



ALBARAKA BANK (PAKISTAN) LIMITED
FORMERLY EMIRATES GLOBAL ISLAMIC BANK LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of AlBaraka Bank (Pakistan) Limited (the Bank) as at 31 December 2010, 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. The financial statements of the Bank for the year ended 31 December 2009 were audited by another firm of chartered accountants whose report dated 09 March 2010 expressed an unqualified opinion on those statements. However, such audit report includes an emphasis of matter paragraph regarding shortfall in the Bank's paid up capital in terms of the requirements of the State Bank of Pakistan (SBP).

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 approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

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

- (a) in our opinion, proper books of accounts 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 statement of financial position 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 5.1, 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;

-:2:-

- (c) In our opinion, and to the best of our information and according to the explanations given to us the statement of financial position, 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 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 31 December 2010 and its true balance of the loss, comprehensive 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.

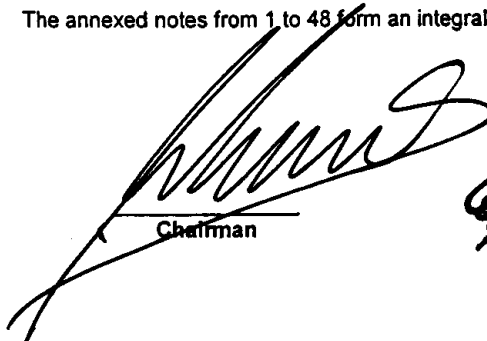

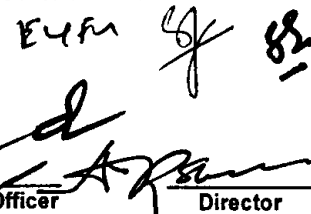

We draw attention to note 1.2 to the financial statements. As more fully explained in the said note, the Bank has not met the minimum capital requirement of Rs. 7 billion (net of losses) as prescribed by the SBP for the year ended 31 December 2010 and that the Bank has prepared a capital injection plan, including issuance of right shares in the year 2011, to comply with the minimum paid up capital requirements of the SBP. Our opinion is not qualified in respect of this matter.

**Chartered Accountants****Audit Engagement Partner: Arslan Khalid****Date: 02 March 2011****Karachi**

ALBARAKA BANK (PAKISTAN) LIMITED
[Formerly Emirates Global Islamic Bank Limited]
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	2010 ————(Rupees '000)————	2009
ASSETS			
Cash and balances with treasury banks	7	4,460,257	1,337,892
Balances with other banks	8	7,409,620	959,078
Due from financial institutions	9	80,000	1,600,000
Investments	10	15,617,589	3,356,705
Financing	11	26,897,198	9,439,243
Operating fixed assets	12	2,732,332	1,741,736
Deferred tax assets	13	1,029,055	486,639
Other assets	14	2,537,613	841,157
		60,763,664	19,762,450
LIABILITIES			
Bills payable	15	427,600	262,691
Due to financial institutions	16	2,756,892	20,000
Deposits and other accounts	17	49,324,209	15,081,242
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	18	19,303	42,457
Deferred tax liabilities		-	-
Other liabilities	19	2,116,583	863,101
		54,644,587	16,269,491
NET ASSETS		6,119,077	3,492,959
REPRESENTED BY			
Share capital	20	8,935,200	4,500,000
Discount on issuance of shares		(767,290)	-
Reserves		-	-
Accumulated loss		(2,052,024)	(1,012,429)
		6,115,886	3,487,571
Surplus on revaluation of assets - net of tax	21	3,191	5,388
		6,119,077	3,492,959
CONTINGENCIES AND COMMITMENTS	22		

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

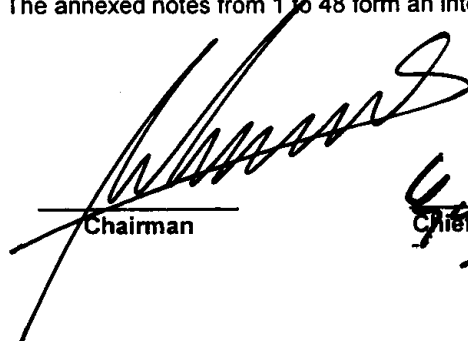
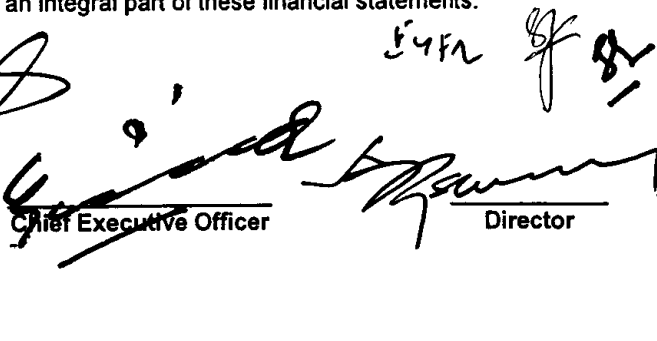
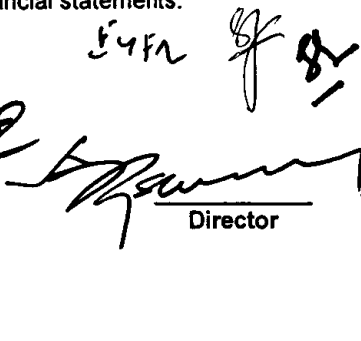
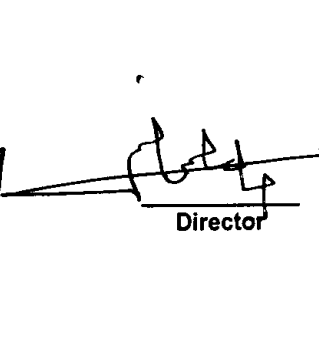





Chairman Chief Executive Officer Director Director

ALBARAKA BANK (PAKISTAN) LIMITED
[Formerly Emirates Global Islamic Bank Limited]
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 ----- (Rupees '000)	2009 ----- (Rupees '000)
Profit / return earned on financings, investments and placements	23	2,198,794	1,914,228
Return on deposits and other dues expensed	24	1,658,608	1,234,890
Net spread earned		540,186	679,338
Provision against non-performing financings - net	11.7	759,301	309,788
Provision for diminution in the value of investments	10.3.1	5,074	34,221
		764,375	344,009
Net spread after provisions		(224,189)	335,329
Other income			
Fee, commission and brokerage income		68,535	56,801
Dividend income		209	-
Income from dealing in foreign currencies		138,867	102,482
Gain / (loss) on sale of securities	25	15,974	(2,878)
Unrealised gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	26	23,436	145,450
Total other income		247,021	301,855
		22,832	637,184
Other expenses			
Administrative expenses	27	1,508,590	1,410,569
Other provisions / write offs	27.3	86,173	21,539
Other charges	28	376	3,958
Total other expenses		1,595,139	1,436,066
		(1,572,307)	(798,882)
Extra ordinary / unusual items		-	-
LOSS BEFORE TAXATION		(1,572,307)	(798,882)
Taxation - Current		(27,375)	(11,191)
- Prior years		13,821	-
- Deferred		546,266	246,060
	29	532,712	234,869
LOSS AFTER TAXATION		(1,039,595)	(564,013)
Loss per share - Basic and diluted (Rupees)	30	(2.19)	(1.25)

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

Chairman Chief Executive Officer Director Director

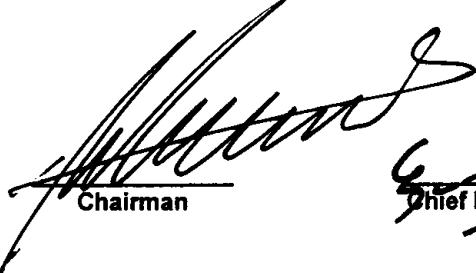

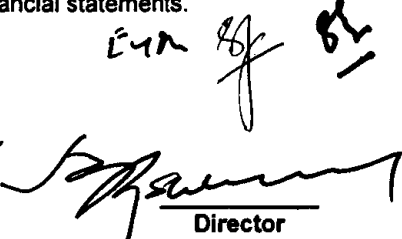

ALBARAKA BANK (PAKISTAN) LIMITED
[Formerly Emirates Global Islamic Bank Limited]
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
	----- (Rupees '000) -----	
Loss for the year	(1,039,595)	(564,013)
Other comprehensive income	-	-
Total comprehensive income / (loss) for the year	(1,039,595)	(564,013)

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

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

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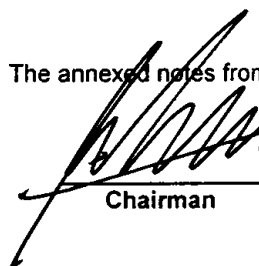
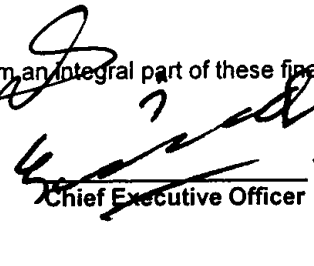

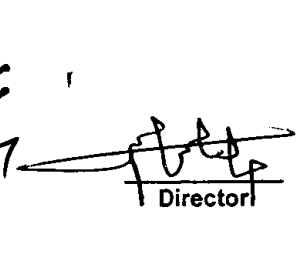
 <hr style="width: 100%;"/> Chairman	 <hr style="width: 100%;"/> Chief Executive Officer	 <hr style="width: 100%;"/> Director	 <hr style="width: 100%;"/> Director
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ALBARAKA BANK (PAKISTAN) LIMITED
[Formerly Emirates Global Islamic Bank Limited]

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010	2009
		----- (Rupees '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(1,572,307)	(798,882)
Adjustments for non-cash and other items:			
Depreciation		118,157	111,382
Depreciation on ijarah assets held under IFAS 2		320,576	130,554
Amortisation		33,308	30,412
Fixed assets written-off		37,373	20,443
Provision against non-performing financings		759,301	309,788
Provision for diminution in the value of investments		5,074	34,221
Finance charges on leased assets		27,243	15,481
Provision against other assets		48,800	
		1,349,832	652,281
		(222,475)	(146,601)
Increase in operating assets			
Due from financial institutions		1,520,000	(1,280,000)
Financing		(709,303)	(2,102,102)
Others assets (excluding advance taxation)		(599,228)	1,876,328
		211,469	(1,505,774)
Increase in operating liabilities			
Bills payable		(141,874)	114,288
Due to financial institutions		678,303	(705,000)
Deposits and other accounts		8,457,074	4,188,640
Other liabilities		46,798	237,387
		9,040,301	3,835,315
Income tax paid		(232,245)	(9,051)
Net cash inflow from operating activities		8,797,050	2,173,889
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(10,610,911)	(645,977)
Cash inflow on acquisition of Pakistan branches of Albaraka Islamic Bank BSC.		11,484,910	-
Net investments in operating fixed assets		(47,745)	(292,968)
Received on disposal of operating fixed assets		-	8,024
Net cash inflow / (outflow) on investing activities		826,254	(930,921)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease obligations		(50,397)	(50,510)
Net cash outflow on financing activities		(50,397)	(50,510)
Increase in cash and cash equivalents		9,572,907	1,192,458
Cash and cash equivalents at beginning of the year		2,296,970	1,104,512
Cash and cash equivalents at end of the year	31	11,869,877	2,296,970

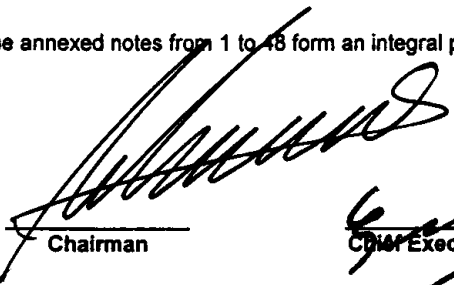
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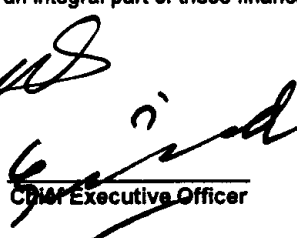
 _____ Chairman	 _____ Chief Executive Officer	 _____ Director	 _____ Director
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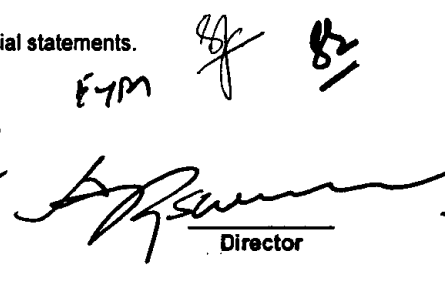
ALBARAKA BANK (PAKISTAN) LIMITED
[Formerly Emirates Global Islamic Bank Limited]
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

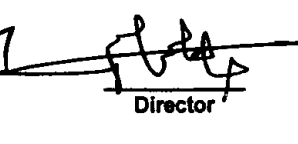
	Issued, subscribed and paid-up share capital	Discount on issuance of shares	Accumulated loss	Total
	(Rupees '000)			
Balance as at 1 January 2009	4,500,000	-	(448,416)	4,051,584
Total comprehensive income / (loss) for the year	-	-	(564,013)	(564,013)
Balance as at 31 December 2009	4,500,000	-	(1,012,429)	3,487,571
Total comprehensive income / (loss) for the year	-	-	(1,039,595)	(1,039,595)
Shares issued during the year upon amalgamation (note 6.5)	4,435,200	-	-	4,435,200
Discount on shares issued during the year (note 6.5)	-	(767,290)	-	(767,290)
Balance as at 31 December 2010	<u>8,935,200</u>	<u>(767,290)</u>	<u>(2,052,024)</u>	<u>6,115,886</u>

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


 Chairman


 Chief Executive Officer


 Director


 Director

ALBARAKA BANK (PAKISTAN) LIMITED
[Formerly Emirates Global Islamic Bank Limited]
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

Effective 28 December 2010, the Bank has become a subsidiary of AlBaraka Islamic Bank B.S.C. incorporated and domiciled in Bahrain (Al Baraka) and a member of AlBaraka Banking Group.

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

The Bank's registered office is located at 162, Bangalore Town, Main Sharah-e-Faisal, Karachi. The Bank operates 87 branches and 2 sub-branches (31 December 2009: 58 branches and 2 sub-branches) in Pakistan.

1.2 The SBP vide BSD Circular No. 7 of 2009 dated 15 April 2009 requires the minimum paid up capital (free of losses) for Banks / Development Financial Institutions to be raised to Rs. 10 billion by the year ending 31 December 2013. The raise is to be achieved in a phased manner requiring Rs. 7 billion paid up capital (free of losses) by the end of financial year 2010.

In view of the above capital requirement, the shareholders of the Bank in their extra ordinary general meeting held on 27 July 2010 approved the merger of the Pakistan branches of Al Baraka with and into the Bank under a "Scheme of Amalgamation" (the Scheme) which provides as under:

- a) as of the effective date of amalgamation, the entire undertaking of Pakistan branches of Al Baraka inclusive of all its assets, liabilities, rights and obligations shall stand amalgamated with and into the Bank and consequently:
 - i) all the assets of Pakistan branches of Al Baraka shall be vested and become the assets of the Bank, and
 - ii) all the liabilities and obligations of Pakistan branches of Al Baraka shall be assumed and become liabilities and obligations of the Bank.
- b) as a consideration of the amalgamation, the Bank has issued 443,520,000 ordinary shares of the face value of Rs.10/- each of the Bank, which upon issuance to Al Baraka will represent 49.64% of the total issued and paid up capital of the amalgamated Bank, and
- c) as a result of the amalgamation, the identity and separate existence of Pakistan branches of Al Baraka shall cease.

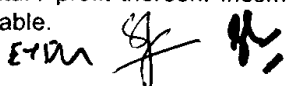
The above Scheme was sanctioned by the SBP vide its order dated 30 September 2010 and in pursuance thereof, the effective date of amalgamation was announced by the SBP as close of business on 29 October 2010 vide its letter no. BPRD(R&P-01) / 2010 - 8040 dated 21 October 2010.

As a result of above amalgamation, the Bank's paid up capital, net of accumulated losses amounted to Rs. 6.12 billion as against the minimum regulatory capital requirement of Rs. 7 billion as of 31 December 2010. The sponsors of the Bank are fully committed to meet the prescribed minimum capital requirement of the SBP by the year ending 31 December 2013 according to a capital injection plan which will be submitted to the SBP for its approval. According to the plan, a right issue of Bank's shares in the year 2011 would increase the paid up capital (free of losses) to Rs.6.5 billion.

2. BASIS OF PRESENTATION

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

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


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3. STATEMENT OF COMPLIANCE

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

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

4. BASIS OF MEASUREMENT

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

IFRS 2 - Share based Payments: Amendments relating to Group Cash-settled Share based Payment Transactions

IFRS 3 - Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to Owners

In May 2008 and April 2009, the IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wordings. These improvements are listed below:

Issued in May 2008

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

Issued in April 2009

IFRS 2 – Share-based Payments

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

IFRS 8 – Operating Segments

IAS 1 – Presentation of Financial Statements

IAS 7 – Statement of Cash Flows



IAS 17 – Leases

IAS 36 – Impairment of Assets

IAS 38 – Intangible Assets

IFRIC 9 – Reassessment of Embedded Derivatives

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

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The adaptation of the above standards, amendments / improvements and interpretations did not have any effect on these financial statements except for in respect of IFRS 3 "Business Combination (Revised)". The accounting policy adopted by the Bank in accordance with the said IFRS is disclosed in note 5.2 below.

5.2 Business combinations and goodwill

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

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

5.3 Cash and cash equivalents

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

5.4 Investments

Investments are classified as follows:

(a) Held for trading

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

(b) Held to maturity

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

(c) Available for sale

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

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

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

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

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

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

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

5.5 Financing

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

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

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

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

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

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

5.6 Inventories

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

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

5.7 Operating fixed assets and depreciation

(a) Owned

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

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

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

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

(b) Leased assets

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

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

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

(c) Capital work in progress

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

(d) Ijarah assets

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

Intangible assets

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

Intangible assets 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.

5.8 Impairment

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

5.9 Revenue recognition

- Profit on murabaha transactions is recognised over the term of these transactions on a straight line basis.
- Rental income on ijarah financing booked on or after January 1, 2009 is recognised on accrual basis as and when the rentals become due.

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- 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.
- Profit on diminishing musharaka is recognised on accrual basis.
- Commission on letters of credit, acceptances and letters of guarantee is recognised on receipt basis.
- Dividend income is recognised when the Bank's right to receive the dividend is established.
- Profit on investment in sukuk bonds is recognised on accrual basis.
- Profit and loss on sale of investments is included in income currently.
- Income earned from Shariah non-compliant avenues is not recognised in the profit and loss account. This income is classified as charity payable in accordance with the recommendation of the Shariah Advisor of the Bank.
- Profit on financing which are classified under the Prudential Regulations is recognized on receipt basis.

5.10 Taxation

(a) Current

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

(b) Deferred

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

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

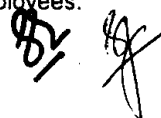
The carrying amount of deferred tax asset is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

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

5.11 Staff retirement benefits

(a) Defined benefit plan

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

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(b) Defined contribution plan

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

5.12 Provisions, contingent assets and contingent liabilities

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

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

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

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

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

5.14 Functional and presentation currency

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

5.15 Foreign currency transactions

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

5.16 Commitments

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

5.17 Financial instruments

(a) Financial assets and financial liabilities

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

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(b) Derivative financial instruments

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

(c) Off-setting

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

5.18 Earnings per share

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

5.19 Segment reporting

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

(a) Business segments

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

- Corporate finance

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

- Trading and sales

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

- Retail banking

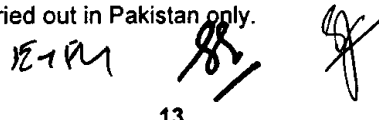
It includes retail lending and deposits, banking services, trust and estates, private lending and deposits, banking service, trust and estates investment advice, merchant / commercial / corporate cards and private labels and retail.

- Commercial banking

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

(b) Geographical segments

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



5.20 Dividends and appropriation to reserves

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

5.21 Accounting judgments and estimates

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

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

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

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

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

Standard, interpretation or amendment	Effective date (accounting periods beginning on or after)
IAS 32 - Financial Instruments: Presentation - Classification of Right Issues (Amendment)	01 February 2010
IAS 24 - Related Party Disclosures (Revised)	01 January 2011
IAS 12 - Income Taxes: Deferred Tax Amendment - Recognition of Underlying Assets	01 January 2012
IFRIC 14 - IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendments)	01 January 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

The Bank expects that the adoption of the above revisions, amendments and interpretations of the standards will not materially affect the Bank's financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2011. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

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6. BUSINESS COMBINATION

- 6.1 The amalgamation of Pakistan branches of Al Baraka with and into the Bank as referred to in note 1.2 to the financial statements has been accounted for by applying the acquisition method of accounting as prescribed by IFRS 3 "Business Combinations". Under the said method of accounting, the Bank is required to recognise, at the acquisition date, the identifiable assets acquired (separately from goodwill) and the liabilities assumed in the business combination and measure the same at their respective acquisition date fair values. Further, the ordinary shares issued by the Bank as consideration for the amalgamation are also measured at the acquisition date fair value for such instruments. The excess of the fair value of the consideration (i.e. ordinary shares issued) over the fair values of the identifiable net assets acquired by the Bank is recognised as goodwill in the financial statements.
- 6.2 In order to apply the acquisition method of accounting for the amalgamation as referred above, the management is in the process of carrying out a detailed exercise for the identification and valuation of the assets acquired (including intangible assets, if any) . The said exercise is expected to be completed shortly.
- 6.3 According to the requirements of IFRS 3, if the initial accounting for a business combination remain incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report provisional amounts for the items for which the accounting is incomplete. Such provisional values shall be adjusted retrospectively within a period of one year from the acquisition date to reflect the results of the valuation and information that existed as of acquisition date. Accordingly, pending the completion of the detailed exercise for valuation of the acquired net assets as referred in paragraph 6.2 above, the Bank has reported provisional amounts for the assets acquired including the goodwill in respect of the amalgamation.
- 6.4 Details of the cost of acquisition, the identifiable assets acquired, liabilities assumed and goodwill recognised on the basis of provisional values is as under:

	Rupees '000
ASSETS	
Cash and balances with treasury banks	4,722,020
Balances with other banks	6,762,890
Due from financial institutions	-
Investments	1,655,046
Financing and investing assets	17,828,530
Operating fixed assets	362,874
Other assets	929,389
	32,260,749
LIABILITIES	
Bills payable	306,783
Due to financial Institutions	2,058,589
Deposits and other accounts	25,785,893
Sub-ordinated loans	-
Liabilities against assets subject to finance lease	-
Deferred tax liabilities	4,098
Other liabilities	1,206,684
	29,362,047
	2,898,702
NET ASSETS	
CONSIDERATION (Cost of acquisition)	
Shares issued (443,520,000 shares @ of Rs.8.27/- each)	3,667,910
GOODWILL ON AMALGAMATION	769,208

- 6.5 The fair value of the shares issued to Al Baraka has been determined by an independent valuer on the basis of discounted cash flow method. Accordingly, the Bank has issued 443,520,000 ordinary shares of face value of Rs. 10/- each amounting to Rs. 4,435.2 million at a discount of Rs.1.73 per share aggregating to Rs.767.29 million.

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Note	2010 ---- (Rupees '000) ----	2009
7. CASH AND BALANCES WITH TREASURY BANKS		
In hand		
- local currency	636,175	228,108
- foreign currency	256,139	97,597
	892,314	325,705
With SBP in		
- local currency current account	7.1 3,041,791	767,168
- foreign currency current account	7.2 7,569	2,604
- foreign currency deposit account	7.3 281,418	93,512
	3,330,778	863,284
With National Bank of Pakistan in		
- local currency current account	237,165	148,903
	4,460,257	1,337,892

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

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

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

8. BALANCES WITH OTHER BANKS

Note	2010 ---- (Rupees '000) ----	2009
In Pakistan		
- on current accounts	4,286	9,843
- on deposit accounts	8.1 4,100,150	35,773
	4,104,436	45,616
Outside Pakistan		
- on current accounts	3,027,032	913,462
- on deposit accounts	278,152	-
	3,305,184	913,462
	7,409,620	959,078

8.1 The expected return on these deposits ranges from 5.00% to 13% (2009: 5.00% to 15.50%) per annum.

9. DUE FROM FINANCIAL INSTITUTIONS

Receivable against commodity murabaha	9.2 80,000	1,600,000
9.1 Particulars of due from financial institutions		
In local currency	80,000	1,600,000
In foreign currency	-	-
	80,000	1,600,000
9.2 Receivable against commodity murabaha		
Gross amount receivable against commodity murabaha	83,682	1,694,219
Less: Profit for future periods	-	52,588
Profit receivable as at year end - shown under other assets	3,682	41,631
	80,000	1,600,000

9.2.1 Represents commodity murabaha arrangement with a Modaraba with return at the rate 12.7% (2009: 10% to 14.25%) per annum. This arrangement is being converted into a murabaha financing of 6 months, subsequent to the year end.

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10. INVESTMENTS
10.1 Investments by types

Note	2010			2009		
	Held by Bank	Given as Collateral	Total	Held by Bank	Given as Collateral	Total
----- Rupees in '000 -----						
Available for sale						
10.4	14,560,752	-	14,560,752	3,241,399	-	3,241,399
10.5	3,768	-	3,768	103,768	-	103,768
10.6	52,200	-	52,200	52,200	-	52,200
10.7	36,546	-	36,546	-	-	-
10.5.1	14,653,266	-	14,653,266	3,397,367	-	3,397,367
Held to maturity securities						
10.4	1,012,500	-	1,012,500	-	-	-
Investments at cost						
	15,665,766	-	15,665,766	3,397,367	-	3,397,367
10.3	(51,723)	-	(51,723)	(46,649)	-	(46,649)
Investments (net of provision)						
	15,614,043	-	15,614,043	3,350,718	-	3,350,718
21	3,546	-	3,546	5,987	-	5,987
Total investments at market value *						
	15,617,589	-	15,617,589	3,356,705	-	3,356,705

10.2 Investments by segments

Note	2010	2009
	----- (Rupees '000) -----	
Sukuk certificates / bonds		
	11,506,000	-
	4,067,252	3,241,399
10.4	15,573,252	3,241,399
Fully paid-up ordinary shares		
10.5	3,768	103,768
10.6	52,200	52,200
10.7	36,546	-
Investments at cost		
	15,665,766	3,397,367
10.3	(51,723)	(46,649)
Investments (net of provision)		
	15,614,043	3,350,718
21	3,546	5,987
Total investments at market value *		
	15,617,589	3,356,705

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

10.3 Particulars of provision for diminution in value of investments:

10.3.1 Opening balance	46,649	12,428
Charged during the year	5,074	34,221
Closing balance	51,723	46,649

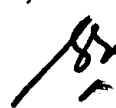
10.3.2 Particulars of provision in respect of type and segment

Investment in Sukuk certificates / bonds		
10.3.3	25,000	25,000
Unlisted Company (ordinary shares)		
10.3.4	26,723	21,649
	51,723	46,649

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

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

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10.4 Sukuk certificates

Name of the investee company	2010	2009	2010	2009
	Number of certificates		Cost — (Rupees '000) —	
Available for sale				
Coastal Refinery Limited*	N/A	-	340,000	323,103
New Allied Electronics Industries (Private) Limited	80,000	79,872	25,000	25,000
National Industrial Parks Development and Management Company	396,000	396,000	1,985,345	2,001,159
Sitara Energy Limited	2,000	3,200	10,033	14,052
Karachi Shipyard & Engineering Works Limited	107,600	66,333	525,625	327,412
House Building Finance Corporation Limited	34,000	34,000	118,634	153,110
Educational Excellence Limited	54,000	32,474	201,787	162,363
Engro Fertilizers Limited	10,000	-	50,062	-
PACE Pakistan Limited	80,000	37,040	398,266	185,200
AL Razi Healthcare **	N/A	-	300,000	50,000
Government of Pakistan Sukuk	106,000	-	10,506,000	-
			14,560,752	3,241,399
Held to maturity securities				
WAPDA First Sukuk Company Limited ***	150,000	-	750,000	-
Karachi Shipyard and Engineering Works Limited	20,000	-	112,500	-
Government of Pakistan Sukuk	500	-	50,000	-
Sitara Chemical Industries Limited	30,000	-	100,000	-
			1,012,500	-
			15,573,252	3,241,399

10.4.1 Other particulars of sukuk bonds are as follows:

Particulars	Certificates denomination in PKR	Profit rate per annum	Profit payment	Redemption terms
Coastal Refinery Limited*	5,000	6 months 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.
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
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.
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.
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.
Engro Fertilizers Limited	5,000	3 month KIBOR + 1.5 %	Semi annually	Bullet payment on maturity.
Pace Pakistan Limited	5,000	3 month KIBOR + 3.5 %	Quarterly	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.
Government of Pakistan Sukuk	100,000	6 month Treasury Bills - 0.05 %	Semi annually	The principal will be redeemed on maturity in September 2012, November 2013 and December 2013.
WAPDA First Sukuk Company Limited	5,000	6 month KIBOR + 0.35 %	Semi annually	The principal will be redeemed on maturity in October 2012.
Karachi Shipyard & Engineering Works Limited	5,000	6 month Treasury Bills + 0.35 %	Semi annually	The principal will be redeemed on maturity in 2012.
Government of Pakistan Sukuk	100,000	6 month Treasury Bills + 0.45 %	Semi annually	The principal will be redeemed on maturity in September 2011.
Sitara Chemical Industries Limited	3,750	3 month KIBOR + 1.00 %	Semi annually	Payable in 12 equal quarterly installments starting from April 2010.

* Total participation of Rs 340 million (2009:Rs 323.103 million) has been made by the bank, however the sukuk certificates are yet to be issued.

** Out of the total participation of Rs 660 million, the Bank has paid its share of Rs 300 million till 31 December 2010. The sukuk certificates cannot be issued, until the entire disbursement has been made by all the participants.

*** These certificates have been pledged with SBP on account of capital in pursuance of its letter No. BSD/SU-16/607/3350/2006 dated July 06, 2006. The Bank has applied to the SBP for release of pledge.

10.5 Particulars of investments in ordinary shares of listed companies

Company Name	Number of shares	Paid up value per share	Total paid up value	Cost	Market Value
Available for sale					
Huffaz Seamless Pipes Limited	227,403	10	2,274	3,768	3,550
				3,768	3,550

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10.5.1 Quality of available for sale securities

	2010		2009	
	Amount (Rupees in '000)	Rating	Amount (Rupees in '000)	Rating
Sukuks				
Coastal Refinery Limited	340,000	Unrated	323,103	Unrated
New Allied Electronics Industries (Private) Limited	25,000	D	25,000	D
National Industrial Parks Development and Management Company	1,985,345	GOP Guaranteed	2,001,159	GOP Guaranteed
Sitara Energy Limited	10,033	Unrated	14,052	Unrated
Karachi Shipyard & Engineering Works	525,625	GOP Guaranteed	327,412	GOP Guaranteed
House Building Finance Corporation	118,634	A+	153,110	A-
Educational Excellence Limited	201,787	Unrated	162,363	Unrated
Engro Fertilizers Limited	50,062	AA-	-	-
PACE Pakistan Limited	398,266	A+	185,200	A
AL Razi Healthcare	300,000	Unrated	50,000	Unrated
Government of Pakistan Sukuk	10,606,000	Unrated	-	-
Ordinary shares				
Huffaz Seamless Pipes Limited	3,768	Unrated	3,768	Unrated
Takaful Pakistan Limited	52,200	A-	52,200	A-
Crown Textiles Limited *	-	Unrated	-	-
Gharibwal Cement Limited	-	-	100,000	D
Mutual Fund units				
National Investment Trust Units	25,887	4-Star	-	-
Meezan Islamic Income Fund (MIIF) Units	10,659	A(f)	-	-
Total	14,653,266		3,397,367	

* Represents rating of the entity

10.6 Unlisted Company (ordinary shares)

	2010	2009	2010	2009	Percentage of equity holding %	Latest available audited financial statements	Name of the chief executive
	Number of shares		Rupees in '000				
Takaful Pakistan Limited (related party)	5,100,000	5,100,000	52,200	52,200	17	31 December 2009	Captain M. Jamil Akhtar Khan
Crown Textile Mills Limited *	444,856	-	52,200	52,200			

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

10.7 Details of investment in mutual funds - open ended

	2010	2009	2010	2009
	Number of units		Cost (Rupees '000)	
National Investment Trust Units	841,898	-	25,887	-
Meezan Islamic Income Funds (MIIF) Units	208,785	-	10,659	-
			<u>36,546</u>	<u>-</u>

Note: 2010 2009
(Rupees '000)

11. FINANCING

Inside Pakistan

- Murabaha finance	11.1	16,109,537	3,453,856
- Export refinance under Islamic scheme		3,070,538	-
- Ijarah under IFAS 2	11.2	1,990,987	832,433
- Net investment in ijarah	11.3	1,230,113	1,031,348
- Diminishing musharaka financing		5,101,946	3,832,297
- Over due acceptance payment		633,978	34,280
- Payment against guarantees		5,901	-
- Salam financing		653,157	524,853
- Musawamah Financing		5,166	28,228
- Qarz-e-Hasna	11.4	18,911	22,015
- Rahnuma Travel Services		144	902
Financing-gross		28,820,378	9,780,212
Provision for non-performing financing - specific	11.7	1,907,248	313,387
Provision for non-performing financing - general	11.7	15,932	7,582
Financing - net of provision		26,897,198	9,439,243

11.1 Murabaha receivable - gross

Less: Deferred murabaha income		487,190	135,360
Murabaha financing		16,109,537	3,453,856

11.2 Ijarah under IFAS 2 (Note 5.5)

Asset cost		2,399,998	962,855
Accumulated depreciation		(409,011)	(130,422)
		1,990,987	832,433

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11.2.1 Changes in net book value of ijarah assets

	Cost			Accumulated Depreciation			Written down value as at 31 December 2010
	As at 01 January 2010	Additions/ (disposals)	As at 31 December 2010	As at 01 January 2010	Charge for the year / (deletion)	As at 31 December 2010	
	Rupees in '000						
Vehicle	85,604	1,012,246 (36,273)	1,061,577	10,444	72,666 (8,093)	75,017	986,560
Plant and machinery	877,251	522,035 (60,865)	1,338,421	119,978	247,910 (33,894)	333,994	1,004,427
	962,855	1,534,281 (97,138)	2,399,998	130,422	320,576 (41,987)	409,011	1,990,987
2010	962,855	1,437,143	2,399,998	130,422	278,589	409,011	1,990,987

	Cost			Accumulated Depreciation			Written down value as at 31 December 2009
	As at 01 January 2009	Additions/ (disposals)	As at 31 December 2009	As at 01 January 2009	Charge for the year / (deletion)	As at 31 December 2009	
	Rupees in '000						
	-	963,835 (980)	962,855	-	130,554 (132)	130,422	832,433
2009	-	962,855	962,855	-	130,422	130,422	832,433

11.3 Net investment in ijarah

	2010				2009			
	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	612,992	484,716	-	1,097,708	641,961	290,047	9,926	941,934
Residual value	155,124	148,996	-	304,120	116,296	132,010	3,116	251,422
Minimum ijarah payments	768,116	633,712	-	1,401,828	758,257	422,057	13,042	1,193,356
Profit for future periods	108,596	65,119	-	171,715	101,679	59,339	990	162,008
Present value of minimum ijarah payments	661,520	568,593	-	1,230,113	656,578	362,718	12,052	1,031,348

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

11.5 Particulars of financing

	2010	2009
	(Rupees '000)	
11.5.1 In local currency	25,748,482	9,439,243
In foreign currency	1,148,716	-
	26,897,198	9,439,243
11.5.2 Short-term	22,368,068	3,511,053
Long term	4,529,130	5,928,190
	26,897,198	9,439,243

11.6 Advances include Rs 3,735.780 million (2009: Rs 1,213.994 million) which have been placed under non-performing status as detailed below:

Category of classification	2010				
	Domestic	Overseas	Total	Provision required	Provision held
	Rupees in '000				
Substandard	346,981	-	346,981	55,939	55,939
Doubtful	903,539	-	903,539	285,335	285,335
Loss	2,485,260	-	2,485,260	1,565,974	1,565,974
	3,735,780	-	3,735,780	1,907,248	1,907,248
Category of classification	2009				
	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

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11.7 Particulars of provision against non-performing financing

Note	2010			2009		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	313,387	7,582	320,969	2,047	9,134	11,181
Charge for the year	767,704	206	767,910	311,340		311,340
Reversals	(8,405)	(204)	(8,609)	-	(1,552)	(1,552)
Transfer upon amalgamation	834,562	8,348	842,910	-	-	-
Closing balance	1,907,248	15,932	1,923,180	313,387	7,582	320,969

11.7.1 Particulars of provisions against non-performing financing

	2010			2009		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	1,907,248	15,932	1,923,180	313,387	7,582	320,969
In foreign currency	-	-	-	-	-	-
	1,907,248	15,932	1,923,180	313,387	7,582	320,969

11.7.2 In accordance with BSD Circular No. 2 dated 27 January 2009 and BSD Circular No. 10 dated 20 October 2009 issued by the SBP, the Bank has availed the benefit of FSV against the non performing financing. Had the benefit of FSV not been availed by the Bank the specific provision against non performing financing as at 31 December 2010 would have been higher by Rs. 1,116.527 million.

11.8 Particulars of loans and financings to executives, directors, associated companies etc.	Note	2010	2009
		----- (Rupees '000) -----	
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other person*			
Balance at the beginning of the year		369,453	291,913
Financing during the year		82,546	169,167
Repayments		(109,255)	(91,627)
Transfer upon amalgamation		159,353	-
Balance at the end of the year		502,097	369,453
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		12,845	14,198
Financing during the year		-	1,628
Repayments during the year		(9,863)	(2,981)
Balance at the end of the year		2,982	12,845

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

12. OPERATING FIXED ASSETS

Capital work-in-progress	12.1	645,112	512,127
Property and equipment	12.2	1,278,491	1,184,922
Intangible assets	12.3	808,729	44,687
		2,732,332	1,741,736
12.1 Capital work-in-progress			
Advances to suppliers and contractors	12.1.1	368,332	235,447
Advance against purchase of property	12.1.2	276,780	276,680
		645,112	512,127

12.1.1 This includes expenditure amounting to Rs. 195.292 million (2009: Rs. 109.118 million) for implementation of new core banking system of the Bank.

12.1.2 This includes advance payment made by the Bank amounting to Rs. 251.680 million for the purchase of two floors in the Karachi Financial Towers (KFT) against an aggregate purchase price of Rs. 533.408 million. The KFT project is being developed by Ensha NLC Developers (Private) Limited and is currently suspended. However, in terms of the deed of indemnity issued by Ensha LLC to the Bank, Ensha LLC shall indemnify the Bank for any loss suffered or required to be booked in the financial statements in respect of the above advance payment. Further, in the event that the KFT project is not revived and substantial progress is not made within a period of three years commencing from the date of the deed of indemnity, Ensha LLC will pay to the Bank the full extent of the advance payment. In view of the above indemnity, no provision against the aforesaid advance payment has been considered necessary in these financial statements.

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12.2 Property and equipment

		2010						
		COST		ACCUMULATED DEPRECIATION				
	As at 01 January 2010	Additions / (disposals) / (write offs*)	As at 31 December 2010	As at 01 January 2010	Charge for the period / (reversal on disposals) / (reversal on write offs*)	As at 31 December 2010	Written down value as at 31 December 2010	Rate of depreciation %
Rupees in '000								
Leasehold land	532,600	-	532,600	-	-	-	532,600	-
Building on leasehold land	309,144	51,055 (174) (40,368) *	319,657	26,772	19,896 (21) (4,317) *	42,330	277,327	5%
Leasehold improvements	-	78,686	78,686	-	-	-	78,686	10%
Furniture and fixture	99,038	46,306 (270) (1,795) *	143,279	15,396	13,193 (106) (295) *	28,188	115,091	10%
Computer and office equipment	352,624	62,887 (1,382) (3,146) *	410,983	124,258	64,818 (643) (2,930) *	185,503	225,480	10% - 33%
Vehicles	1,485	15,436	16,921	786	1,342	2,128	14,793	20%
	1,294,891	254,370 (1,826) (45,309) *	1,502,125	167,212	99,249 (770) (7,542) *	258,149	1,243,977	
Assets held under finance lease								
Vehicles	100,180	- (14,321)	85,859	42,937	18,908 (10,500)	51,345	34,514	20%
2010	1,395,071	254,370 (16,147) (45,309) *	1,587,984	210,149	118,157 (11,270) (7,542) *	309,494	1,278,491	
		2009						
		COST		ACCUMULATED DEPRECIATION				
	As at 01 January 2009	Additions / (disposals) / (write offs*)	As at 31 December 2009	As at 01 January 2009	Charge for the year / (reversal on disposals) / (reversal on write offs*)	As at 31 December 2009	Written down value as at 31 December 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 and office equipment	259,652	93,263 (291) *	352,624	61,229	63,045 (16) *	124,258	228,366	33%
Vehicles	1,635	- (150)	1,485	557	324 (95)	786	699	20%
	1,059,060	258,488 (150) (22,798) *	1,294,891	80,448	89,198 (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%
2009	1,176,070	258,488 (16,980) (22,798) *	1,395,071	110,078	111,366 (8,956) (2,355) *	210,149	1,184,922	

12.3	Intangible assets	Note	2010	2009
	Goodwill	6	769,208	-
	Computer Software	12.3.1	39,521	44,687
			<u>808,729</u>	<u>44,687</u>

12.3.1

	COST		ACCUMULATED AMORTISATION			Written down value as at 31 December 2010	Rate of amortisation %
	As at 01 January 2010	As at 31 December 2010	As at 01 January 2010	Charge for the year	As at 31 December 2010		
Computer software	112,762	28,142	68,875	33,388	181,383	39,521	28%-33%

	COST		ACCUMULATED AMORTISATION			Written down value as at 31 December 2009	Rate of amortisation %
	As at 01 January 2009	As at 31 December 2009	As at 01 January 2009	Charge for the year	As at 31 December 2009		
Computer software	88,769	23,993	37,663	30,412	68,075	44,687	33%

12.4 Disposal of assets

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

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Profit / (loss)	Mode of disposal	Particulars of purchaser
Motor vehicles							
Honda City	907	451	455	455	-	Bank's policy	Farooq Khan - Ex employee
Honda City	846	508	338	338	-	Bank's policy	Syed Hasne - Ex employee
Honda Civic	1,575	604	971	971	-	Bank's policy	Pervaiz Ahmed - Ex employee
Toyota Corrolla	1,005	536	469	469	-	Bank's policy	Atif Subhani - Ex employee
Honda Civic	1,288	923	365	365	-	Bank's policy	Ahsan Raza Durrani - Ex employee
Suzuki Cultus	631	260	371	371	-	Bank's policy	Salman Mehmood - Ex employee
Suzuki Cultus	742	269	473	473	-	Bank's policy	Rashid Raza Jaffery - Ex employee
BMW 7 Series	7,327	6,949	378	378	-	Bank's policy	Syed Tariq Hussain - Ex employee
	14,321	10,500	3,820	3,820	-		
Items having book value of less than Rs. 0.25 million or cost of Rs. 1 million is as follows:							
Various	1,827	770	1,057	1,402	345		
2010	16,147	11,270	4,877	5,222	345		
2009	16,980	8,956	8,024	8,024	-		

13. DEFERRED TAX ASSETS - NET

Deferred debits arising in respect of
 Provision against non performing financings
 Provision against diminution in value of investments
 Pre-commencement expenditure
 Deferred tax asset in respect of minimum tax to be carried forward and adjusted against tax liability of future years
 Asset subject to ijarah under IFAS 2
 Accumulated tax losses

Deferred credits arising due to
 Fixed assets - leased
 Tax effects of accelerated depreciation charged for tax purposes on owned assets
 Asset subject to ijarah under IFAS 2
 Tax effect of fixed assets - subject to ijarah
 Tax effect of revaluation of investments classified as available for sale

	2010	2009
	----- (Rupees '000) -----	
	323,226	78,179
	18,103	16,327
	12,878	25,756
	41,103	13,622
	-	7,960
	878,414	492,470
	1,273,724	634,314
	1,296	8,764
	90,273	99,354
	152,745	-
	-	38,958
	355	599
	244,669	147,675
	1,029,055	486,639

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

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	Note	2010 — (Rupees '000) —	2009
14. OTHER ASSETS			
Profit / return accrued in local currency		887,066	460,909
Advances, deposits and prepayments		230,392	152,732
Receivable against sale of shares		81,000	-
Advance against murabaha		1,041,668	160,368
Advance against ijarah financing		11,758	31,434
Advance taxation (payments less provision)		226,746	10,107
Unrealised gain on forward foreign exchange contracts		45,052	5,804
Branch adjustment account		-	12,908
Receivable in respect of defined benefit plan	33	8,020	4,795
Stationery in hand		3,574	2,100
Others		55,896	-
		<u>2,591,172</u>	<u>841,157</u>
Less: Provision held against other assets	14.1	(53,559)	-
Other assets (net of provision)		<u>2,537,613</u>	<u>841,157</u>
14.1 Provision held against other assets			
Opening balance		-	-
Charge for the year		48,800	-
Reversals		-	-
Taken over on amalgamation		4,759	-
		<u>53,559</u>	<u>-</u>
15. BILLS PAYABLE			
In Pakistan		415,815	262,691
Outside Pakistan		11,785	-
		<u>427,600</u>	<u>262,691</u>
16. DUE TO FINANCIAL INSTITUTIONS			
In Pakistan	16.2	2,756,892	20,000
Outside Pakistan		-	-
		<u>2,756,892</u>	<u>20,000</u>
16.1 Particulars of due to financial institutions with respect to currencies			
In local currency	16.2	2,756,892	20,000
In foreign currency		-	-
		<u>2,756,892</u>	<u>20,000</u>
16.2 This includes musharaka contribution by SBP against Islamic export refinance scheme. Expected profit rate ranges from 8.5% to 10.0% (2009: 9.0%) per annum. The maximum limit approved by SBP under Islamic Export Refinance is Rupees 2.8 billion.			
17. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		24,606,329	8,088,253
Savings deposits		14,415,110	4,684,440
Current accounts - non-remunerative		7,252,480	1,961,269
Margin deposits		299,045	76,571
		<u>46,572,964</u>	<u>14,810,533</u>
Financial Institutions			
Remunerative deposits		2,742,064	267,245
Non-remunerative deposits		9,181	3,464
		<u>2,751,245</u>	<u>270,709</u>
		<u>49,324,209</u>	<u>15,081,242</u>
17.1 Particulars of deposits			
In local currency		46,632,221	14,254,987
In foreign currencies		2,691,988	826,255
		<u>49,324,209</u>	<u>15,081,242</u>
18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
		2010	2009
		Financial	Financial
		Minimum lease payments	Minimum lease payments
		charges for future periods	charges for future periods
		Principal outstanding	Principal outstanding
		Rupees in '000	
Not later than one year		16,178	2,639
Later than one year but not later than five years		6,400	636
Later than five years		-	-
		<u>22,578</u>	<u>3,275</u>
		13,539	26,680
		5,764	3,976
		-	1,776
		-	-
		<u>48,209</u>	<u>5,752</u>
		22,704	19,753
		-	-
		<u>42,457</u>	
18.1 The Bank has entered into various finance lease arrangements in respect of vehicles. The profit rates used as the discounting factor is KIBOR+1% (2009: KIBOR+1%) per annum.			

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19. OTHER LIABILITIES	Note	2010 ----- (Rupees '000) -----	2009
Return on deposits and borrowings:			
- payable in local currency		720,633	313,190
- payable in foreign currency		1,748	668
Accrued expenses		75,652	77,890
Payable to Emirates Financial Holdings Limited		1,441	12
Payable to Emirates Global Investments Limited		-	1,906
Payable to Emirates International Holdings Limited		-	2,500
Payable to Mal Al Khaleej L.L.C	19.2	657	-
Payable to Trust Securities Brokerage Limited		-	439
Payable to Al Baraka		310,694	-
Retention money		335	3,428
Security deposit against ijarah		716,836	380,240
Provision for charity	19.1 & 19.1.1	31,526	23,293
Branch adjustment account		52,372	-
Unrealised loss on mark to market of forward exchange contracts		14,124	-
Excise duty/ income tax withheld		8,147	-
Accounts payable		7,905	-
Payable to Al Baraka Pakistan Branches - defined benefit plan	19.3	23,995	-
Unearned commission and ijarah rental income		31,780	-
Advance payments from customers		94,475	-
Others		24,263	59,535
		<u>2,116,583</u>	<u>863,101</u>

19.1 Provision to charity

Opening balance	23,293	31,895
Amount transferred during the year	5,375	2,138
Payments / utilisation during the year	(14,361)	(10,740)
Transfer upon amalgamation	17,219	-
Closing balance	<u>31,526</u>	<u>23,293</u>

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

19.2 This represents 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 31 December 2008.

19.3 The Bank carried out separate actuarial valuations using the "Projected Unit Credit Actuarial Cost Method" for Employees of Ex-Pakistan branches of Albaraka as at 29 October 2010. The significant assumptions used for actuarial valuation are as follow:

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

19.3.1 Reconciliation of payable to defined benefit plan

	Rupees '000
Present value of defined benefit obligations	84,293
Fair value of plan assets	(48,671)
Past service cost not vested	17,088
Net actuarial gains not recognised	<u>(28,715)</u>
	<u>23,995</u>

20. SHARE CAPITAL

20.1 Authorised Capital

2010	2009	Note	2010 ----- (Rupees '000) -----	2009
Number of shares				
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs 10 each	<u>10,000,000</u>	<u>10,000,000</u>

20.2 Issued, subscribed and paid up capital

2010	2009	Note	2010 ----- (Rupees '000) -----	2009
Number of shares				
Ordinary shares of Rs 10 each				
450,000,000	450,000,000	fully paid in cash	4,500,000	4,500,000
443,520,000	-	issued for consideration other than cash	4,435,200	-
<u>893,520,000</u>	<u>450,000,000</u>	20.3	<u>8,935,200</u>	<u>4,500,000</u>

20.3 During the year the Bank has issued 443,520,000 ordinary shares of the face value of Rs.10 each in accordance with the scheme of amalgamation as referred to in note 1.2 to the financial statements.

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20.4 Major shareholders as at 31 December 2010 were as follows:

Name of shareholder	2010		2009	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
Al Baraka Islamic Bank (Bahrain) B.S.C. (c)	577,548,000	64.64%	-	-
Mal Alkhaleej Investment LLC	158,360,039	17.72%	225,000,000	50.00%
Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi	110,311,487	12.35%	157,401,500	34.98%
Emirates Financial Holdings Limited	34,707,190	3.88%	52,375,500	11.64%
	<u>880,926,716</u>	<u>98.59%</u>	<u>434,777,000</u>	<u>96.62%</u>
			2010	2009
			----- (Rupees '000) -----	

21. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

Surplus on revaluation of available for sale securities:

Ordinary shares - listed	3,546	5,987
Related deferred tax asset	<u>(355)</u>	<u>(599)</u>
	<u>3,191</u>	<u>5,388</u>

22. CONTINGENCIES AND COMMITMENTS

22.1 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, shipping guarantees favouring:

i) Government	4,043,731	416,507
ii) Banking companies and other financial institutions	2,700	30,000
iii) Others	468,706	2,577,474
	<u>4,515,137</u>	<u>3,023,981</u>

22.2 Trade-related contingent liabilities

Letters of credit	3,056,606	566,527
Others - Shipping Guarantees	5,855	-
Acceptances	1,163,589	199,679

22.3 Commitments in respect of forward exchange contracts

Purchase	1,823,726	2,025,532
Sale	3,639,681	1,998,765

22.4 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	178	2,046

22.5 Commitments for lease liability

Commitments in respect of rentals under ijarah are:

- not later than one year	20,036	19,163
- later than one year and not later than five years	26,206	44,532
- later than five years	-	-
	<u>46,242</u>	<u>63,695</u>

22.6 Commitments in respect of purchase of investments (Sukuks)

	-	498,732
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22.7 Other Contingencies

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

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

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

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

22.7.3 Income tax amounting to Rs. 149.681 million has not been acknowledged by the Bank. The Bank has filed appeals before CIT (Appeals) and Income Tax Appellate Tribunal (ITAT) against the orders in respect of tax years 2003 to 2009. Moreover, the Income Tax Department has also filed appeals before ITAT against the orders in respect of assessment years 2001-2002, 2002-2003 and tax year 2003 to 2006 issued by CIT (Appeals). Appeals filed by the Bank and the Income Tax Department are pending for decision. Management of the Bank has evaluated, after consulting their income tax advisor, that the appeals are likely to be decided in favor of the Bank and, hence no provision has been made for the same in these financial statements.

22.7.4 "In respect of tax year 2010, the additional Commissioner Inland Revenue (ACIR) has issued notice under section 122(9) read with section 122 (5A) of the Income Tax Ordinance, 2001 (the Ordinance) for proposed amendment of deemed assessment order in which certain disallowances, including disallowance in respect of provision against financings and claim of deduction of improvement in leasehold premises have been made. The reply to the notice has been filed through tax consultant; however the order of the Additional Commissioner Inland Revenue is awaited.

	2010	2009
	----- (Rupees '000) -----	
22.7.5 Claim not acknowledged as debt	30,000	30,000

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

On financing to		
- Customers	1,460,668	1,263,486
- Employees	16,697	11,285
On investments in		
- Available for sale securities	554,977	404,092
- Held to Maturity securities	35,751	
On deposits with banks	62,333	12,371
On placements against commodity murabaha	65,133	220,904
On wakalah transactions	3,235	2,090
	2,198,794	1,914,228

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	Note	2010	2009
		----- (Rupees '000) -----	
23.1			
This includes return on ijarah assets under IFAS 2 as follows:			
Rental income on ijarah assets		389,310	138,406
Less: Depreciation on ijarah assets	11.2.1	<u>(320,576)</u>	<u>(130,554)</u>
		<u>68,734</u>	<u>7,852</u>
24.			
RETURN ON DEPOSITS AND OTHER DUES EXPENSED			
Return on deposits and other accounts		1,585,198	1,164,335
Other short-term due to financial institutions		<u>73,410</u>	<u>70,555</u>
		<u>1,658,608</u>	<u>1,234,890</u>
25.			
GAIN / (LOSS) ON SALE OF SECURITIES			
Loss on sale of sukuk certificates		(22,026)	(3,568)
Gain on sale of shares - listed		<u>38,000</u>	<u>690</u>
		<u>15,974</u>	<u>(2,878)</u>
26.			
OTHER INCOME			
Rent on property / lockers		2,301	2,005
Recovery income		6,553	4,655
Financial advisory fee		5,838	130,967
Others		<u>8,744</u>	<u>7,823</u>
		<u>23,436</u>	<u>145,450</u>
27.			
ADMINISTRATIVE EXPENSES			
Salaries, allowances and other staff benefits		522,241	472,666
Contribution to defined contribution plan		26,656	21,913
Charge for defined benefit plan	33	19,112	16,898
Rent, taxes, insurance, electricity, etc.		307,837	259,377
Legal and professional charges	27.1	78,741	33,273
License fee		47,161	25,425
Communication		68,054	59,596
Brokerage and commission		26,840	78,277
Traveling and conveyance		55,044	47,418
Repairs and maintenance		25,465	26,954
Training and development		1,731	4,710
Stationery and printing		21,111	23,558
Advertisement and publicity		17,129	111,398
Auditors' remuneration	27.2	4,519	1,450
Depreciation	12.2	118,157	111,382
Amortisation	12.3	33,308	30,412
Security charges		49,183	37,928
Newspaper and periodicals		2,208	2,124
Financial charges on leased assets		27,243	15,481
Entertainment		14,074	13,673
Bank charges		4,187	2,378
Miscellaneous expenses		<u>38,589</u>	<u>14,278</u>
		<u>1,508,590</u>	<u>1,410,569</u>
27.1			
It includes Shariah advisory fee amounting to Rs 4.277 million (2009: Rs 3.770 million).			
27.2			
Auditors' remuneration			
Audit fee		814	745
Half yearly review fee		350	350
Fee for audit of employees' funds		-	-
Special audit / certifications		3,300	300
Out-of-pocket expenses		<u>55</u>	<u>55</u>
		<u>4,519</u>	<u>1,450</u>
27.3			
Other provisions / write offs			
Provision against other assets		48,800	-
Fixed assets written off - net of recovery		37,373	20,443
Others		-	1,096
		<u>86,173</u>	<u>21,539</u>
28.			
OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		<u>376</u>	<u>3,958</u>

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ALBARAKA BANK (PAKISTAN) LIMITED
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	Note	2010 ----- (Rupees '000) -----	2009
29. TAXATION			
For the year			
Current	29.1	<u>(27,375)</u>	<u>(11,191)</u>
Deferred		<u>546,266</u>	<u>246,060</u>
		<u>518,891</u>	<u>234,869</u>
For prior year			
Current		<u>13,821</u>	<u>-</u>
Deferred		<u>-</u>	<u>-</u>
		<u>13,821</u>	<u>-</u>
		<u>532,712</u>	<u>234,869</u>

29.1 The charge for current tax represents minimum tax in accordance with section 113 of the Income Tax Ordinance, 2001 (the Ordinance). Accordingly, reconciliation of tax expense with the accounting loss is not presented.

30. LOSS PER SHARE - BASIC AND DILUTED

Loss after taxation for the year	<u>(1,039,595)</u>	<u>(564,013)</u>
	2010	2009
	Number of shares	
Weighted average number of ordinary shares	<u>475,517,589</u>	<u>450,000,000</u>
	Rupees	
Loss per share - Basic and diluted for the period / year	<u>(2.19)</u>	<u>(1.25)</u>

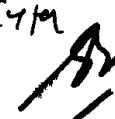

	Note	2010 ----- (Rupees '000) -----	2009
31. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	7	<u>4,460,257</u>	<u>1,337,892</u>
Balances with other banks	8	<u>7,409,620</u>	<u>959,078</u>
		<u>11,869,877</u>	<u>2,296,970</u>

	2010	2009
	----- Number -----	
32. STAFF STRENGTH		
Permanent	<u>993</u>	<u>579</u>
Temporary / on contractual basis	<u>100</u>	<u>5</u>
Consultants	<u>12</u>	<u>9</u>
Bank's own staff strength at the end of the year	<u>1,105</u>	<u>593</u>
Outsourced	<u>217</u>	<u>274</u>
Total Staff Strength	<u>1,322</u>	<u>867</u>

33. DEFINED BENEFIT PLAN

33.1 General description

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

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33.2 Principal actuarial assumptions

The Bank has carried out separate actuarial valuations using the "Projected Unit Credit Actuarial Cost Method" for employees of Ex-Pakistan branches of Albaraka (please refer note 19.3 for details) and Employees of Ex-Emirates Golbal Islamic Bank Limited. The result of actuarial valuation in respect of Employees of Ex-Emirates Golbal Islamic Bank Limited is as under:

	2010 Per annum	2009 Per annum
- Discount rate	14%	13%
- Expected rate of increase in salaries	14%	13%
- Expected rate of return on plan assets	14%	13%

33.3 Reconciliation of receivable from defined benefit plan

----- (Rupees '000) -----

Present value of defined benefit obligations	43,513	38,902
Fair value of plan assets	(66,926)	(46,580)
Past service cost not vested	-	-
Net actuarial gains not recognised	15,393	2,883
	(8,020)	(4,795)

33.4 Movement in defined benefit obligation

Obligation at the beginning of the year	38,902	22,857
Current service cost	18,716	17,040
Interest cost	4,304	3,429
Past service cost	-	-
Benefits paid	(11,594)	(1,608)
Actuarial gain on obligation	(6,815)	(2,816)
Obligation at the end of the year	43,513	38,902

33.5 Movement in fair value of plan assets

Fair value at the beginning of the year	46,580	23,855
Expected return on plan assets	6,055	3,578
Contribution to the scheme	20,189	18,209
Benefits paid	(11,594)	(1,608)
Actuarial gain on plan assets	5,696	2,546
Fair value at the end of the year	66,926	46,580

33.6 Movement in receivable from defined benefit plan

Opening balance	(4,795)	(3,484)
Charge for the year	16,965	16,898
Bank's contribution to the fund made during the year	(20,190)	(18,209)
Closing balance	(8,020)	(4,795)

33.7 Charge for defined benefit plan

Current service cost	18,716	17,040
Interest cost	4,304	3,429
Expected return on plan assets	(6,055)	(3,578)
Net actuarial (gain) / loss recognised	-	7
	16,965	16,898

33.8 Actual return on plan assets

Expected return on plan assets	6,055	3,578
Actuarial gain on plan assets	5,696	2,546
	11,751	6,124

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33.9 Historical information

	2010	2009	2008
	-----Rupees in '000-----		
Defined benefit obligation	43,513	38,902	22,857
Fair value of plan assets	66,926	46,580	23,855
Surplus	<u>(23,413)</u>	<u>(7,678)</u>	<u>(998)</u>
Experience adjustments on plan liabilities	6,815	2,816	(538)
Experience adjustments on plan assets	<u>5,696</u>	<u>2,546</u>	<u>(1,729)</u>

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

	2010		2009	
	Rupees in '000	%	Rupees in '000	%
Pakistan Investment Bonds	-	0%	39,007	84%
Bank balances	66,926	100%	7,573	16%
	<u>66,926</u>		<u>46,580</u>	

34. DEFINED CONTRIBUTION PLAN

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

	2010	2009
	----- (Rupees '000) -----	
Contribution from the bank	26,656	21,913
Contribution from the employee	26,656	21,913
	<u>53,312</u>	<u>43,826</u>

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2010	2009	2010	2009	2010	2009
	----- Rupees in '000 -----					
Managerial remuneration	41,590	20,277	-	-	149,549	131,233
Charge for defined benefit plan	1,714	1,690	-	-	10,540	9,132
Contribution to defined contribution plan	2,056	2,028	-	-	12,679	10,495
Rent and house maintenance	6,172	6,083	-	-	38,288	35,427
Utilities allowance	2,058	2,028	-	-	12,762	11,809
Medical allowance	2,061	2,028	-	-	12,759	11,809
Bonus	1,802	-	-	-	11,036	9,438
Conveyance	-	-	-	-	268	446
Fee	-	-	-	2,662	11,446	1,558
Other	122	-	-	-	-	-
	<u>57,575</u>	<u>34,134</u>	<u>-</u>	<u>2,662</u>	<u>259,327</u>	<u>221,347</u>
Number of persons	<u>1</u>	<u>1</u>	<u>6</u>	<u>6</u>	<u>261</u>	<u>127</u>

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

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

36.2 Off - balance sheet financial instruments

	2010		2009	
	Book value	Fair value	Book value	Fair value
----- Rupees in '000 -----				
Forward purchase of foreign exchange	1,823,726	1,832,552	2,025,532	2,023,538
Forward agreement for borrowing	-	-	-	-
Forward sale of foreign exchange	3,639,681	3,624,135	1,998,765	1,990,967
Forward agreement for lending	-	-	-	-

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2010				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
----- Rupees in '000 -----					
Segment assets (gross of provisions)	1,732,243	22,554,225	8,131,499	17,945,595	12,323,283
Segment non performing loans (NPL)	-	-	263,550	3,472,230	-
Segment provision required against NPL	-	-	134,106	1,789,073	-
Segment liabilities	1,683	20,727	52,579,702	1,799,783	242,693

	2009				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
----- 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%	-

	2009				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
----- 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	-



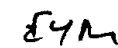
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38. RELATED PARTY TRANSACTIONS

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

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

	2010	2009
	—————(Rupees '000)—————	
<u>Key management personnel</u>		
Financings		
At 01 January	95,869	114,248
Disbursed during the year	29,236	23,287
Repaid during the year	(12,224)	(41,666)
Taken over on amalgamation	16,527	-
At year end	129,408	95,869
Deposits		
At 01 January	20,227	29,299
Deposited during the year	314,394	145,442
Repaid during the year	(297,508)	(154,514)
Taken over on amalgamation	50,225	-
At year end	87,338	20,227
Other Balances		
Return payable on deposit	1,670	2,621
Profit receivable on financing	17	4,766
Transactions, income and expenses		
Profit earned on financing	4,113	5,501
Return on deposits expenses	4,810	12,088
Salaries and allowances	106,216	55,162
<u>Parent Bank</u>		
Other balances		
Payable against expenses incurred on behalf of the bank	310,694	-
<u>Associates and entities having directors in common with the Bank</u>		
Financings		
At 01 January	12,845	14,198
Disbursed during the year	-	1,628
Repaid during the year	(9,863)	(2,981)
Taken over on amalgamation	79,808	-
At year end	82,790	12,845
Deposits		
At 01 January	225,686	93,837
Deposited during the year	366,682	1,169,586
Repaid during the year	(459,926)	(1,037,737)
Transfer upon amalgamation	167,298	-
At year end	299,740	225,686
Other Payables		
At 01 January	5,514	4,992
Disbursed during the year	5,557	3,776
Repaid during the year	(9,210)	(3,254)
At year end	1,861	5,514
Other balances		
Return payable on deposit	13	95
Profit receivable on financing	293	2,699
Investments	52,200	52,200
Provision for diminution in value of investment	26,723	21,649
Cash and cash equivalents	-	-
Transactions, income and expenses		
Profit earned on financing	1,756	261
Return on deposits expenses	4,995	620
<u>Retirement benefit plan</u>		
Contribution to defined contribution plan	26,656	21,913
Contribution to defined benefit plan	19,112	18,209

39. CAPITAL - ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

39.1 Capital Management

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

Goals of managing capital

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

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

Statutory minimum capital requirement and management of capital

The SBP through its BSD Circular No.7 dated 15 April 2009 requires the MCR for Banks to be raised to Rs.10 billion by the year ending 31 December 2013. The increase in capital is to be achieved in a phased manner and requires Rs 7 billion paid up capital (free of losses) by the end of the financial year 2010.

In addition, the Bank is also required to maintain a minimum CAR of 10% of the risk weighted exposure of the Bank.

The status of Bank's compliance with MCR is explained in note 1.2 to the financial statements.

Bank's regulatory capital analysed into two tiers



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

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

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 7 dated 15 April 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 Capital Adequacy Ratio Requirements. Further, there has been no material change in the Bank's management of capital during the period.

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31 December 2010 31 December 2009
(Rupees in '000)

39.2 Regulatory capital structure

Tier I Capital

Paid up capital
Reserves
Accumulated loss
Less: Goodwill, intangible etc.
 Calculation difference (expected losses vs eligible provisions)
 Deficit on revaluation of available-for-sale investments

8,935,200	4,500,000
-	-
(2,819,314)	(1,012,429)
808,729	44,687
-	-
(218)	-
5,307,375	3,442,884

Total Tier I Capital

Tier II Capital

Subordinated Debt (upto 50% of total Tier 1 Capital)
General provisions subject to 1.25% of total risk weighted assets
Revaluation reserve
Less: Calculation difference (expected losses vs eligible provisions)
 Investment in commercial entities (50%)*

-	-
15,932	7,582
1,436	2,694
-	-
-	-
17,368	10,276

Total Tier II Capital

Eligible Tier III Capital

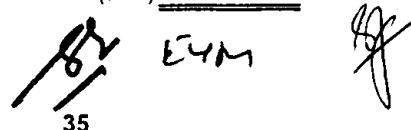
- -

Total Regulatory Capital Base

(a) **5,324,743** **3,453,160**

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

	2010		2009	
	Capital Requirement Rupees in '000	Risk adjusted value '000	Capital Requirement Rupees in '000	Risk adjusted value '000
Credit risk				
Portfolios subject to standardized approach				
On-Balance Sheet Items:				
Sovereign and Central Banks	757	7,569	208	2,604
Public Sector Entities (PSEs)	6,864	68,637	13,774	172,174
Banks and Securities Firms	152,936	1,529,359	17,730	221,622
Corporates Portfolio	1,770,417	17,704,170	554,775	6,934,684
Retail Non Mortgages	95,432	954,322	2,332	29,146
Mortgages – Residential	59,396	593,955	17,252	215,652
Securitized Assets	-	-	-	-
Equities	363	3,628	8,301	103,768
Unlisted	3,822	38,216	3,666	45,826
Fixed Assets	192,360	1,923,603	135,762	1,697,027
Other Assets	346,424	3,464,237	106,224	1,327,796
Past Due Exposures	135,913	1,359,131	45,237	565,462
Off balance sheet items:				
Non-Market Related:	330,321	3,303,214	56,848	710,599
Market Related:	85,533	855,327	1,202	15,019
Risk-weighted exposures				
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	-	-	765	9,563
Equity position risk	-	-	-	-
Foreign Exchange Risk	57,497	574,966	25,643	320,538
Position in Options	-	-	-	-
Operational Risk				
Capital Requirement for operational risks				
	115,888	1,158,875	92,710	1,158,875
TOTAL	3,353,923	33,539,209	1,082,429	13,530,355
Capital Adequacy Ratio				
Total eligible regulatory capital held	(a) 5,324,743		3,453,160	
Total Risk Weighted Assets	(b) 33,539,209		13,530,355	
Capital Adequacy Ratio	(a / b) 15.88%		25.53%	



40. RISK MANAGEMENT

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

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

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

Risk management principles

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

Risk management organisation

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

The BRMC comprises of 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	CEO
Asset and liability management committee (ALCO)	CEO

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

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

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

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

40.1 Credit Risk

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

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

Handwritten signature and initials

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 10 to these financial statements.

40.1.1 Segmental information

40.1.1.1 Segments by class of business

	2010					
	Financing (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	32,238	0.11%	1,709,653	3.47%	102,961	0.69%
Mining and quarrying	2,434	0.01%	43,023	0.09%	-	0.00%
Textile	7,068,659	24.53%	1,342,108	2.72%	1,131,382	7.60%
Chemical and pharmaceuticals	2,093,756	7.26%	1,762,296	3.57%	1,293,180	8.69%
Metal industries	172,818	0.60%	7,384	0.01%	48,829	0.33%
Printing and stationery	303,831	1.05%	8,021	0.02%	-	0.00%
Manufacturing	1,514,461	5.25%	200,772	0.41%	66,120	0.44%
Cement	22,850	0.08%	19,883	0.04%	2,700	0.02%
Sugar	1,299,277	4.51%	463,016	0.94%	-	0.00%
Footwear and leather garments	917,123	3.18%	282,961	0.57%	137,109	0.92%
Automobile and transportation equipment	563,189	1.95%	168,778	0.34%	72,738	0.49%
Electronics and electrical appliances	648,415	2.25%	677,991	1.37%	687,800	4.62%
Construction	1,638,290	5.68%	911,503	1.85%	664,249	4.46%
Power (electricity), gas, water, sanitary	70,599	0.24%	127,228	0.26%	458,138	3.08%
Wholesale and retail trade	1,666,134	5.78%	539,085	1.09%	264,870	1.78%
Exports / imports	682,372	2.30%	710,414	1.44%	864,280	5.81%
Transport, storage and communication	244,634	0.85%	541,785	1.10%	100,040	0.67%
Financial	219,064	0.76%	2,751,246	5.58%	6,349,862	42.67%
Insurance	40,394	0.14%	259,294	0.53%	-	0.00%
Services	702,803	2.44%	15,558,908	31.54%	240,244	1.61%
Individuals	1,193,393	4.14%	8,511,863	17.26%	34,070	0.23%
Staff	347,291	1.21%	-	0.00%	-	0.00%
Others	7,398,353	25.66%	12,726,997	25.80%	2,361,788	15.86%
	28,820,378	100.00%	49,324,209	100.00%	14,880,360	100.00%

	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%	56,811	0.38%	75,358	0.87%
Textile	848,919	8.70%	52,986	0.35%	82,750	0.96%
Chemical and pharmaceuticals	790,239	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	1.28%	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	0.09%
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%

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[Formerly Emirates Global Islamic Bank Limited]

40.1.1.2 Segment by sector

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

	2009					
	Financing (Gross)		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%
	<u>9,760,212</u>	<u>100.00%</u>	<u>15,081,242</u>	<u>100.00%</u>	<u>8,660,685</u>	<u>100.00%</u>

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

	2010		2009	
	Classified Financing	Specific Provisions Held	Classified Financing	Specific Provisions Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	15,956	7,347	-	-
Mining and quarrying	-	-	109,574	26,141
Chemical & pharmaceuticals	84,176	11,375	-	-
Cement	-	-	-	-
Textile	833,743	647,460	168,591	133,088
Sugar	-	-	-	-
Footwear & leather garments	39,241	36,067	-	-
Automobile & transportation equipment	29,906	30,640	-	-
Electronics and electrical appliances	1,763	1,763	-	-
Construction	1,328,544	590,687	242,602	39,651
Wholesale / retail trade	19,698	2,438	-	-
Exports / imports	157,015	101,140	114,864	22,901
Transport, storage and communication	52,000	6,574	-	-
Financial	1,898	1,065	-	-
Insurance	-	-	-	-
Services	37,383	21,302	43,568	16,006
Individuals	92,827	35,863	79,798	23,450
Others	1,041,630	413,527	454,997	52,150
	<u>3,735,780</u>	<u>1,907,248</u>	<u>1,213,994</u>	<u>313,387</u>

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

	2010		2009	
	Classified Financing	Specific Provisions Held	Classified Financing	Specific Provisions Held
	(Rupees in '000)			
Public / government	-	-	-	-
Private	3,735,780	1,907,248	1,213,994	313,387
	<u>3,735,780</u>	<u>1,907,248</u>	<u>1,213,994</u>	<u>313,387</u>



40.2 Credit Risk – General Disclosures, Basel II Specific

The bank has adopted Standardised Approach, under Basel II.

40.3 Credit Risk: Standardized Approach

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

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

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

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

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

Exposure	Rating category No.	Amount outstanding	Deduction CRM*	Net Amount
			Rupees in '000	
Corporate	1-6	19,486,647	820,749	18,665,898
Banks	1-3	7,646,788	-	7,646,788
Sovereigns	1	-	-	-
Public sector entities	2,3	2,645,527	2,508,252	137,275
Government of Pakistan		14,462,826	13,741,791	721,035
Unrated (others)		8,609,565	289,839	8,319,726
Total		52,851,352	17,360,631	35,490,722

* CRM= Credit Risk Mitigation

Main types of collateral taken by the bank are:

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

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

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

41. GEOGRAPHICAL SEGMENT ANALYSIS

		2010			
		Loss before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
		Rupees in '000			
Pakistan		(1,572,307)	60,763,664	6,119,077	14,880,360
Others		-	-	-	-
		(1,572,307)	60,763,664	6,119,077	14,880,360
		2009			
		Loss before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
		Rupees in '000			
Pakistan		(798,882)	19,762,450	3,492,959	8,660,685
Others		-	-	-	-
		(798,882)	19,762,450	3,492,959	8,660,685

42. MARKET RISK

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

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

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

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

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

42.2 Foreign Exchange Risk

	2010				2009			
	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	52,108,034	48,217,685	1,653,763	5,544,112	18,647,122	15,441,910	(26,767)	3,178,445
United States dollar	7,810,165	5,270,223	(2,026,118)	513,824	907,469	581,134	(93,979)	232,356
Great Britain pound	292,430	447,014	159,937	5,353	38,748	41,117	388	(1,981)
Euro	295,114	486,577	212,418	20,954	102,576	154,837	120,358	68,097
AED	198,389	175,218	-	23,171	66,448	49,836	-	16,612
JPY	50,396	44,409	-	5,989	87	-	-	87
Deutsche Mark	-	-	-	-	-	-	-	-
Swiss Frank	9,136	3,461	-	5,675	-	-	-	-
	60,763,664	54,644,587	0	6,119,077	19,762,450	16,268,834	-	3,493,616

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

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

42.3 Equity position risk

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

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



43. MISMATCH OF INTEREST RATE SENSITIVE ASSETS AND LIABILITIES

	2010										Non-interest bearing financial instruments	
	Exposed to Yield/ Interest rate risk											
	Effective yield	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	4,460,257	-	-	-	-	-	-	-	-	-	4,460,257
Balances with other banks	5% - 15.5%	7,409,620	4,100,150	-	-	-	-	-	-	-	-	3,309,470
Due from financial institutions	10% - 14.25%	80,000	-	80,000	-	-	-	-	-	-	-	-
Investments	14.45% - 19%	15,617,589	112,500	1,506,000	-	10,032	10,541,787	2,552,308	825,625	-	-	69,337
Financings	3% - 20 %	26,897,198	4,187,466	7,311,165	8,002,455	2,512,668	1,679,689	318,793	290,030	352,169	395,179	1,847,584
Other assets	-	2,537,613	-	-	-	-	-	-	-	-	-	2,537,613
		57,002,277	8,287,616	7,503,665	9,508,455	2,512,668	1,689,721	10,860,560	2,842,338	1,177,794	395,179	12,224,261
Liabilities												
Bills payable	-	427,600	-	-	-	-	-	-	-	-	-	427,600
Due to financial institutions	8% - 12%	2,756,892	295,341	994,281	1,467,270	-	-	-	-	-	-	-
Deposits and other accounts	5% - 13%	49,324,209	21,589,423	6,291,419	3,736,932	6,755,837	990,796	919,795	1,374,758	99,025	-	7,566,225
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	13% - 22%	19,303	1,128	2,256	3,386	6,769	5,764	-	-	-	-	-
Other liabilities	-	2,116,583	-	-	-	-	-	-	-	-	-	2,116,583
		54,644,587	21,885,892	7,287,956	5,207,598	6,762,606	996,560	919,795	1,374,758	99,025	-	10,110,408
On-balance sheet gap		2,357,689	(13,598,275)	215,709	4,300,867	(4,249,938)	693,161	9,940,765	1,467,580	1,078,769	395,179	2,113,853
Non financial assets		2,732,332										
Operating fixed assets	-	1,029,055	-	-	-	-	-	-	-	-	-	-
Other assets	-	3,761,388	-	-	-	-	-	-	-	-	-	-
Deferred tax asset - net	-	-	-	-	-	-	-	-	-	-	-	-
		6,119,077										
Non financial liabilities												
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-
		1,823,726										1,823,726
Off-balance sheet financial instruments												
Forward Foreign exchange contracts- Purchase	-	3,639,681	-	-	-	-	-	-	-	-	-	3,639,681
Forward Foreign exchange contracts- Sale	-	(1,815,956)	-	-	-	-	-	-	-	-	-	(1,815,956)
		1,823,726										1,823,726
Total yield/profit risk sensitivity gap		(13,598,275)	215,709	4,300,867	(4,249,938)	693,161	9,940,765	1,467,580	1,078,769	1,078,769	395,179	2,113,853
Cumulative yield/profit risk sensitivity gap		(13,598,275)	(13,382,566)	(9,081,699)	(13,331,637)	(12,638,476)	(2,697,691)	(1,230,111)	(181,342)	(181,342)	243,837	243,837

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.

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ALBARAKA BANK (PAKISTAN) LIMITED
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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 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-profit bearing financial instrument
						years	years	years	years				

Rupees in '000

Assets														
Cash and balances with treasury banks	1,337,892	-	-	-	-	-	-	-	-	-	-	-	-	1,337,892
Balances with other banks	959,078	35,773	-	-	-	-	-	-	-	-	-	-	-	923,305
Due from financial institutions	1,600,000	300,000	-	1,300,000	-	-	-	-	-	-	-	-	-	-
Investments	3,356,705	-	-	-	-	-	95,449	201,370	2,914,029	-	-	5,551	-	140,306
Financings	9,439,243	1,331,263	1,624,524	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	20,000	20,000	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	15,081,242	6,003,607	2,094,141	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	42,457	1,892	3,784	5,676	11,352	9,877	9,876	-	-	-	-	-	-	782,215
Other liabilities	805,698	23,483	-	-	-	-	-	-	-	-	-	-	-	-
	16,212,088	6,048,982	2,097,925	2,175,626	1,506,792	90,794	265,477	940,282	-	-	3,086,210			
	1,144,140	(4,374,446)	(19,992)	1,487,734	(696,530)	1,085,183	515,330	2,281,067	205,589	200,181	460,024			

On-balance sheet gap

Non financial assets	1,741,736
Operating fixed assets	177,847
Other assets	486,639
Deferred tax asset - net	2,406,222

Non financial liabilities	57,403
Other liabilities	

Total net assets

3,492,959

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

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

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.

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44. LIQUIDITY RISK

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

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

45. MATURITIES OF ASSETS AND LIABILITIES

	2010							Above 10 years	
	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
Assets									
Cash and balances with treasury banks	4,460,257	4,460,257	-	-	-	-	-	-	-
Balances with other banks	7,409,620	7,409,620	-	-	-	-	-	-	-
Due from financial institutions	80,000	-	80,000	-	-	-	-	-	-
Investments	15,617,589	29,027	-	-	-	10,032	4,020,808	925,625	-
Financings	26,897,198	5,824,237	7,315,137	8,007,418	1,221,274	1,802,934	801,890	443,729	497,079
Operating fixed assets	2,732,332	172,550	11,140	16,711	188,260	67,024	294,696	194,338	1,443,078
Deferred tax assets - net	1,029,055	-	-	-	-	-	1,029,055	-	-
Other assets	2,537,613	1,032,503	844,347	240,065	115,943	245,815	12,993	2,442	18,553
	60,763,664	18,928,195	8,250,624	8,264,194	1,525,477	2,125,805	6,159,442	1,566,134	1,958,710
Liabilities									
Bills payable	427,600	427,600	-	-	-	-	-	-	-
Due to financial institutions	2,756,892	295,341	994,281	1,467,270	6,755,837	990,796	1,374,758	99,025	-
Deposits and other accounts	49,324,209	29,155,646	6,291,420	3,736,932	-	-	-	-	-
Liabilities against assets subject to finance lease	19,303	1,128	2,256	3,386	6,769	5,764	-	-	-
Deferred tax liabilities	2,116,583	106,252	216,795	326,949	431,788	456,231	73,114	61,640	15,147
Other liabilities	54,644,587	29,985,967	7,504,752	5,534,537	7,194,394	1,452,791	1,447,872	160,665	15,147
	6,119,077	(11,057,772)	745,872	2,729,657	(5,668,918)	673,014	4,711,570	1,405,469	1,943,563
Net assets									
Share capital	8,935,200								
Discount on issuance of shares	(767,290)								
Accumulated Loss	(2,052,024)								
Surplus on revaluation of assets	3,191								
	6,119,077								

8,935,200
 (767,290)
 (2,052,024)
 3,191
6,119,077

* Savings and current deposits have been reported under one months maturity. However, they are not expected to be payable within one month period.

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	Rupees									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
Assets										
Cash and balances with treasury banks	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	-	-	-	-
Financings	9,439,243	1,653,475	1,723,805	2,495,782	904,703	1,243,664	666,910	2,914,029	-	5,551
Operating fixed assets	1,741,736	7,243	14,485	21,728	67,242	110,699	388,650	146,247	222,548	215,395
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	2,217,854	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	863,101	115,835	13,174	65,706	375,266	657	165,585	126,878	-	-
	16,269,491	8,445,329	2,111,099	2,241,332	1,882,058	91,451	431,062	1,067,160	-	-
Net assets	3,492,959	(3,962,353)	106,755	1,621,215	(823,640)	1,498,667	830,663	2,792,716	531,904	897,032
Share capital	4,500,000									
Unappropriated Loss	(1,012,429)									
Surplus/(Deficit) on revaluation of assets	5,388									
	3,492,959									

* Savings and current deposits have been reported under one months maturity. However, they are not expected to be payable within one month period.

46. OPERATIONAL RISK

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

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

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

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



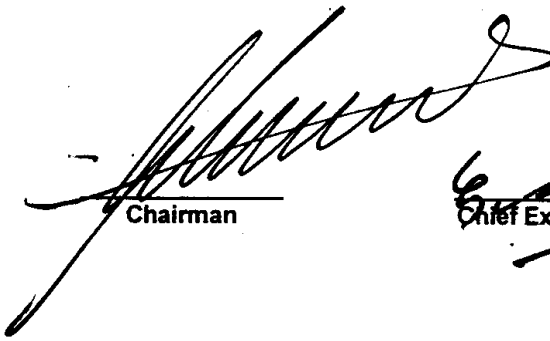
47. GENERAL

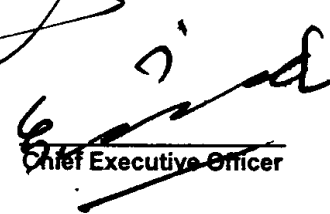
47.1 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison. However, there are no material reclassifications to report.


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

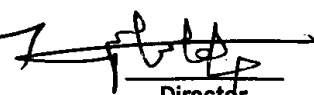
48. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 02, 2011 by the Board of Directors of the Bank.


Chairman


Chief Executive Officer


Director


Director

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