%
Footwear and leather garments	583,946	5.91%	39,262	0.28%	130,552	3.12%
Automobile and transportation equipment	261,490	2.65%	35,597	0.26%	295,675	7.06%
Electronics and electrical appliances	33,564	0.34%	13,834	0.10%	12,178	0.29%
Construction	213,081	2.16%	96,270	0.70%	327,695	7.82%
Power (electricity), gas, water, sanitary	673	0.01%	58,657	0.42%	46,040	1.10%
Wholesale and retail trade	115,937	1.17%	36,247	0.26%	14,158	0.34%
Exports/imports	101,606	1.03%	62,538	0.45%	54,668	1.31%
Transport, storage and communication	280,156	2.84%	143,801	1.04%	61,511	1.47%
Financial	90,837	0.92%	4,521,305	32.71%	56,587	1.35%
Insurance	-	0.00%	8,681	0.06%	-	0.00%
Services	137,680	1.39%	548,396	3.97%	52,216	1.25%
Individuals	374,896	3.80%	3,896,519	28.19%	5,091	0.12%
Others	2,722,880	27.57%	2,683,618	19.42%	1,435,397	34.27%
	<u>9,876,039</u>	<u>100.00%</u>	<u>13,821,441</u>	<u>100.00%</u>	<u>4,188,163</u>	<u>100.00%</u>

		2007					
		Financings (Gross)		Deposits		Contingencies and Commitments	
40.1.1.2	Segment by sector	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
	Public/ Government	-	-	2,245,161	13%	-	-
	Private	12,783,331	100%	14,719,405	87%	5,487,858	100%
		<u>12,783,331</u>	<u>100%</u>	<u>16,964,566</u>	<u>100%</u>	<u>5,487,858</u>	<u>100%</u>
		2006					
		Financings (Gross)		Deposits		Contingencies and Commitments	
	Segment by sector	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
	Public/ Government	-	-	1,181,437	9%	-	-
	Private	9,876,039	100%	12,640,004	91%	4,188,163	100%
		<u>9,876,039</u>	<u>100%</u>	<u>13,821,441</u>	<u>100%</u>	<u>4,188,163</u>	<u>100%</u>
		2007				2006	
		Rupees in '000					
40.1.1.3	Details of non-performing Financings and specific provisions by class of business segment	Classified Financings	Specific provisions held	Classified Financings	Specific provisions held		
	Agriculture, forestry, hunting and fishing	-	-	3,565	3,565		
	Textile	103,049	66,142	111,943	72,621		
	Chemical and pharmaceuticals	29,906	29,906	31,818	29,367		
	Power (electricity), gas, water, sanitary	1,763	1,763	425	425		
	Others	96,951	90,362	99,075	71,669		
		<u>231,669</u>	<u>188,173</u>	<u>246,826</u>	<u>177,647</u>		
40.1.1.4	Details of non-performing Financings and specific provisions by sector						
	Public/ Government	-	-	-	-		
	Private	231,669	188,173	246,826	177,647		
		<u>231,669</u>	<u>188,173</u>	<u>246,826</u>	<u>177,647</u>		

40.1.1.5 GEOGRAPHICAL SEGMENT ANALYSIS	2007	2006
	Rupees in '000	
	Pakistan	
Profit before taxation	314,542	170,423
Total assets employed	22,077,113	18,868,262
Net asset employed	2,444,753	2,191,006
Contingencies and commitments	5,487,858	4,188,163

Total assets employed include intra group items of Rs. Nil (2006:Rs.244.971) million.

40.2 Market risk

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

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

40.2.1 Foreign exchange risk

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

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

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

	Assets	Liabilities*	Off-balance	Net foreign
			sheet items	currency exposure
-----Rupees in '000-----				
United States dollar	2,972,997	2,878,008	(48,965)	46,024
Great Britain pound	52,350	55,369	12,005	8,986
Euro	46,947	24,007	(6,127)	16,813
Japanese yen	6,307	-	-	6,307
Deutsche mark	-	-	-	-
ACU Dollar	3,408	19	-	3,389
Swiss Frank	791	-	-	791
Foreign Currency	3,082,800	2,957,403	(43,087)	82,310
Pakistan Rupees	15,785,462	15,910,859	43,087	(82,310)
	<u>18,868,262</u>	<u>18,868,262</u>	<u>-</u>	<u>-</u>

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

Liabilities include head office capital account, unremitted profit and surplus/(deficit) on revaluation of assets amounting to Rs 2,441,192 thousands (2006:Rs. 2,191,006 thousands).

40.2.2 Equity position risk

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

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

		2007										
Effective Yield/ Profit rate	Total	Exposed to Yield/ Interest risk									Non-profit bearing financial instruments	
		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-----										
40.2.3 Mismatch of interest rate sensitive assets and liabilities												
On-balance sheet financial instruments												
<u>Assets</u>												
		3,480,878	-	-	-	-	-	-	-	-	-	3,480,878
		4,131,352	4,099,192	-	-	-	-	-	-	-	-	32,160
		-	-	-	-	-	-	-	-	-	-	-
		1,153,825	-	-	-	-	-	900,000	100,000	-	-	153,825
		12,585,549	2,853,038	2,904,888	3,502,634	1,943,729	1,243,055	-	-	-	-	43,496
		404,243	-	-	-	-	-	-	-	-	-	404,243
		21,755,847	6,952,230	2,904,888	3,502,634	1,943,729	1,243,055	-	900,000	100,000	-	4,114,602
<u>Liabilities</u>												
		231,462	-	-	-	-	-	-	-	-	-	231,462
		1,309,411	212,462	705,678	391,271	-	-	-	-	-	-	-
		16,964,566	10,207,229	1,386,002	423,023	1,754,420	469,454	485,931	387,944	-	-	1,850,563
		-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-
		627,784	-	-	-	-	-	-	-	-	-	627,784
		19,133,223	10,419,691	2,091,680	814,294	1,754,420	469,454	485,931	387,944	-	-	2,709,809
		2,622,624	(3,467,461)	813,208	2,688,340	189,309	773,601	(485,931)	512,056	100,000	-	1,404,793
On-balance sheet gap												
Off-balance sheet financial instruments												
		160,384	-	-	-	-	-	-	-	-	-	160,384
		866,072	-	-	-	-	-	-	-	-	-	866,072
		(705,688)	-	-	-	-	-	-	-	-	-	(705,688)
			(3,467,461)	813,208	2,688,340	189,309	773,601	(485,931)	512,056	100,000	-	
			(3,467,461)	(2,654,253)	34,087	223,396	996,997	511,066	1,023,122	1,123,122	1,123,122	

		2006										Non-profit bearing financial instruments
		Exposed to Yield/ Interest risk										
Effective Yield/ Profit rate	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		
Mismatch of interest rate sensitive assets and liabilities		-----Rupees in '000-----										
On-balance sheet financial instruments												
<u>Assets</u>												
	-	3,355,669	-	-	-	-	-	-	-	-	-	3,355,669
	9.03%	4,259,426	4,229,328	-	-	-	-	-	-	-	-	30,098
	-	-	-	-	-	-	-	-	-	-	-	-
	9.81%	1,166,870	-	-	243,640	-	-	-	750,000	-	-	173,230
	10.11%	9,693,182	1,865,597	2,581,252	2,939,061	1,363,242	880,915	-	-	-	-	63,115
	-	172,283	-	-	-	-	-	-	-	-	-	172,283
		18,647,430	6,094,925	2,581,252	2,939,061	1,606,882	880,915	-	-	750,000	-	3,794,395
<u>Liabilities</u>												
	-	155,680	-	-	-	-	-	-	-	-	-	155,680
	7.50%	1,895,027	254,731	542,523	1,097,773	-	-	-	-	-	-	-
	7.46%	13,821,441	9,725,771	859,658	2,026,898	-	-	-	-	-	-	1,209,114
	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-
	-	525,035	-	-	-	-	-	-	-	-	-	525,035
		16,397,183	9,980,502	1,402,181	3,124,671	-	-	-	-	-	-	1,889,829
On-balance sheet gap		2,250,247	(3,885,577)	1,179,071	(185,610)	1,606,882	880,915	-	-	750,000	-	1,904,566
Off-balance sheet financial instruments												
	-	559,546	-	-	-	-	-	-	-	-	-	559,546
	-	603,726	-	-	-	-	-	-	-	-	-	603,726
Off-balance sheet gap		(44,180)	-	-	-	-	-	-	-	-	-	(44,180)
Total Yield/Profit Risk Sensitivity Gap			(3,885,577)	1,179,071	(185,610)	1,606,882	880,915	-	-	750,000	-	
Cumulative Yield/Profit Risk Sensitivity Gap			(3,885,577)	(2,706,506)	(2,892,116)	(1,285,234)	(404,319)	(404,319)	(404,319)	345,681	345,681	

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

The position of on-balance sheet financial instruments is based on the earlier of the contractual repricing or maturity date and for off-balance sheet instrument is based on settlement dates

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

Maturities of assets and liabilities	Total	2006								
		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	3,355,669	1,319,279	-	-	-	-	-	-	2,036,390	-
Balances with other banks	4,259,426	4,259,426	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	1,166,870	98,434	-	-	243,640	-	74,796	-	750,000	-
Financings	9,693,182	1,865,597	2,581,252	2,939,061	482,327	477,405	715,630	473,333	158,577	-
Other assets	321,697	106,416	-	15,867	136,165	488	-	53,695	9,066	-
Operating fixed assets	71,418	-	-	-	-	-	-	32,870	38,548	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
	18,868,262	7,649,152	2,581,252	2,954,928	862,132	477,893	790,426	559,898	2,992,581	-
Liabilities										
Bills payable	155,680	155,680	-	-	-	-	-	-	-	-
Due to financial institutions	1,895,027	254,731	542,523	1,097,773	-	-	-	-	-	-
Deposits and other accounts	13,821,441	9,725,771	859,658	463,389	1,381,147	406,138	609,207	376,131	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	726,248	235,566	76,490	140,689	63,930	69,733	74,043	52,495	13,302	-
Deferred tax liabilities	78,860	-	-	-	-	31,544	47,316	-	-	-
	16,677,256	10,371,748	1,478,671	1,701,851	1,445,077	507,415	730,566	428,626	13,302	-
Net assets	2,191,006	(2,722,596)	1,102,581	1,253,077	(582,945)	(29,522)	59,860	131,272	2,979,279	-
Share capital/ Head office capital account	2,036,390									
Unappropriated/ Unremitted profit	154,820									
Surplus on revaluation of assets	(204)									
	2,191,006									

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

40.4 Operational Risk

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

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

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

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

40.5 Shariah non-compliance risk

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

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

41. GENERAL

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

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

41.3 These financial statements were authorised for issue on -----.

SHAFQAAT AHMED
Country Head

AYYAZ AHMAD
Chief Financial Officer

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF
OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED
DURING THE YEAR ENDED DECEMBER 31, 2007

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1.	Yasmeen Weaving Mills Ltd 46-M Gulberg III Lahore.	Mr. Siddiq M. Malik (270-35-364897) Mr. Saqlain M. Malik Mrs. Tauseef Malik	S/o Mr. Malik Nazir Ahmad S/o Mr. Siddiq M. Malik W/o Mr. Siddiq M. Malik	2,352	821	-	3,173	2,352	821	-	3,173
TOTAL:				2,352	821	-	3,173	2,352	821	-	3,173