EMIRATES GLOBAL ISLAMIC BANK LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

A member firm of

A.F. FERGUSON & CO.

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Emirates Global Islamic Bank Limited** as at December 31, 2009, and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for ten 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 Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

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

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

(b) In our opinion:

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes as stated in note 2.1 to the financial statements, with which we concur;

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

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

(c) In our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2009 and its true balance of loss, its cash flows and changes in equity for the year then ended; and

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

Without qualifying our opinion, we draw attention to note 39 to the financial statements which more fully explains that the bank has not met the minimum paid up capital requirement (net of losses) of Rs 6 billion as applicable to the bank for the current year. The Bank has applied to the State Bank of Pakistan to grant the bank an extension upto March 31, 2010 for meeting the afore-mentioned capital requirement.

AFFerguson & Co

Chartered Accountants
Engagement Partner: Rashid A. Jafer
Dated: March 9, 2010
Karachi

EMIRATES GLOBAL ISLAMIC BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2009

	Note	2009	2008
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	5	1,337,892	909,378
Balances with other banks	6	959,078	195,134
Due from financial institutions	7	1,600,000	320,000
Investments	8	3,356,705	2,756,159
Financing	9	9,439,243	7,777,483
Operating fixed assets	10	1,741,736	1,619,029
Deferred tax assets - net	11	486,639	239,336
Other assets	12	841,157	2,720,868
		19,762,450	16,537,387
LIABILITIES			
Bills payable	14	262,691	148,403
Due to financial institutions	15	20,000	725,000
Deposits and other accounts	16	15,081,242	10,892,602
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	17	42,457	77,486
Deferred tax liabilities		-	-
Other liabilities	18	862,444	625,057
		16,268,834	12,468,548
NET ASSETS		3,493,616	4,068,839
REPRESENTED BY			
Share capital	19	4,500,000	4,500,000
Share subscription money	19.5	657	657
Reserves		-	-
Accumulated loss		(1,012,429)	(448,416)
		3,488,228	4,052,241
Surplus on revaluation of assets - net of tax	27	5,388	16,598
		3,493,616	4,068,839
CONTINGENCIES AND COMMITMENTS	20		

The annexed notes 1 to 42 form an integral part of these financial statements.

President / Chief Executive | Director | Director | Director

EMIRATES GLOBAL ISLAMIC BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
		Rupees in '000	
Profit / return earned on financings, investments and placements	21	1,914,228	1,060,376
Return on deposits and other dues expensed	22	1,234,890	598,062
Net spread earned		679,338	462,314
Provision against non-performing financings - net	9.7	309,788	9,043
Provision for diminution in the value of investments	8.3.1	34,221	6,534
Reversal of provision against non-performing commodity murabaha	7.3	-	(17,388)
		344,009	(1,811)
Net spread after provisions		335,329	464,125
Other income			
Fee, commission and brokerage income		56,801	39,775
Dividend income		-	10,308
Income / (loss) from dealing in foreign currencies		102,482	(5,089)
Capital (loss) / gain on sale of securities	23	(2,878)	1,462
Unrealised gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	24	145,450	48,655
Total other income		301,855	95,111
		637,184	559,236
Other expenses			
Administrative expenses	25	1,410,569	949,634
Other provisions / write offs		21,539	-
Other charges	26	3,958	965
Total other expenses		1,436,066	950,599
		(798,882)	(391,363)
Extra ordinary / unusual items		-	-
Loss before taxation		(798,882)	(391,363)
Taxation - Current - for the year		(11,191)	-
- for prior year		-	-
- Deferred	28	246,060	131,247
		234,869	131,247
Loss after taxation		(564,013)	(260,116)
Accumulated loss brought forward		(448,416)	(188,300)
Accumulated loss carried forward		(1,012,429)	(448,416)
Loss per share (Rupees)	29	(1.25)	(0.60)

The annexed notes 1 to 42 form an integral part of these financial statements.

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

EMIRATES GLOBAL ISLAMIC BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
	Rupees in '000	
Loss for the year - after taxation	(564,013)	(260,116)
Other comprehensive income	-	-
Total comprehensive income / (loss) for the year	**(564,013)**	**(260,116)**

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

The annexed notes 1 to 42 form an integral part of these financial statements.

President / Chief Executive | Director | Director | Director

EMIRATES GLOBAL ISLAMIC BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
		Rupees in '000	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(798,882)	(391,363)
Adjustments for non-cash and other items:			
Dividend income		-	(10,308)
Depreciation		111,382	70,667
Depreciation on ijarah assets held under IFAS 2		130,554	-
Amortisation		30,412	24,851
Fixed assets written-off		20,443	890
Provision against non-performing financings		309,788	9,043
Provision for diminution in the value of investments		34,221	6,534
Finance charges on leased assets		15,481	8,100
Provision against non-performing commodity murabaha		-	(17,388)
		652,281	92,389
		(146,601)	(298,974)
(Increase) / decrease in operating assets			
Due from financial institutions		(1,280,000)	1,047,388
Financing		(2,102,102)	(5,165,001)
Others assets (excluding advance taxation)		1,876,328	(2,492,606)
		(1,505,774)	(6,610,219)
Increase / (decrease) in operating liabilities			
Bills payable		114,288	48,650
Borrowings		(705,000)	656,092
Deposits and other accounts		4,188,640	6,339,693
Other liabilities		237,387	277,316
		3,835,315	7,321,751
Income tax paid		(9,051)	(6,426)
Net cash inflow from operating activities		2,173,889	406,132
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(645,977)	(470,972)
Net investments in operating fixed assets		(292,968)	(709,661)
Dividend income received			10,308
Received on disposal of operating fixed assets		8,024	6,615
Net cash outflow on investing activities		(930,921)	(1,163,710)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease obligations		(50,510)	(41,750)
Receipt of shares subscription money		-	492,802
Net cash (outflow on) / inflow from financing activities		(50,510)	451,052
Increase / (decrease) in cash and cash equivalents		1,192,458	(306,526)
Cash and cash equivalents at beginning of the year		1,104,512	1,411,038
Cash and cash equivalents at end of the year	30	2,296,970	1,104,512

The annexed notes 1 to 42 form an integral part of these financial statements.

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

EMIRATES GLOBAL ISLAMIC BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009

	Share capital	Share subscription money	Capital reserve	Statutory reserve	Revenue reserve	Accumulated loss	Total
	Rupees in '000						
Balance as at January 01, 2008	3,000,000	1,007,855	-	-	-	(188,300)	3,819,555
Receipt of shares subscription money	-	492,802	-	-	-	-	492,802
Issue of share capital	1,500,000	(1,500,000)	-	-	-	-	-
Loss after taxation for the year ended Decmber 31, 2008	-	-	-	-	-	(260,116)	(260,116)
Balance as at December 31, 2008	4,500,000	657	-	-	-	(448,416)	4,052,241
Loss after taxation for the year ended Decmber 31, 2009	-	-	-	-	-	(564,013)	(564,013)
Balance as at December 31, 2009	4,500,000	657	-	-	-	(1,012,429)	3,488,228

The annexed notes 1 to 42 form an integral part of these financial statements.

President / Chief Executive | Director | Director | Director

1. LEGAL STATUS AND NATURE OF BUSINESS

The bank was incorporated in Pakistan on December 20, 2004 as a public limited company under the Companies Ordinance, 1984.

The main objective of the bank is to carry on Islamic banking business in and outside Pakistan in accordance and in conformity with Islamic Shariah. The bank was granted an Islamic Banking License BL(i)-01(07), issued by the Banking Policy and Regulations Department of the State Bank of Pakistan vide their letter no. BPRD (LCGD-02)/625-76/D/2007/521 dated January 18, 2007 under section 27 of the Banking Companies Ordinance, 1962 read with Islamic Banking Department circular no 2 of 2004. Subsequently, the bank was also granted approval for commencement of business as a scheduled bank with effect from February 13, 2007 by the State Bank of Pakistan vide their letter no. BPRD (LCGD-02)/625-76/X/JD/2007/1269 dated February 12, 2007

The Bank is operating through fifty eight branches and two sub - branches as at December 31, 2009 (2008: Forty branches). Its registered office is located at 162, Banglore Town, Main Shahrah-e-Faisal, Karachi.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP) Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the SECP and the SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.

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

2.1 Changes in accounting policy and disclosures arising from standards, interpretations and amentdments to published approved accounting standards that are effective in the current year:

(a) IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009), was issued in September 2007. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated statement of financial position (balance sheet) as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period.

The bank has applied IAS 1 (revised) during the current period, and has accordingly changed its accounting policy to comply with the new requirements of IAS. The bank has elected to show elements of comprehensive income in a separate statement. The change in presentation has not affected the values of the net assets of the bank for either the current or any of the prior periods and there is no impact on the earnings per share.

(b) IFAS 2 'Ijarah'. The SBP vide IBD Circular No. 01 dated January 27, 2009 directed that Islamic Financial Accounting Standard (IFAS) 2 'Ijarah' shall be followed for the bank's accounting period beginning on or after January 1, 2009 This standard requires that the ijarah transactions booked on or after January 1, 2009 should be accounted for as operating leases whereby assets leased out under ijarah should be recorded as fixed assets in the books of the bank and should be classified separately according to the nature of such assets distinguished from the assets in the use of the bank. These assets should be depreciated over the term of the ijarah. Rental income should be recognised on accrual basis as and when the rental becomes due. The bank has adopted IFAS 2 from January 1, 2009 and the assets leased out under ijarah are shown seperately under 'financing' (note 9 2). As the requirements of IFAS 2 are for all future ijarah, the adoption of this standard did not require any restatement.

2.2 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year

(a) IAS 23 (Amendment) 'Borrowing costs' (effective from January 1, 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. The bank has adopted the aforementioned amendment from January 1, 2009. The management of the bank believes that presently the amendment does not have any impact on the bank's financial statements.

(b) IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009).

- The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The bank has adopted the aforementioned amendments from January 1, 2009. The management of the bank believes that these amendments do not have any impact on the bank's financial statements.

(c) IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The bank has adopted the aforementioned amendment from January 1, 2009. The management of the bank believes that presently the amendment does not have any impact on the bank's financial statements.

(d) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services The bank has adopted the aforementioned amendment from January 1, 2009. The management of the bank believes that this amendment does not have any impact on the bank's financial statements.

(e) IFRS 2 (Amendment), 'Share-based payment' (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment The bank has adopted the aforementioned amendment from January 1, 2009 The management of the bank believes that presently the amendment does not have any impact on the bank's financial statements.

(f) IFRS 8 'Operating segments', (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006.The management of the bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, the segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

(g) There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or to have any significant effect on the bank's operations and are therefore not detailed in these financial statements.

2.3 Standards, interpretations and amendments to published approved accounting standard that are not yet effective

The following standards, interpretations and amendments to existing standards have been published and are mandatory for the bank's accounting periods beginning on or after January 1, 2010:

(a) IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after July 1, 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The bank will apply IFRIC 17 from 1 January 2010. At present , the management of the bank believes that the aforementioned amendment is not expected to have any impact on the bank's financial statements.

(b) Accounting and Auditng Organisation for Islamic Financial Institutions (AAOIIFI) Shariah Standards (effective on or after July1, 2010). The SBP vide IBD Circular No. 01 dated January 12, 2010 has directed that the following Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) Shariah Standards shall be adopted w.e.f. July 1, 2010:

- AAOIFI Shariah Standard No.3 (Default in Payment by a Debtor)
- AAOIFI Shariah Standard No.8 (Murabaha to the Purchase Orderer)
- AAOIFI Shariah Standard No.9 (Ijarah & Ijarah Muntahia Bittamleek)
- AAOIFI Shariah Standard No.13 (Mudaraba)

The management is in the process of assessing the impact of the adoption of these standards on the bank's financial statements.

(c) There are certain other standards, interpretations and amendments to the published approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

3. BASIS OF MEASUREMENT

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain investments which have been carried at fair value and certain staff retirement benefits which are carried at present value.

3.2 Critical accounting estimates and judgements

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

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

i) Classification of investments (notes 4.2 and 8)
ii) Provision against investments (notes 4.2 and 8) and financings (notes 4.3 and 9.7)
iii) Current and deferred taxation (notes 4.7, 11 and 28)
iv) Provision for staff retirement benefits under the defined benefit plan (notes 4.9 and 32)
v) Determination of useful lives and depreciation rates of fixed assets (note 4.5 and 10)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as explained in note 2.1 to these financial statements.

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4.1 Cash and cash equivalents

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

4.2 Investments

The bank classifies its investments as follows:

(a) Held for trading

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

(b) Held to maturity

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

(c) Available for sale

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

(d) Associates

Associates are all entities over which the bank has significant influence but not control. Investment in associates is carried at cost.

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

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

In accordance with the requirements of the State Bank of Pakistan, quoted securities other than those classified as 'held to maturity', investments in subsidiaries and investments in associates (which qualify for accounting under International Accounting Standard - 28), are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account. Investments classified as 'held to maturity' are carried at amortised cost.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. In cases where the break up value of such shares is less than the cost, the difference of the cost and break up value is classified as loss and provided for accordingly by charging to the profit and loss account.

Investments in subsidiaries and associates (which qualify for accounting under International Accounting Standard - 28) are carried at cost. However, where the break-up value of investment in subsidiaries and associates is less than the cost, the difference between the cost and the break-up value is charged off to the profit and loss account.

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

4.3 Financing

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

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

Ijarah financing booked on or after January 1, 2009 is accounted for as an operating lease as per the requirements of IFAS 2. Accordingly assets leased out under ijarah are recorded as fixed assets and depreciated over the term of ijarah and the related rental income is recognised in the profit and loss account on an accrual basis.

Ijarah financing booked before January 1, 2009 is accounted for as a finance lease whereby assets under ijarah arrangements are presented as a receivable at an amount equal to net investment in ijarah. Unearned income i.e. excess of aggregate rentals over the cost of the asset is recorded at the inception of the ijarah and is amortised over the term of the ijarah so as to produce a constant rate of return on net investment in ijarah.

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

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

4.4 Inventories

As stated in note 4.3 to these financial statements, goods purchased but remaining unsold at the balance sheet date are recorded as inventories. The bank values its inventories at the lower of cost and net realisable value. Cost of inventories represents the actual purchase price paid by the customer as an agent on behalf of the bank from the funds disbursed for the purpose of culmination of murabaha.

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

4.5 Operating fixed assets and depreciation

(a) Owned

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

Depreciation is charged using the straight-line method in accordance with the rates specified in note 10.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate at each balance sheet date. Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

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

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

(b) Leased assets

Assets held under finance lease are stated at lower of fair value or present value of minimum lease payments at inception less accumulated depreciation. The outstanding obligation under lease is shown as a liability net of finance charges allocable to future periods.

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

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

(c) Capital work in progress

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

(d) Ijarah assets

Assets leased out under ijarah on or after January 1, 2009 are recorded as fixed assets and stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are shown under 'financing' and depreciated over the term of ijarah using the straight line basis. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset.

Intangible assets

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

Intangible assets having an indefinite useful life are stated at acquisition cost. Provisions are made for permanent diminution in the value of assets, if any. Gains and losses on disposals, if any, are taken to the profit and loss account.

4.6 Revenue recognition

- Profit on murabaha transactions is recognised over the term of these transactions on a straight line basis.

- Rental income on ijarah financing booked on or after January 1, 2009 is recognised on accrual basis as and when the rentals become due.

- The bank follows the finance method in recognising income on ijarah contracts booked before January 1, 2009. Under this method the unearned income i.e. the excess of aggregate ijarah rentals over the cost of the asset is deferred and then amortised over the term of the ijarah, so as to produce a constant rate of return on net investment in ijarah. Gains / losses on termination of ijarah contracts are recognised as income on a receipt basis. Income on ijarah is recognised from the date of delivery of the respective assets to the mustajir.

- Income earned from Shariah non-compliant avenues is not recognised in the profit and loss account. This income is classified as charity payable in accordance with the recommendation of the Shariah Advisor of the bank.

- Profit on diminishing musharaka is recognised on accrual basis.

- Commission on letters of credit, acceptances and letters of guarantee is recognised on receipt basis.

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

- Profit on investment in sukuk bonds is recognised on accrual basis.

- Profit and loss on sale of investments is included in income currently.

4.7 Taxation

(a) Current

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

(b) Deferred

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

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

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

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

4.8 Impairment

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

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4.9 Staff retirement benefits

(a) Defined benefit plan

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

(b) Defined contribution plan

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

4.10 Provisions, contingent assets and contingent liabilities

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

Contingent assets are not recognised and are also not disclosed unless an inflow of economic benefits is probable.

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

4.11 Functional and presentation currency

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

4.12 Foreign currency transactions

Transactions in foreign currencies are translated to rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date.

4.13 Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the exchange rates ruling on the balance sheet date.

4.14 Financial instruments

(a) Financial assets and financial liabilities

Financial assets carried on the balance sheet include cash and balances with treasury banks, balances with other banks, due from financial institutions, investments, financing and certain receivables.

Financial liabilities carried on the balance sheet includes bills payable, due to financial institutions, deposits and other accounts, liabilities against assets subject to finance lease and certain other liabilities.

Financial assets and financial liabilities are recognised at the time when the bank becomes a party to the contractual provisions of the instrument and de-recognised when the bank loses control of the contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired.

(b) Derivative financial instruments

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

(c) **Off-setting**

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

4.15 Earnings per share

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

4.16 Segment Reporting

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

(a) **Business segments**

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

- **Corporate finance**

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

- **Trading and sales**

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

- **Retail Banking**

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

- **Commercial banking**

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

(b) **Geographical segments**

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

4.17 Dividend and appropriation to reserves

Dividends and appropriation to reserves approved after balance sheet date, except appropriations which are required by the law, are recognised as a liability in the banks' financial statements in the year in which these are approved.

5. CASH AND BALANCES WITH TREASURY BANKS	Note	2009	2008
		Rupees in '000	
In hand			
Local currency		228,106	199,550
Foreign currency		97,597	97,131
With State Bank of Pakistan in			
Local currency current account	5.1	767,168	506,711
Foreign currency current account	5.2	2,604	3,720
Foreign currency deposit account	5.3	93,512	76,199
		863,284	586,630
With National Bank of Pakistan		148,903	26,067
		1,337,892	909,378

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

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

5.3 This represents balance maintained with SBP in US Dollars in respect of cash reserve requirement and special cash reserve requirement against the bank's foreign currency deposits. The balance to be maintained in respect of the cash reserve requirement is to be kept in a non - remunerative account and is equal to atleast 5 percent of the foreign currency deposits.

The balance to be maintained in respect of the special cash reserve requirement is equal to atleast 6 percent of the bank's foreign currency deposits. This account is also maintained on a non - remunerative basis till some shariah compliant foreign currency instruments are developed.

6. BALANCES WITH OTHER BANKS	Note	2009	2008
		Rupees in '000	
Inside Pakistan			
On current account		9,843	2,402
On deposit account	6.1	35,773	168,928
Outside Pakistan			
On current account		913,462	23,804
		959,078	195,134

6.1 These carry a return at rates ranging from 5.00% to 15.5% (2008: 4.63% to 13.50%) per annum.

7. DUE FROM FINANCIAL INSTITUTIONS	Note	2009	2008
		Rupees in '000	
Call money lendings		-	-
Repurchase agreement lendings (Reverse Repo)		-	-
Receivable against commodity murabaha	7.2 & 7.2.1	1,600,000	320,000
		1,600,000	320,000

7.1 Particulars of due from financial institutions

	2009	2008
In local currency	1,600,000	320,000
In foreign currency	-	-
	1,600,000	320,000

7.2 Receivable against commodity murabaha

	Note	2009	2008
Gross amount receivable against commodity murabaha		1,694,219	338,436
Less: Profit for future periods		52,588	15,195
Profit receivable as at December 31, 2009 - shown under other assets		41,631	3,241
		1,600,000	320,000
Provision against commodity murabaha	7.3	-	-
		1,600,000	320,000

7.2.1 This represents placements made with various financial institutions against commodity murabaha agreement and carry return at rates ranging from 10% to 14.25% (2008: 23% to 25%) per annum.

7.3 Particulars of provision against commodity murabaha	2009	2008
	Rupees in '000	
Opening balance	-	25,000
Charge for the year	-	-
Reversal	-	(17,388)
Write-off	-	(7,612)
Closing balance	-	-

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8. INVESTMENTS

8.1 Investments by types

	Note	2009 Held by Bank	2009 Given as Collateral	2009 Total	2008 Held by Bank	2008 Given as Collateral	2008 Total
		Rupees in '000					
Available for sale							
Sukuk certificates / bonds	8.5	3,241,399	-	3,241,399	2,594,177	-	2,594,177
Ordinary shares	8.6	103,768	-	103,768	103,768	-	103,768
Associate							
Takaful Pakistan Limited	8.4	52,200	-	52,200	52,200	-	52,200
		3,397,367	-	3,397,367	2,750,145	-	2,750,145
Less: Provision for diminution in value of investments	8.3	(46,649)	-	(46,649)	(12,428)	-	(12,428)
Investments (net of provision)		3,350,718	-	3,350,718	2,737,717	-	2,737,717
(Deficit) / surplus on revaluation of 'available for sale' securities	27	5,987	-	5,987	18,442		18,442
Total investments at market value		3,356,705	-	3,356,705	2,756,159	-	2,756,159

8.2 Investments by segments

	Note	2009	2008
		Rupees in '000	
Bonds			
Sukuk certificates / bonds	8.5	3,241,399	2,594,177
Fully paid-up ordinary shares			
Gharibwal Cement Limited	8.6	100,000	100,000
Huffaz Seamless Pipes Limited	8.6	3,768	3,768
Investment in an associate	8.4	52,200	52,200
Total investments at cost		3,397,367	2,750,145
Less: Provision for diminution in value of investments	8.3	(46,649)	(12,428)
Investments (net of provision)		3,350,718	2,737,717
Surplus on revaluation of 'available for sale' securities	27	5,987	18,442
Total investments at market value		3,356,705	2,756,159

8.3 Particulars of provision for diminution in value of investments:

8.3.1

		2009	2008
Opening balance		12,428	5,894
Charged during the year		34,221	6,534
Reversed during the year		-	-
Closing balance		46,649	12,428

8.3.2 Particulars of provision in respect of type and segment

	Note	2009	2008
Investment in Sukuk certificates / bonds			
New Allied Electronics Industries (Private) Limited	8.3.3	25,000	-
Investment in an associate			
Takaful Pakistan Limited	8.3.4	21,649	12,428
		46,649	12,428

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

8.3.4 This represents the excess of the cost of ordinary shares of the investee company over its break-up value.

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8.4 Investment in an associated company - unlisted

	2009	2008	2009	2008	Percentage of equity holding %	Latest available audited financial statements	Name of the chief executive
	Number of shares		Rupees in '000				
Takaful Pakistan Limited	5,100,000	5,100,000	52,200	52,200	17	December 31, 2008	Captain M. Jamil Akhtar Khan
			52,200	52,200			

8.4.1 The above associated company is incorporated in Pakistan and the nominal value of these shares is Rs 10 each.

8.5 Sukuk certificates / bonds

Name of the Investee company	2009	2008	2009	2008
	Number of certificates		Cost Rupees in '000	
Coastal Refinery Limited*	-	-	323,103	59,185
New Allied Electronics Industries (Private) Limited	79,872	-	25,000	-
National Industrial Parks Development and Management Company	396,000	327,409	2,001,159	1,656,896
Sitara Energy Limited	3,200	-	14,052	-
Karachi Shipyard & Engineering Works Limited	66,333	87,600	327,412	438,000
House Building Finance Corporation Limited	34,000	12,600	153,110	63,635
Educational Excellence Limited	32,474	33,000	162,363	165,000
GOP Ijarah Sukuk Bonds	-	2,115,000	-	211,461
PACE Pakistan Limited	37,040	-	185,200	-
AL Razi Healthcare **	-	-	50,000	-
			3,241,399	2,594,177

8.5.1 Other particulars of sukuk bonds are as follows:

Particulars	Certificates denomination in PKR	Profit rate per annum	Profit payment	Redemption terms
Coastal Refinery Limited*	5,000	6 month KIBOR + 3.75 %	Semi annually	Payable in 10 consecutive semi annual installments commencing from the 18th month from the date of first draw down.
New Allied Electronics Industries (Private) Limited	312.5	3 month KIBOR + 2.6 %	Quarterly	Payable in 16 equal quarterly installments commencing from the 15th month from the date of first drawdown.
National Industrial Parks Development and Management Company	5,000	6 month KIBOR + 0.6 %	Semi annually	Bullet payment on maturity.
GOP Ijarah Sukuk Bonds	100	T-Bill + 0.49 %	Semi annually	Bullet payment on maturity
Karachi Shipyard & Engineering Works Limited	5,000	6 month KIBOR + 0.4 %	Semi annually	Payable in 8 equal semi annual installments commencing from the 54th month from the date of first drawdown.
Sitara Energy Limited	5,000	6 month KIBOR + 1.95 %	Semi annually	Payable in 10 equal semi annual installment starting from 6 months after issue date
Educational Excellence Limited	5,000	6 month KIBOR + 2.50 %	Quarterly	Payable in 15 equal quarterly installments commencing from the 15th month from the date of drawdown
House Building Finance Corporation Limited	5,000	6 month KIBOR + 1.00 %	Semi annually	Payable in 10 equal semi annual installment starting from the 12th month after issue date.
Pace Pakistan Limited	5,000	6 month KIBOR + 1.5 %	Semi annually	Payable in 2 consecutive equal semi annual installments, the first such installment falling due on the 90th month from the date of first contribution.
AL Razi Healthcare **	5,000	6 month KIBOR + 4.0 %	Semi annually	Payable in 12 equal semi annual installment starting from 6 months after issue date

* Out of the total participation of Rs 340 million (2008:Rs 200 million), the bank has made partial disbursement of Rs 323.103 million (2008: Rs 59.185 million) till December 31, 2009. Until the entire disbursement is not made, the sukuk certificates cannot be issued.

** Out of the total participation of Rs 660 million, the bank has made partial disbursement of Rs 50 million till December 31, 2009. Until the entire disbursement is not made, the sukuk certificates cannot be issued.

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8.6 **Particulars of investments in ordinary shares of listed companies**

Company Name	Number of shares	Paid up value per share	Total paid up value	Cost	Market Value
			Rupees in '000		
Available for sale					
Gharibwal Cement Limited	6,666,666	10	66,667	100,000	105,000
Huffaz Seamless Pipes Limited	227,403	10	2,274	3,768	4,755
				103,768	109,755

8.7 **Quality of available for sale securities**

	2009 Amount (Rupees in '000)	2009 Rating	2008 Amount (Rupees in '000)	2008 Rating
Coastal Refinery Limited	323,103	Unrated	59,165	Unrated
New Allied Electronics Industries (Private) Limited	25,000	D	-	D
National Industrial Parks Development and Management Company	2,001,159	GOP Guaranteed	1,656,896	GOP Guaranteed
Engro Chemical Pakistan Limited	-		-	Unrated
Karachi Shipyard & Engineering Works	327,412	GOP Guaranteed	438,000	GOP Guaranteed
Sitara Energy Limited	14,052	Unrated	-	Unrated
Ijarah Sukkuk Bond	-		211,461	GOP Guaranteed
Educational Excellence Limited	162,363	Unrated	165,000	Unrated
House Building Finance Corporation	153,110	A-	63,635	A+
Takaful Pakistan Limited	52,200	A-	52,200	A-
Huffaz Seamless Pipes Limited	3,768	Unrated	3,768	Unrated
Gharibwal Cement Limited	100,000	D	100,000	BB+ *
PACE Pakistan Limited	185,200	A	-	
AL Razi Healthcare	50,000	Unrated	-	
Total	3,397,367		2,750,145	

* Represents rating of the entity

9. **FINANCING**

	Note	2009	2008
		Rupees in '000	
Inside Pakistan			
- Murabaha finance	9.1	3,453,856	3,150,693
- Ijarah under IFAS 2	9.2	832,433	-
- Net investment in ijarah	9.3	1,031,348	1,454,505
- Diminishing musharaka financing		3,832,297	2,471,518
- Over due acceptance payment		34,280	7,666
- Salam financing		524,853	607,183
- Musawamah Financing		28,228	79,892
- Qarz-e-Hasna	9.4	22,015	15,652
- Rahnuma Travel Services		902	1,555
Financing-gross		9,760,212	7,788,664
Provision for non-performing financing - specific	9.7	313,387	2,047
Provision for non-performing financing - general	9.7	7,582	9,134
Financing - net of provision		9,439,243	7,777,483

		2009	2008
9.1	Murabaha receivable - gross	3,737,552	3,378,112
	Less: Deferred murabaha income	135,360	100,010
	Profit receivable as at December 31	148,336	127,409
	Murabaha financing	3,453,856	3,150,693

9.2 Net Investment in ijarah under IFAS 2

	2009	2008
	Rupees in '000	
Asset value	962,855	-
Accumulated depreciation	(130,422)	-
	832,433	-

9.2.1 Movement in net book value of ijarah assets

	COST			ACCUMULATED DEPRECIATION			
	As at January 1, 2009	Additions/ (disposals) / (write offs)	As at December 31, 2009	As at January 1, 2009	Charge for the year	As at December 31, 2009	Written down value as at December 31, 2009
	Rupees in '000						
Car - Consumer	-	1,322 -	1,322	-	389 -	389	933
Car - Corporate	-	43,511 -	43,511	-	7,606 -	7,606	35,905
Plant and machinery	-	877,251 -	877,251	-	119,978 -	119,978	757,273
Ijarah - staff	-	41,751 (980)	40,771	-	2,581 (132)	2,449	38,322
December 31, 2009	-	963,835 (980)	962,855	-	130,554 (132)	130,422	832,433
		962,855	962,855		130,422	130,422	832,433

9.3 Net investment in ijarah

	2009				2008			
	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	641,961	290,047	9,926	941,934	627,010	914,487	8,066	1,549,563
Residual value	116,296	132,010	3,116	251,422	3,534	259,685	7,291	270,510
Minimum ijarah payments	758,257	422,057	13,042	1,193,356	630,544	1,174,172	15,357	1,820,073
Profit for future periods	101,679	59,339	990	162,008	187,767	177,450	351	365,568
Present value of minimum ijarah payments	656,578	362,718	12,052	1,031,348	442,777	996,722	15,006	1,454,505

9.4 This represents mark-up free loans to staff advanced under the bank's human resource policies.

9.5 Particulars of financing

	2009	2008
	Rupees in '000	
9.5.1 In local currency	9,439,243	7,777,483
In foreign currency	-	-
	9,439,243	7,777,483
9.5..2 Short-term	3,511,053	3,175,566
Long term	5,928,190	4,601,917
	9,439,243	7,777,483

9.6 Advances include Rs 1,213.994 million (2008: Rs 13.537 million) which have been placed under non-performing status as detailed below:

Category of classification	2009				
	Domestic	Overseas	Total	Provision required	Provision held
	Rupees in '000				
Substandard	714,966	-	714,966	65,077	65,077
Doubtful	328,931	-	328,931	104,559	104,559
Loss	170,097	-	170,097	143,751	143,751
	1,213,994	-	1,213,994	313,387	313,387

Category of classification	2008				
	Domestic	Overseas	Total	Provision required	Provision held
	Rupees in '000				
Substandard	13,537	-	13,537	2,047	2,047
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
	13,537	-	13,537	2,047	2,047

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9.7 Particulars of provision against non-performing financing

	Note	2009 Specific	2009 General	2009 Total	2008 Specific	2008 General	2008 Total
		Rupees in '000					
Opening balance		2,047	9,134	11,181	-	2,138	2,138
Charge for the year		311,340		311,340	2,047	6,996	9,043
Reversals		-	(1,552)	(1,552)	-	-	-
Closing balance	9.7.1	313,387	7,582	320,969	2,047	9,134	11,181

9.7.1 Particulars of provisions against non-performing financing

	2009 Specific	2009 General	2009 Total	2008 Specific	2008 General	2008 Total
	Rupees in '000					
In local currency	313,387	7,582	320,969	2,047	9,134	11,181
In foreign currency	-	-	-	-	-	-
	313,387	7,582	320,969	2,047	9,134	11,181

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

	2009	2008
	Rupees in '000	
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other person*		
Balance at the beginning of the year	291,913	150,783
Financing during the year	169,167	167,169
Repayments	(91,627)	(26,039)
Balance at the end of the year	369,453	291,913
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members		
Balance at beginning of the year	-	-
Financing during the year	-	-
Repayments during the year	-	-
Balance at end of the year	-	-
Debts due by associated and subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at the beginning of the year	14,198	9,259
Financing during the year	1,628	8,968
Repayments	(2,981)	(4,029)
Balance at the end of the year	12,845	14,198

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

10. OPERATING FIXED ASSETS

	Note	2009	2008
		Rupees in '000	
Capital work-in-progress	10.1	512,127	501,931
Property and equipment	10.2	1,184,922	1,065,992
Intangible assets	10.3	44,687	51,106
		1,741,736	1,619,029

10.1 Capital work-in-progress

	2009	2008
Advance against purchase of property	276,680	251,680
Advances to suppliers and contractors	235,447	250,251
	512,127	501,931

10.2 Property and equipment

2009

	COST			ACCUMULATED DEPRECIATION				
	As at January 1, 2009	Additions / (disposals) / (write offs)	As at December 31, 2009	As at January 1, 2009	Charge for the year / (reversal on disposals) / (reversal on write offs)	As at December 31, 2009	Written down value as at December 31, 2009	Rate of depreciation
	Rupees in '000							%
Leasehold land	532,600	-	532,600	-	-	-	532,600	-
Building on leasehold land	205,605	125,448 - (21,909)	309,144	12,737	16,319 - (2,284)	26,772	282,372	5%
Furniture and fixture	59,568	40,068 - (598)	99,038	5,925	9,526 - (55)	15,396	83,642	10%
Computer equipment	135,024	31,188	166,212	50,299	46,678	96,977	69,235	33%
Office equipment	124,628	62,075 - (291)	186,412	10,930	16,367 - (16)	27,281	159,131	10%
Vehicles	1,635	- (150)	1,485	557	324 (95)	786	699	20%
	1,059,060	258,779 (150) (22,798)	1,294,891	80,448	89,214 (95) (2,355)	167,212	1,127,679	
Assets held under finance lease:								
Vehicles	117,010	- (16,830)	100,180	29,630	22,168 (8,861)	42,937	57,243	20%
December 31, 2009	1,176,070	258,779 (16,980) (22,798)	1,395,071	110,078	111,382 (8,956) (2,355)	210,149	1,184,922	

2008

	COST			ACCUMULATED DEPRECIATION				
	As at January 1, 2008	Additions / (disposals) / (write offs)	As at December 31, 2008	As at January 1, 2008	Charge for the year / (reversal on disposals) / (reversal on write offs)	As at December 31, 2008	Written down value as at December 31, 2008	Rate of depreciation
	Rupees in '000							%
Leasehold land	462,600	70,000	532,600	-	-	-	532,600	-
Building on leasehold land	84,088	121,517	205,605	3,589	9,148	12,737	192,868	5%
Furniture and fixture	17,975	41,593	59,568	1,143	4,782	5,925	53,643	10%
Computer equipment	54,915	80,109	135,024	18,638	31,661	50,299	84,725	33%
Office equipment	39,103	85,545 (20)	124,628	3,183	7,759 (12)	10,930	113,698	10%
Vehicles	1,635	-	1,635	230	327	557	1,078	20%
	660,316	398,764 (20)	1,059,060	26,783	53,677 (12)	80,448	978,612	
Assets held under finance lease:								
Vehicles	70,846	58,527 (11,110) (1,253)	117,010	17,504	16,990 (4,501) (363)	29,630	87,380	20%
December 31, 2008	731,162	457,291 (11,130) (1,253)	1,176,070	44,287	70,667 (4,513) (363)	110,078	1,065,992	

10.3 Intangible assets

2009

	COST			ACCUMULATED AMORTISATION			Written down value as at December 31, 2009	Rate of amortisation
	As at January 1, 2009	Additions/ (Deletions)	As at December 31, 2009	As at January 1, 2009	Charge for the year	As at December 31, 2009		
	Rupees in '000							%
Computer software	88,769	23,993	112,762	37,663	30,412	68,075	44,687	33%

2008

	COST			ACCUMULATED AMORTISATION			Written down value as at December 31, 2008	Rate of amortisation
	As at January 1, 2008	Additions/ (Deletions)	As at December 31, 2008	As at January 1, 2008	Charge for the year	As at December 31, 2008		
	Rupees in '000							%
Computer software	43,594	45,175	88,769	12,812	24,851	37,663	51,106	33%

10.4 Details of disposals of operating fixed assets having cost of more than Rs 1,000,000 or net book value of Rs 250,000 or above

The details of disposals of operating fixed assets having cost of more than Rs 1,000,000 or net book value of Rs 250,000 or above are given below:

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees in '000					
Motor vehicles						
Disposed						
Honda City	886	517	369	369	Sold Under HR Policy	Faisal Waheed (VP)
Honda City	934	264	670	670	Sold Under HR Policy	Syed Waheed Abidi (VP)
Honda City	846	353	493	493	Sold Under HR Policy	Muhammad Khalilullah (VP)
Honda City	854	341	513	513	Sold Under HR Policy	Qamar Ul Hassan Naqvi (VP)
Honda Civic	1,043	730	313	313	Sold Under HR Policy	Sadiq Karmally (SVP)
Suzuki Cultus	576	201	375	375	Sold Under HR Policy	Masud Zahid Siddiqui (RVP)
Suzuki Cultus	560	308	252	252	Sold Under HR Policy	Qamar Jawed (RVP)
Suzuki Cultus	560	271	289	289	Sold Under HR Policy	Afaq Mujeeb (RVP)
Suzuki Cultus	590	197	393	393	Sold Under HR Policy	Mohsin Amjad (RVP)
Suzuki Cultus	560	289	271	271	Sold Under HR Policy	Masroor Hussain Rao (RVP)
Suzuki Cultus	682	202	480	480	Sold Under HR Policy	Ehsan Waqar (RVP)
Suzuki Alto	469	203	266	266	Sold Under HR Policy	Umair Hamid (AVP)
Suzuki Alto	490	106	384	384	Sold Under HR Policy	Ahmed Azhar Syed (AVP)
Suzuki Alto	558	93	465	465	Sold Under HR Policy	Farman Ali Khan (AVP)
Toyota Corolla	1,043	522	521	521	Sold Under HR Policy	Syed Hasnain Rizvi (SVP)
Honda Accord	2,410	1,907	503	503	Sold Under HR Policy	Richard Rath (EVP)
Toyota Parado	3,450	2,194	1,256	1,256	Sold Under HR Policy	Tariq Husain (President) / (CEO)
	16,511	8,698	7,813	7,813		
Items having cost of less than Rs 1,000,000 or book value of less than Rs 250,000	469	258	211	211		
2009	16,980	8,956	8,024	8,024		
2008	12,383	4,876	7,507	6,615		

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11. DEFERRED TAX ASSETS - NET

	2009	2008
	Rupees in '000	
Deferred debits arising in respect of		
Provision against non performing financings	78,179	3,913
Provision against diminution in value of investments	16,327	-
Pre-commencement expenditure	25,756	38,634
Deferred tax asset in respect of minimum tax to be carried forward and adjusted against tax liability of future years	13,622	2,427
Asset subject to ijarah under IFAS 2	7,960	-
Accumulated tax losses	492,470	359,254
	634,314	404,228
Deferred credits arising due to		
Fixed assets - leased	8,764	3,463
Tax effects of accelerated depreciation charged for tax purposes on owned assets	99,354	74,973
Tax effect of fixed assets - subject to ijarah	38,958	84,612
Tax effect of revaluation of investments classified as available for sale	599	1,844
	147,675	164,892
	486,639	239,336

11.1 Through the Finance Act, 2007 7th Schedule (the 'Schedule'), was inserted in the Income Tax Ordinance, 2001 for the taxation of banking companies. The schedule seeks to simplify the taxation of banking companies and is applicable from the tax year 2009. The Schedule did not contain transitory provisions to deal with the disallowances made upto December 31, 2007 and certain other matters including treatment relating to ijarah financing disbursed by the bank. This issue had been taken up with the tax authorities through the Pakistan Banks' Association for formulation of transitory provisions to deal with the items which were previously treated differently under the applicable provisions. During the current year, the Federal Board of Revenue (FBR) through their letter F.No 4(I)ITP/2008-49 dated December 23, 2009 has clarified that the:

- amounts provided for in the tax year 2008 and prior to the said tax year for or against irrecoverable or doubtful advances which were neither claimed nor allowed as a tax deductible in any tax year, shall be allowed in the tax year in which such advances are actually written off against such provisions, in accordance with the provisions of Section 29 and 29A of the Income Tax Ordinance 2001.

- amounts provided for in the tax year 2008 and prior to the said tax year for or against irrevocable or doubtful advances, which were neither claimed nor allowed as a tax deductible in any tax year, which were written back in the tax year 2009 and thereafter in any tax year and credited to the profit and loss account, shall be excluded in computing the total income of that tax year under Rule 1 of the Schedule.

- provisions of the Seventh Schedule shall not apply to any assets given or acquired on finance lease (or ijarah financing) by a banking company upto tax year 2008 and recognition of income and deduction in respect of such asset shall be dealt in accordance with the provisions of the Income Tax Ordinance 2001 as if this schedule has not come into force. Provided that un-absorbed depreciation in respect of such assets shall be allowed to be set-off against the said lease rental income only.

In view of the aforementioned clarification, deferred tax on timing differences relating to prior years has been retained by the bank.

12. OTHER ASSETS

	Note	2009	2008
		Rupees in '000	
Profit / return accrued in local currency		460,909	348,086
Advances, deposits and prepayments	12.1	152,732	137,197
Advance against murabaha		160,368	1,612,147
Advance against ijarah financing		31,434	577,995
Advance taxation (payments less provision)		10,107	13,490
Unrealised gain on forward foreign exchange contracts		5,804	-
Branch adjustment account		12,908	27,456
Receivable in respect of defined benefit plan	32.6	4,795	3,484
Stationery in hand		2,100	1,013
		841,157	2,720,868

12.1 This includes prepaid rent and prepaid insurance amounting to Rs 94.119 million (2008: Rs 102.231 million) and Rs 10.196 million (2008: Rs 7.609 million) respectively.

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13. CONTINGENT ASSETS

There were no contingent assets as at the balance sheet date.

14. BILLS PAYABLE

	2009	2008
	Rupees in '000	
In Pakistan	262,691	148,403
Outside Pakistan	-	-
	262,691	148,403

15. DUE TO FINANCIAL INSTITUTIONS

In Pakistan	20,000	725,000
Outside Pakistan	-	-
	20,000	725,000

15.1 Particulars of due to financial institutions with respect to currencies

In local currency	20,000	725,000
In foreign currency	-	-
	20,000	725,000

15.2 Details of due to financial institutions secured / unsecured

Unsecured		
Overdrawn nostro accounts	-	-
Wakalah borrowing	20,000	725,000
	20,000	725,000

15.3 Particulars of due to financial institutions

Short-term	20,000	725,000
Long-term	-	-
	20,000	725,000

16. DEPOSITS AND OTHER ACCOUNTS

Customers		
Fixed deposits	8,088,253	5,593,099
Savings deposits	4,684,440	2,319,177
Current accounts - non-remunerative	1,961,269	1,808,931
Margin deposits	76,571	36,691
	14,810,533	9,757,898
Financial Institutions		
Remunerative deposits	267,245	1,128,519
Non-remunerative deposits	3,464	6,185
	270,709	1,134,704
	15,081,242	10,892,602

16.1 Particulars of deposits

In local currency	14,254,987	10,197,182
In foreign currencies	826,255	695,420
	15,081,242	10,892,602

17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2009			2008		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	Rupees in '000					
Not later than one year	26,680	3,976	22,704	41,298	9,398	31,900
Later than one year but not later than five years	21,529	1,776	19,753	53,410	7,824	45,586
Later than five years	-	-	-	-	-	-
	48,209	5,752	42,457	94,708	17,222	77,486

The bank has entered into various finance lease arrangements in respect of vehicles. The profit rates used as the discounting factor range between 13% to 22%(2008: 13% to 22%) per annum.

18. OTHER LIABILITIES

	Note	2009	2008
		Rupees in '000	
Return on deposits and borrowings:			
- payable in local currency		313,190	140,784
- payable in foreign currency		668	479
Accrued expenses		77,890	5,282
Payable to Emirates Financial Holdings Limited		12	12
Payable to Emirates Global Investments Limited		1,906	1,384
Payable to Emirates International Holdings Limited		2,500	2,500
Payable to Trust Securities Brokerage Limited		439	439
Retention money		3,428	3,831
Security deposit against ijarah		380,240	270,510
Payable to charity	18.1 & 18.1.1	23,293	31,895
Unrealised loss on mark to market of forward exchange contracts		-	2,787
Others		58,878	165,154
		862,444	625,057

18.1 Payable to charity

	2009	2008
Opening balance	31,895	3,494
Amount transferred during the year	2,138	28,401
Payments / utilisation during the year	(10,740)	-
Closing balance	23,293	31,895

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

19. SHARE CAPITAL

19.1 Authorised Capital

2009	2008		2009	2008
Number of shares			Rupees in '000	
1,000,000,000	600,000,000	Ordinary shares of Rs 10 each	10,000,000	6,000,000

19.2 Issued, subscribed and paid up capital

2009	2008		2009	2008
Number of shares			Rupees in '000	
		Ordinary shares		
450,000,000	450,000,000	Fully paid in cash	4,500,000	4,500,000
-	-	Issued as bonus shares	-	-
-	-	Issued for consideration other than cash	-	-
450,000,000	450,000,000		4,500,000	4,500,000

19.3 The movement in the issued, subscribed and paid-up capital during the year is as follows:

	Number of shares	Amount Rupees in '000
Opening balance at January 1	450,000,000	4,500,000
Shares issued during the year	-	-
Closing balance at December 31	450,000,000	4,500,000

19.4 Major shareholders as at December 31, 2009 are as follows:

Name of shareholder	Number of shares held	Percentage of shareholding
Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi	157,401,500	35%
Mal Alkhaleej Investment LLC	225,000,000	50%
Emirates Financial Holding LLC	52,375,500	12%
	434,777,000	97%

19.5 Share Subscription Money

	2009	2008
	Rupees in '000	
Mal Alkhaleej Investment LLC	657	657
	657	657

This represents the exchange difference which arose on translation of the share subscription money received in foreign currency from Mal Al Khaleej Investment LLC in respect of right shares issued during the year ended December 31, 2008 This amount will be utilised in any future issue of right shares.

	Note	2009	2008
		Rupees in '000	
20. CONTINGENCIES AND COMMITMENTS			
20.1 Transaction-related contingent liabilities			
Guarantees		3,023,981	504,957
20.2 Trade-related contingent liabilities			
Letters of credit		566,527	259,694
Acceptances		199,679	85,747
20.3 Commitments in respect of forward exchange contracts			
Purchase		2,025,532	1,303,054
Sale		1,998,765	628,971
20.4 Commitments for the acquisition of operating fixed assets			
Commitments in respect of purchase of property		281,728	281,728
Commitments in respect of construction of new premises		2,046	-
20.5 Commitments for lease liability			
Commitments in repect of ujrah payments under ijarah are:			
- not later than one year		19,163	-
- later than one year and not later than five years		44,532	-
- later than five years		-	-
		63,695	-
20.6 Commitments in respect of purchase of investments		498,732	-
21. PROFIT / RETURN EARNED ON FINANCINGS, INVESTMENTS AND PLACEMENTS			
On financing to			
- Customers		1,263,486	719,612
- Employees		11,285	6,484
On investments in			
- Available for sale securities		404,092	299,977
On deposits with banks		12,371	16,038
On placements against commodity murabaha		220,904	18,135
On wakalah transactions		2,090	130
		1,914,228	1,060,378

21.1 This includes return on ijarah assets under IFAS 2 as follows:

	Note	2009	2008
Rental income on ijarah assets		138,406	-
Less: Depreciation on ijarah assets	9.2	(130,554)	-
		7,852	-

	Note	2009	2008
		Rupees in '000	
22. RETURN ON DEPOSITS AND OTHER DUES EXPENSED			
Return on deposits and other accounts		1,164,335	530,619
Return on other short term borrowings		70,555	67,443
		1,234,890	598,062
23. CAPITAL (LOSS) / GAIN ON SALE OF SECURITIES			
(Loss) / gain on sale of sukuk certificates		(3,568)	1,416
Gain on sale of shares - listed		690	46
		(2,878)	1,462
24. OTHER INCOME			
Rent on property / lockers		2,005	1,142
Recovery income		4,655	1,490
Financial advisory fee		130,967	43,839
Others		7,823	2,184
		145,450	48,655
25. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other staff benefits		472,666	338,334
Contribution to defined contribution plan		21,913	14,539
Charge for defined benefit plan	32.7	16,898	14,064
Rent, taxes, insurance, electricity, etc.		259,377	170,661
Legal and professional charges	25.1	33,273	30,271
License fee		25,425	13,210
Communication		59,596	35,606
Brokerage and commission		78,277	48,018
Traveling and conveyance		47,418	38,871
Repairs and maintenance		26,954	10,412
Training and development		4,710	3,421
Stationery and printing		23,558	18,259
Advertisement and publicity		111,398	68,993
Auditors' remuneration	25.2	1,450	1,242
Depreciation	10.2	111,382	70,667
Amortisation	10.3	30,412	24,851
Security charges		37,928	19,042
Newspaper and periodicals		2,124	1,296
Financial charges on leased assets		15,481	8,100
Entertainment		13,673	10,966
Bank charges		2,378	1,139
Miscellaneous expenses		14,278	7,672
		1,410,569	949,634

25.1 It includes Shariah advisory fee amounting to Rs 3.770 million (2008: Rs 2.955 million).

	2009	2008
	Rupees in '000	
25.2 Auditors' remuneration		
Audit fee	745	600
Half yearly review fee	350	250
Fee for audit of employees' funds	-	-
Special certifications	300	200
Out-of-pocket expenses	55	192
	1,450	1,242
26. OTHER CHARGES		
Penalties imposed by the State Bank of Pakistan	3,958	965

27. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

	Note	2009	2008
		Rupees in '000	
Surplus on revaluation of available for sale securities:			
Ordinary shares - listed		5,987	18,442
Related deferred tax liability		(599)	(1,844)
		5,388	16,598

28. TAXATION

	Note	2009	2008
For the year			
Current	28.1	(11,191)	-
Deferred		246,060	131,247
		234,869	131,247
For prior year			
Current		-	-
Deferred		-	-
		-	-
		234,869	131,247

28.1 This represents minimum tax as per the requirements of section 113 of the Income Tax Ordinance, 2001.

28.2 Relationship between tax expense and accounting profit

	2009	2008
	Rupees in '000	
Loss before taxation for the year	(798,882)	(391,363)
Tax at the applicable tax rate of 35 percent	(279,609)	(136,977)
Tax effect of differential in tax rates	-	-
Tax effect of permanent differences	1,385	10,278
Others	43,355	(4,548)
	(234,869)	(131,247)

29. LOSS PER SHARE

	2009	2008
Loss after taxation for the year	(564,013)	(260,116)
	2009	**2008**
	Number of shares	
Weighted average number of ordinary shares	450,000,000	435,116,049
	Rupees	
Loss per share	(1.25)	(0.60)

29.1 There were no convertible dilutive potential ordinary shares in issue as at December 31, 2008 and 2009.

30. CASH AND CASH EQUIVALENTS

	Note	2009	2008
		Rupees in '000	
Cash and balances with treasury banks	5	1,337,892	909,378
Balances with other banks	6	959,078	195,134
		2,296,970	1,104,512

31. STAFF STRENGTH

	2009	2008
	Number	
Permanent	579	486
Temporary / on contractual basis	5	4
Consultants	9	9
Bank's own staff strength at the end of the year	593	499
Outsourced	274	200
Total Staff Strength	867	699

32. DEFINED BENEFIT PLAN

32.1 General description

As mentioned in note 4.9 the bank operates funded gratuity scheme for all its permanent employees. The benefits under the gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service, in lump sum. The benefit is equal to one month's last drawn basic salary for each completed year of service, subject to a minimum of three years of service.

32.2 Principal actuarial assumptions

The latest actuarial valuation was carried out as at December 31, 2009 using the "Projected Unit Credit Actuarial Cost Method". The main assumptions used for actuarial valuation were as follows:

	2009	2008
	Per annum	
- Discount rate	13%	15%
- Expected rate of increase in salaries	13%	15%
- Expected rate of return on plan assets	13%	15%

	2009	2008
32.3 Reconciliation of (receivable) / payable to defined benefit plan	Rupees in '000	
Present value of defined benefit obligations	38,902	22,857
Fair value of plan assets	(46,580)	(23,855)
Net actuarial (losses) / gains not recognised	2,883	(2,486)
	(4,795)	(3,484)

32.4 Movement in defined benefit obligation

Obligation at the beginning of the year	22,857	8,841
Current service cost	17,040	12,594
Interest cost	3,429	884
Past service cost	-	-
Benefits paid	(1,608)	-
Actuarial (gain)/ loss on obligation	(2,816)	538
Obligation at the end of the year	38,902	22,857

32.5 Movement in fair value of plan assets

Fair value at the beginning of the year	23,855	10,167
Expected return on plan assets	3,578	1,017
Contribution to the scheme	18,209	14,400
Benefits paid	(1,608)	-
Actuarial gain / (loss) on plan assets	2,546	(1,729)
Fair value at the end of the year	46,580	23,855

32.6 Movement in (receivable) / payable to defined benefit plan

Opening balance	(3,484)	(3,148)
Charge for the year	16,898	14,064
Bank's contribution to the fund made during the year	(18,209)	(14,400)
Closing balance	(4,795)	(3,484)

32.7 Charge for defined benefit plan

Current service cost	17,040	12,594
Interest cost	3,429	884
Expected return on plan assets	(3,578)	(1,017)
Past service cost	-	1,603
Net actuarial (gain) / loss recognised	7	-
	16,898	14,064

32.8 Actual return on plan assets

Expected return on plan assets	3,578	1,017
Actuarial gain / (loss) on plan assets	2,546	(1,729)
	6,124	(712)

32.9 Historical information

	2009	2008	2007
	Rupees in '000		
Defined benefit obligation	38,902	22,857	8,841
Fair value of plan assets	46,580	23,855	10,167
Surplus / (deficit)	(7,678)	(998)	(1,326)
Experience adjustments on plan liabilities	2,816	(538)	(157)
Experience adjustments on plan assets	2,516	(1,729)	(62)

32.10 Components of plan assets as a percentage of total plan assets

	2009 Rupees in '000	%	2008 Rupees in '000	%
Pakistan Investment Bonds	39,007	84%	-	0%
Bank balances	7,573	16%	23,855	100%
	46,580		23,855	

Based on the recommendation of the actuary the bank intends to charge an amount of Rs 17.718 million in the financial statements for the year ending December 31, 2009.

33. DEFINED CONTRIBUTION PLAN

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

	2009	2008
	Rupees in '000	
Contribution from the bank	21,913	14,539
Contribution from the employee	21,913	14,539
	43,826	29,078

34. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2009	2008	2009	2008	2009	2008
	Rupees in '000					
Managerial remuneration	20,277	13,242	-	-	131,233	79,518
Charge for defined benefit plan	1,690	1,457			9,132	6,627
Contribution to defined contribution plan	2,028	1,748	-	-	10,495	6,962
Rent and house maintenance	6,083	3,973	-	-	35,427	23,865
Utilities allowance	2,028	1,324	-	-	11,809	7,952
Medical allowance	2,028	1,324	-	-	11,809	7,941
Bonus	-	1,457	-	-	9,438	17,880
Conveyance	-	461	-	-	446	14,369
Others	-	-	2,662	-	1,558	-
	34,134	24,986	2,662	-	221,347	165,114
Number of persons	1	1	6	6	127	110

In addition to the above, the bank also provides cars to executives for their own use.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 4.3 to these financial statements.

The repricing profile, effective rates and maturity are stated in note 40.4 to these financial statements.

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

35.2 Off - balance sheet financial instruments

	2009		2008	
	Book value	Fair value	Book value	Fair value
	Rupees in '000			
Forward purchase of foreign exchange	2,025,532	2,023,538	1,303,054	1,291,902
Forward agreement for borrowing	-	-	-	-
Forward sale of foreign exchange	1,998,765	1,990,967	628,971	620,606
Forward agreement for lending	-	-	-	-

36. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	For the year ended December 31, 2009			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	Rupees in '000			
Total income	130,968	737,523	96,710	1,250,882
Total expenses	6,911	110,464	1,251,266	1,646,324
Net income / (loss)	124,057	627,059	(1,154,556)	(395,442)
Segment return on assets (ROA) (%)	36.03%	14.41%	16.75%	13.97%
Segment cost of funds (%)	0.00%	7.82%	7.51%	10.34%

	As at December 31, 2009			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	Rupees in '000			
Segment assets (gross of provisions)	344,353	6,029,273	2,415,579	11,340,863
Segment non performing loans (NPL)	-	-	79,798	1,134,196
Segment provision required against NPL	-	-	23,451	297,518
Segment liabilities	1,937	28,622	5,686,673	10,551,602

	For the year ended December 31, 2008			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	Rupees in '000			
Total income	43,839	340,960	72,814	697,874
Total expenses	9,575	95,897	752,566	688,812
Net income / (loss)	34,264	245,063	(679,752)	9,062
Segment return on assets (ROA) (%)	4.96%	14.11%	14.73%	15.08%
Segment cost of funds (%)	0%	8.16%	6.42%	10.24%

	As at December 31, 2008			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	Rupees in '000			
Segment assets (gross of provisions)	38,992	3,517,796	2,018,964	10,985,237
Segment non performing loans (NPL)	-	-	3,100	10,437
Segment provision required against NPL	-	-	775	10,406
Segment liabilities	2,658	752,974	4,354,380	7,358,556

37. TRUST ACTIVITIES

The bank is not engaged in any significant trust activities. However, the bank acts as security agent for some of the sukuk issues and Syndicate Islamic Structured Finances that the bank had arranged and / or distributes on behalf of its customers.

38. RELATED PARTY TRANSACTIONS

38.1 The bank has related party relationship with its associated undertaking (refer note 8.4), employee benefit plan (refer note 32) and its directors and key management personnel.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the bank.

Contributions to and accruals in respect of staff retirement benefit plan are made in accordance with the actuarial valuations / terms of the contribution plan (refer note 32 to these financial statements for the details of the plan).

Remuneration to the executives, disclosed in note 34 to these financial statements are determined in accordance with the terms of their appointment.

38.2 Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	Total		Associates		Key management personnel	
	2009	2008	2009	2008	2009	2008
	Rupees in '000					
Subscription money						
At January 1,	657	1,007,855	657	994,755	-	13,100
Received during the year	-	492,802	-	492,802	-	-
Refund during the year	-		-	-	-	-
Allotment of shares	-	(1,500,000)	-	(1,486,900)	-	(13,100)
At December 31,	657	657	657	657	-	-
Financings						
At January 1,	128,446	107,587	14,198	9,259	114,248	98,328
Disbursed during year	24,915	58,984	1,628	8,968	23,287	50,633
Repaid during the year	(44,647)	(38,126)	(2,981)	(4,029)	(41,666)	(34,713)
At December 31,	108,714	128,445	12,845	14,198	95,869	114,248
Deposits						
At January 1,	123,136	72,328	93,837	51,131	29,299	21,197
Disbursed during year	1,315,028	868,657	1,169,586	616,367	145,442	252,290
Repaid during the year	(1,192,251)	(817,849)	(1,037,737)	(573,661)	(154,514)	(244,188)
At December 31,	245,913	123,136	225,686	93,837	20,227	29,299
Other payable						
At January 1,	4,335	32,420	4,335	32,420	-	-
Disbursed during year	3,776	4,632	3,776	4,632	-	-
Repaid during the year	(3,254)	(32,717)	(3,254)	(32,717)	-	-
At December 31,	4,857	4,335	4,857	4,335	-	-
Other Balances						
Profit receivable on financing	7,465	343	2,699	110	4,766	233
Investments	52,200	52,200	52,200	52,200	-	-
Provision for diminution in value of investment	21,649	12,428	21,649	12,428	-	-
Return payable on deposit	2,716	1,409	95	1,346	2,621	63
Transactions, income and expenses						
Profit earned on financing	5,762	4,291	261	1,957	5,501	2,334
Return on deposits expenses	12,708	3,812	620	3,352	12,088	460
Salaries and allowances	55,162	76,502	-	-	55,162	76,502
Contribution to defined contribution plan	21,913	14,539	-	-	21,913	14,539
Contribution for defined benefit plan	18,209	14,400	-	-	18,209	14,400

39. CAPITAL ADEQUACY

39.1 Capital Management

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

Goals of managing capital

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

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

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 7 dated April 15, 2009 requires the minimum paid up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs 10 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs 6 billion paid up capital (net of losses) by the end of the financial year 2009. The Bank's paid-up capital as at December 31, 2009 amounted to Rs 4.5 billion while its accumulated losses aggregated to Rs 1.012 billion (including Rs 0.564 billion incurred during the current year. Consequently the net equity of the bank as at December 31, 2009 has depleted to Rs 3.488 billion.

In this connection, the bank has applied to the State Bank of Pakistan to grant the bank an extension upto March 31, 2010 for meeting the capital requirement (net of accumulated losses) of Rs 6 billion. The management of the bank is confident that the capital requirement will be met through merger with another banking company. The bank is currently in the process of conducting due diligence of certain banking companies for their proposed merger with the bank.

Bank's regulatory capital analysed into two tiers

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

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

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 7 dated April 15, 2009. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

The required capital adequacy ratio (10 percent of the risk-weighted assets) is achieved by the bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk and market risk.

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

39.2 Capital adequacy ratio

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy using Basel 2 standardised approach is presented below.

Regulatory capital base		2009	2008
		(Rupees in '000)	
Tier I capital			
Share capital		4,500,000	4,500,000
Share subscription money		657	657
Reserves		-	-
Accumlated loss		(1,012,429)	(448,416)
Less: Goodwill, investment in commercial entities (50%)etc.		44,687	51,106
Calculation difference (expected losses vs eligible provisions)		-	-
Total Tier I Capital		3,443,541	4,001,135
Tier II Capital			
Subordinated Debt (upto 50% of total Tier 1 Capital)		-	-
General provisions subject to 1.25% of total risk weighted assets		7,582	9,134
Revaluation reserve (upto 45%)		2,694	8,299
Less: Calculation difference (expected losses vs eligible provisions)		-	-
Investment in commercial entities (50%)*		-	-
Total Tier II capital		10,276	17,433
Eligible Tier III capital		-	-
Total regulatory capital	(a)	3,453,817	4,018,568

Risk-weighted exposures	2009		2008	
	Capital Requirement	Risk adjusted value	Capital Requirement	Risk adjusted value
Credit risk	Rupees in '000		Rupees in '000	
Portfolios subject to standardized approach (Simple Approach)				
On-Balance Sheet Items:				
Sovereign and Central Banks	208	2,604	-	-
Public Sector Entities (PSEs)	13,774	172,174	4,281	53,517
Banks and Securities Firms	17,730	221,622	3,539	44,240
Corporates Portfolio	554,775	6,934,684	698,321	8,729,012
Retail Non Mortgages	2,332	29,146	9,432	117,895
Mortgages – Residential	17,252	215,652	19,924	249,052
Securitized Assets	-	-	-	-
Equities	8,301	103,768	-	-
Unlisted	3,666	45,826	4,773	59,658
Fixed Assets	135,762	1,697,027	125,434	1,567,923
Other Assets	106,224	1,327,796	61,605	770,062
Past Due Exposures	45,237	565,462	1,298	16,220
Off balance sheet items:				
Non-Market Related:				
Direct credit substitutes	50,564	632,048	38,106	476,321
Performance-related contingencies	-	-	-	-
Trade-related contingencies	6,284	78,551	4,673	58,418
Lending of securities or posting of securities as collateral			-	-
Other commitments			-	

Risk-weighted exposures	Note	2009		2008	
		Capital Requirement	Risk adjusted value	Capital Requirement	Risk adjusted value
Market related:		Rupees in '000		Rupees in '000	
Outstanding Interest rate contracts		-	-	-	-
Outstanding Foreign Exchange Contracts		1,202	15,019	583	7,282
Portfolios subject to Internal Rating Based (IRB) Approach					
e.g. Corporate, Sovereign, Retail, Securitization etc.	N/A				
Equity Exposure Risk in the Banking Book					
Equity portfolio subject to market-based approaches					
Under simple risk weight method	N/A				
Under Internal models approach					
Equity portfolio subject to PD / LGD					
Market Risk					
Capital Requirement for portfolios subject to Standardized Approach					
Interest rate risk		765	9,563	488	6,100
Equity position risk				-	-
Foreign Exchange Risk		25,643	320,538	15,159	189,488
Position in Options					-
Capital Requirement for portfolios subject to Internal Models Approach					
Interest rate risk	N/A				
Foreign exchange risk etc.					
Operational Risk					
Capital Requirement for operational risks		92,710	1,158,875	63,956	799,450
TOTAL	(b)	1,082,429	13,530,354	1,051,572	13,144,638

Capital Adequacy Ratio

	Note	2009	2008
Total eligible regulatory capital held	(a)	3,453,817	4,018,568
Total Risk Weighted Assets	(b)	13,530,354	13,144,638
Capital Adequacy Ratio	(a / b)	25.53%	30.57%

The amount of cash margins, deposits and lien on deposits held against guarantees, performance bonds, acceptances and standby letter of credit aggregating Rs. 2,621.498 (2008: Rs 38.335 million) million has been deducted.

40 RISK MANAGEMENT

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

- Credit risk is the risk of loss resulting from client or counterparty default.
- Market risk is exposure to market variables such as interest rates, exchange rates and equity indices.

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

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

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

Risk management principles

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

Risk management organisation

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

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

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

Name of the committee	Chaired by
Credit committee	President & CEO
Asset and liability management committee (ALCO)	President & CEO
Audit committee	Non executive director

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

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

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

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

40.1 Credit Risk

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

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

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

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

The bank classifies a claim as impaired if it considers it likely that it will suffer a loss on that claim as a result of the obligor's inability to meet its commitments (including profit payments, principal repayments or other payments due) after realisation of any available collateral. Allowances or provisions are determined in accordance with the requirements of the SBP. The authority to establish allowances, provisions and credit valuation adjustments for impaired claims, is vested in Credit Operations Department and is according to the SBP regulations. Details are given in note 9 to these financial statements.

40.1.1 Segmental information

40.1.1.1 Segments by class of business

	2009					
	Financing (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	-	0.00%	1,304,935	8.65%	-	0.00%
Mining and quarrying	156,957	1.61%	58,611	0.38%	75,358	0.87%
Textile	849,919	8.70%	52,986	0.35%	82,750	0.96%
Chemical and pharmaceuticals	790,238	8.10%	24,254	0.16%	116,441	1.34%
Metal industries	110,750	1.13%	1,351	0.01%	19,637	0.23%
Printing and stationery	300,000	3.07%	9,489	0.06%	-	0.00%
Manufacturing	770,349	7.89%	145,216	0.96%	352,517	4.07%
Cement	-	0.00%	285	0.00%	2,500	0.03%
Sugar	966,287	9.90%	40,267	0.27%	-	0.00%
Footwear and leather garments	-	0.00%	17,623	0.12%	-	0.00%
Automobile and transportation equipment	-	0.00%	-	0.00%	-	0.00%
Electronics and electrical appliances	-	0.00%	5,291	0.04%	-	0.00%
Construction	1,597,747	16.37%	264,281	1.75%	578,817	6.68%
Power (electricity), gas, water, sanitary	744,926	7.63%	1,442	0.01%	2,617,872	30.23%
Wholesale and retail trade	1,204,046	12.34%	107,298	0.71%	-	0.00%
Exports / imports	251,208	2.57%	296,175	1.96%	208,525	2.41%
Transport, storage and communication	122,743	1.26%	107,108	0.71%	68,345	0.79%
Financial	219,047	2.24%	270,709	1.80%	4,523,028	52.22%
Insurance	-	0.00%	-	0.00%	-	0.00%
Services	32,447	0.33%	1,482,397	9.83%	7,495	0.08%
Individuals	101,017	1.03%	5,398,808	35.80%	-	0.00%
Staff	366,913	3.76%	-	0.00%	-	0.00%
Others	1,176,617	12.07%	5,494,516	36.43%	7,400	0.08%
	9,760,212	100.00%	15,081,242	100.00%	8,660,685	100.00%

	2008					
	Financing (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	-	0.00%	712,011	6.54%	-	0.00%
Mining and quarrying	219,338	2.82%	332,695	3.05%	170,800	5.57%
Textile	846,199	10.86%	198,555	1.82%	69,723	2.28%
Chemical and pharmaceuticals	758,089	9.73%	57,425	0.53%	97,887	3.19%
Metal industries	80,134	1.03%	1,942	0.02%	18,810	0.61%
Printing and stationery	300,000	3.85%	120,437	1.11%	-	0.00%
Manufacturing	797,456	10.24%	59,578	0.55%	162,042	5.29%
Cement	-	0.00%	845	0.01%	2,500	0.08%
Sugar	316,747	4.07%	41,571	0.38%	-	0.00%
Footwear and leather garments	-	0.00%	9,759	0.09%	-	0.00%
Automobile and transportation equipment	-	0.00%		0.00%	-	0.00%
Electronics and electrical appliances	-	0.00%	44,399	0.41%	-	0.00%
Construction	1,279,774	16.43%	781,047	7.17%	38,546	1.26%
Power (electricity), gas, water, sanitary	5,365	0.07%	-	0.00%	-	0.00%
Wholesale and retail trade	131,834	1.69%	65,390	0.60%	-	0.00%
Exports / imports	787,350	10.11%	120,972	1.11%	3,294	0.11%
Transport, storage and communication	288,821	3.71%	384,376	3.53%	11,000	0.36%
Financial	460,361	5.91%	1,134,704	10.42%	1,932,025	63.05%
Insurance	-	0.00%	-	0.00%	-	0.00%
Services	453,998	5.83%	3,197,856	29.36%	75,796	2.47%
Individuals	519,082	6.66%	1,596,702	14.66%	-	0.00%
Staff	270,636	3.47%	1,048,248	9.62%	-	0.00%
Others	273,476	3.52%	984,090	9.02%	481,728	15.73%
	7,788,664	100.00%	10,892,602	100.00%	3,064,151	100.00%

40.1.1.2 Segment by sector

	2009					
	Financing		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / government	1,166,700	11.95%	1,952,219	12.94%	-	0.00%
Private	8,593,512	88.05%	13,129,023	87.06%	8,660,685	100.00%
	9,760,212	100.00%	15,081,242	100.00%	8,660,685	100.00%

	2008					
	Financing		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / government	-	0.00%	2,171,562	19.94%	-	0.00%
Private	7,788,664	100.00%	8,721,040	80.06%	3,064,151	100.00%
	7,788,664	100.00%	10,892,602	100.00%	3,064,151	100.00%

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

	2009		2008	
	Classified Financing	Specific Provisions Held	Classified Financing	Specific Provisions Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	-	-	-	-
Mining and quarrying	109,574	26,141	-	-
Chemical & pharmaceuticals	-	-	-	-
Cement	-	-	-	-
Textile	168,591	133,088	-	-
Sugar	-	-	-	-
Footwear & leather garments	-	-	-	-
Automobile & transportation equipment	-	-	-	-
Electronics and electrical appliances	-	-	-	-
Construction	242,602	39,651	-	-
Wholesale / retail trade	-	-	-	-
Exports / imports	114,864	22,901	-	-
Transport, storage and communication	-	-	-	-
Financial	-	-	-	-
Insurance	-	-	-	-
Services	43,568	16,006	3,100	775
Individuals	79,798	23,450	10,437	1,272
Others	454,997	52,150	-	-
	1,213,994	313,387	13,537	2,047

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

	2009		2008	
	Classified Financing	Specific Provisions Held	Classified Financing	Specific Provisions Held
	(Rupees in '000)			
Public / government	-	-	-	-
Private	1,213,994	313,387	13,537	2,047
	1,213,994	313,387	13,537	2,047

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40.1.1.5 Geographical segment analysis

	2009			
	Profit / (Loss) before taxation	Total assets employed	Net assets employed	Contingencies and Commit-
	Rupees in '000			
Pakistan	(798,882)	19,762,450	3,493,616	8,660,685
Others	-	-	-	-
	(798,882)	19,762,450	3,493,616	8,660,685

	2008			
	Profit / (Loss) before taxation	Total assets employed	Net assets employed	Contingencies and Commit-
	Rupees in '000			
Pakistan	(391,363)	16,537,387	4,068,839	3,064,151
Others	-	-	-	-
	(391,363)	16,537,387	4,068,839	3,064,151

40.2 Credit Risk – General Disclosures, Basel II Specific

The bank has adopted Standardised Approach, under Basel II. According to the regulatory statement submitted under the Standardised Approach, the financing portfolio has been divided into claims on corporate and claims categorised as retail portfolio. Claims on corporate constitute 99.58% of the total financing exposure and the remaining 0.42% exposure pertains to claims categorised as retail portfolio.

40.3 Credit Risk: Standardized Approach

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

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

Exposure	Moody's	S&P	JCR-VIS	PACRA	Fitch
Corporate	-	✓	✓	✓	-
Banks	-	✓	✓	✓	✓
Sovereigns	✓	-	-	-	-
SME's	-	-	-	-	-
Securitisations	-	-	-	-	-

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

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

Exposure	Rating category	Amount outstanding	Deduction CRM*	Net Amount
		Rupees in '000		
Corporate	1-4	2,094,722	708,401	1,386,321
Banks	1-4	446,028	-	446,028
Soverigns	1	93,512	-	93,512
Public sector entities	2,3	344,348	-	344,348
Unrated (others)	unrated	13,932,657	2,328,571	11,604,086
Total		16,911,267	3,036,972	13,874,295

* CRM= Credit Risk Mitigation

Main types of collateral taken by the bank are:

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

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

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

40.4 Market risk

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

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

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

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

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

40.4.2 Foreign Exchange Risk

	2009				2008			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000							
Pakistan rupee	18,647,122	15,441,910	(26,767)	3,178,445	16,318,782	11,772,634	(674,084)	3,872,064
United States dollar	907,469	581,134	(93,979)	232,356	134,439	412,264	477,186	199,341
Great Britain pound	38,748	41,117	388	(1,981)	21,364	56,532	31,578	(3,590)
Euro	102,576	154,837	120,358	68,097	40,552	134,127	94,221	646
AED	66,448	49,836	-	16,612	22,250	92,971	71,099	378
JPY	67	-	-	87				
	19,762,450	16,268,834	-	3,493,616	16,537,387	12,468,548	-	4,068,839

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

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

40.4.3 Equity position risk

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

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

40.4.4 Mismatch of interest rate sensitive assets and liabilities

		2009										
			Exposed to Yield/ Interest rate risk									
	Effective yield	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0%	1,337,892	-	-	-	-	-	-	-	-	-	1,337,892
Balances with other banks	5% - 15.5%	959,078	35,773	-	-	-	-	-	-	-	-	923,305
Due from financial institutions	10% - 14.25%	1,600,000	300,000	-	1,300,000	-	-	-	-	-	-	-
Investments	16% - 19%	3,356,705	-	-	-	-	95,449	201,370	2,914,029	-	5,551	140,306
Financings	3% - 20 %	9,439,243	1,331,263	1,624,624	2,363,360	810,262	1,080,528	579,437	307,320	205,589	194,630	942,330
Other assets		663,310	7,500	453,409	-	-	-	-	-	-	-	202,401
		17,356,228	1,674,536	2,077,933	3,663,360	810,262	1,175,977	780,807	3,221,349	205,589	200,181	3,546,234
Liabilities												
Bills payable		262,691	-	-	-	-	-	-	-	-	-	262,691
Due to financial institutions	8% - 12%	20,000	20,000	-	-	-	-	-	-	-	-	-
Deposits and other accounts	5% - 13%	15,081,242	6,003,607	2,084,141	2,169,950	1,495,440	80,917	255,601	940,282	-	-	2,041,304
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	13% - 22%	42,457	1,892	3,784	5,676	11,352	9,877	9,876	-	-	-	-
Other liabilities		805,041	23,483	-	-	-	-	-	-	-	-	781,558
		16,211,431	6,048,982	2,097,925	2,175,626	1,506,792	90,794	265,477	940,282	-	-	3,085,553
On-balance sheet gap		1,144,797	(4,374,446)	(19,992)	1,487,734	(696,530)	1,085,183	515,330	2,281,067	205,589	200,181	460,681
Non financial assets												
Operating fixed assets		1,741,736										
Other assets		177,847										
Deferred tax asset - net		486,639										
		2,406,222										
Non financial liabilities												
Other liabilities		57,403										
Total net assets		3,493,616										
Off-balance sheet financial instruments												
Forward Lending		-	-	-	-	-	-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total yield/profit risk sensitivity gap			(4,374,446)	(19,992)	1,487,734	(696,530)	1,085,183	515,330	2,281,067	205,589	200,181	460,681
Cumulative yield/profit risk sensitivity gap			(4,374,446)	(4,394,438)	(2,906,704)	(3,603,234)	(2,518,051)	(2,002,721)	278,346	483,935	684,116	1,144,797

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

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

	Effective yield	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-profit bearing financial instruments
		2008	Exposed to Yield/ Interest rate risk									
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.00%	909,378	-	-	-	-	-	-	-	-	-	909,378
Balances with other banks	4.63% - 13.50%	195,134	-	-	168,928	-	-	-	-	-	-	26,206
Due from financial institutions	9.50% - 25%	320,000	-	320,000	-	-	-	-	-	-	-	-
Investments	10.34% - 18.39%	2,756,159	-	-	-	-	-	211,461	224,185	2,158,531	-	161,982
Financing	3% - 20 %	7,777,463	1,966,129	1,317,438	777,339	425,541	1,066,487	1,004,125	617,720	233,107	352,390	17,207
Other assets		2,548,020	-	-	-	-	-	-	-	-	-	2,548,020
		14,506,174	1,966,129	1,637,438	946,267	425,541	1,066,487	1,215,586	841,905	2,391,638	352,390	3,662,793
Liabilities												
Bills payable		148,403	-	-	-	-	-	-	-	-	-	148,403
Due to financial institutions		725,000	425,000	300,000	-	-	-	-	-	-	-	-
Deposits and other accounts	5% - 13%	10,892,602	2,980,688	1,810,131	918,891	770,765	3,500	173,606	2,383,314	-	-	1,851,807
Sub-ordinated loans		-										-
Liabilities against assets subject to finance lease	13% - 22%	77,486	2,601	5,202	7,803	15,606	31,213	15,061	-	-	-	-
Other liabilities		323,538	-	-	-	-	-	-	-	-	-	323,538
		12,167,029	3,408,289	2,115,333	926,694	786,371	34,713	188,567	2,383,314	-	-	2,323,748
On-balance sheet gap		2,339,145	(1,442,160)	(477,895)	19,573	(360,830)	1,031,774	1,027,019	(1,541,409)	2,391,638	352,390	1,339,045
Non financial assets												
Operating fixed assets		1,619,029										
Other assets		172,848										
Deferred tax asset - net		239,336										
		2,031,213										
Non financial liabilities												
Other liabilities		301,519										
Total net assets		4,068,839										
Off-balance sheet financial instruments												
Forward Lending		-	-	-	-	-	-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield / Profit Risk Sensitivity Gap			(1,442,160)	1,712,247	19,573	(360,830)	1,031,774	1,027,019	(1,541,409)	2,391,638	352,390	(851,097)
Cumulative Yield / Profit Risk Sensitivity Gap			(1,442,160)	270,087	289,660	(71,170)	960,604	1,987,623	446,214	2,837,852	3,190,242	2,339,145

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

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

40.5 Liquidity Risk

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

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

40.5.1 Maturities of assets and liabilities

	2009									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	Rupees									
Assets										
Cash and balances with treasury banks	1,337,892	1,337,892	-	-	-	-	-	-	-	-
Balances with other banks	959,078	959,078	-	-	-	-	-	-	-	-
Due from financial Institutions	1,600,000	300,000	-	1,300,000	-	-	-	-	-	-
Investments	3,356,705	-	-	-	-	235,755	201,370	2,914,029	-	5,551
Financings	9,439,243	1,653,475	1,723,805	2,495,782	904,703	1,243,664	666,910	312,961	222,548	215,395
Operating fixed assets	1,741,736	7,243	14,485	21,728	67,242	110,699	388,650	146,247	309,356	676,086
Deferred tax assets - net	486,639	-	-	-	-	-	-	486,639	-	-
Other assets	841,157	225,288	479,564	45,037	86,473	-	4,795	-	-	-
	19,762,450	4,482,976	2,217,654	3,862,547	1,058,418	1,590,118	1,261,725	3,859,876	531,904	897,032
Liabilities										
Bills payable	262,691	262,691	-	-	-	-	-	-	-	-
Due to financial Institutions	20,000	20,000	-	-	-	-	-	-	-	-
Deposits and other accounts	15,081,242	8,044,911	2,094,141	2,169,950	1,495,440	80,917	255,601	940,282	-	-
Liabilities against assets subject to finance lease	42,457	1,892	3,784	5,676	11,352	9,877	9,876	-	-	-
Other liabilities	862,444	115,835	13,174	65,706	375,266	-	165,585	126,878	-	-
	16,268,834	8,445,329	2,111,099	2,241,332	1,882,058	90,794	431,062	1,067,160	-	-
Net assets	3,493,616	(3,962,353)	106,755	1,621,215	(823,640)	1,499,324	830,663	2,792,716	531,904	897,032
Share capital	4,500,000									
Share subscription money	657									
Unappropriated Loss	(1,012,429)									
Surplus/(Deficit) on revaluation of assets	5,388									
	3,493,616									

	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
	2008									
	Rupees									
Assets										
Cash and balances with treasury banks	909,378	909,378	-	-	-	-	-	-	-	-
Balances with other banks	195,134	195,134	-	-	-	-	-	-	-	-
Due from financial institutions	320,000	-	320,000	-	-	-	-	-	-	-
Investments	2,756,159	-	122,210	-	-	-	211,461	263,957	2,158,531	-
Financing	7,777,483	1,967,953	1,320,495	761,572	431,397	1,068,756	1,004,125	617,720	233,107	352,358
Operating fixed assets	1,619,029	257,659	14,816	22,223	44,447	88,893	340,573	89,496	131,887	629,035
Deferred tax assets - net	239,336	-	-	-	-	-	-	239,336	-	-
Other assets	2,720,868	380,760	2,203,351	16,451	31,782	86,524	-	-	-	-
	16,537,387	3,710,884	3,980,872	822,246	507,626	1,244,173	1,556,159	1,210,509	2,523,525	981,393
Liabilities										
Bills payable	148,403	148,403	-	-	-	-	-	-	-	-
Due to financial institutions	725,000	425,000	300,000	-	-	-	-	-	-	-
Deposits and other accounts	10,892,602	4,832,495	1,810,131	918,891	770,765	3,500	173,506	2,383,314	-	-
Liabilities against assets subject to finance lease	77,486	2,601	5,202	7,803	15,606	31,213	15,061	-	-	-
Other liabilities	625,057	287,200	130	34,158	26,970	276,599	-	-	-	-
	12,468,548	5,695,699	2,115,463	960,852	813,341	311,312	188,567	2,383,314	-	-
Net assets	4,068,839	(1,984,815)	1,865,409	(138,606)	(305,715)	932,861	1,367,592	(1,172,805)	2,523,525	981,393
Share capital	4,500,000									
Share subscription money	657									
Unappropriated Loss	(448,416)									
Surplus/(Deficit) on revaluation of assets	16,598									
	4,068,839									

40.6 Operational Risk

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

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

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

A business continuity program and a disaster recovery plan have also been formulated and approved by the board of directors to ensure uninterrupted flow of operations of the bank.

41. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 09, 2010 by the Board of Directors of the bank.

42. GENERAL

42.1 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements. Significant reclassifications / re-arrangements of the corresponding figures include:

- Advance against murabaha amounting to Rs 1,612 million has been classified under 'other assets'. Previously it was shown under 'financing'.

- Advance against ijarah amounting to Rs 578 million has been classified under 'other assets'. Previously it was shown under 'financing'.

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

President / Chief Executive

Director

Director

Director