EMIRATES GLOBAL ISLAMIC BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

The Bank was operating through ten branches as at December 31, 2007 (2006: zero). Its registered office is located at the Hotel Arcade, Sheraton Hotels and Towers, Karachi.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan 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 State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

2.1 Amendments to published standards and new interpretations effective in 2007

Amendment to IAS 1 - "Presentation of financial statements - Capital Disclosures", introduces certain new disclosures about the level of the bank's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures which have been set out in note 39.1 of these financial statements.

Other new standards, amendments and interpretations that were mandatory for accounting periods beginning on or after January 1, 2007 and are not considered relevant or have any significant effect on the bank's operations, are not detailed in these financial statements.

During the year the Securities and Exchange Commission of Pakistan notified that the Islamic Financial Accounting Standard (IFAS 2) " Ijarah" issued by the Institute of Chartered Accountants of Pakistan shall be followed while accounting for ijarah transactions as defined by IFAS 2 for financial statements covering periods beginning on or after July 1, 2007. Consequently, this standard will be applicable on the financial statements of the bank for the year ending December 31, 2008. This standard requires that the 'Ijarah' transactions should be accounted for as operating leases in the books whereby assets leased out by the bank under Ijarah should be recorded as fixed assets in the books of the bank and should be classified separately according to the nature of such assets distinguished from the assets in the use of the bank. These assets should be depreciated over the term of the 'ijarah'. Rental income should be recognized on accrual basis as and when the rental becomes due.

Currently, ijarah transactions are accounted for as a finance lease in the books of the bank 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 amortized over the term of the ijarah so as to produce a constant rate of return on net investment in ijarah.

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

In addition to the above, the following standards, amendments and interpretations of approved accounting standards, effective for accounting periods beginning from the dates specified below are either not relevant to the bank's operations or are not expected to have significant impact on the bank's financial statements other than certain increased disclosures in certain cases:

IFRIC 11 - Group and Treasury Share Transactions	effective from March 1, 2007
IFRIC 12 - Service Concession Arrangements	effective from January 1, 2008
IFRIC 13 - Customer Loyalty Programmes	effective from July 1, 2008
IFRIC 14 - IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	effective from January 1, 2008
IAS 1 - Presentation of Financial Statements (Revised September 2007)	effective from January 1, 2008
IAS 23 - Borrowing Costs (Revised March 2007)	effective from January 1, 2008
IAS 27 (Revised) - Consolidated and Separate Financial Statements	effective from July 1, 2009
IFRS 3 (Revised) - Business Combinations	effective from July 1, 2009

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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.

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

i) classification of investments (notes 5.2 and 9)
ii) provision against investments (notes 5.2 and 9.3), financings (notes 5.3 and 10.6) and amounts due from financial institutions (note 8.2.2)
iii) income taxes (notes 5.7, 12 and 28)
iv) staff retirement benefits (notes 5.8 and 32)

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 and certain staff retirement benefits which are carried at present value.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

5.1 Cash and cash equivalents

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

5.2 **Investments**

The Bank classifies its investments as follows:

(a) **Held for trading**

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

(b) **Held to maturity**

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

(c) **Available for sale**

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

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

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

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

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

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

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

5.3 **Financing**

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

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

Ijarah financing 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 amortized 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.

5.4 Inventories

As stated in note 5.3 to these financial statements, goods purchased but remaining unsold at the balance sheet date are recorded as inventories. The bank values its inventories at the lower of cost and net realizable value. Cost of inventories represents the actual purchase made by the customer as an agent on behalf of the bank from the funds disbursed for the purpose of culmination of murabaha.

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

5.5 Operating fixed assets and depreciation

Owned

Property and equipment, other than land, are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Land and capital work-in-progress are stated at cost. All expenditures connected to the 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 are available for use.

Depreciation is charged using the straight-line method in accordance with the rates specified in note 11.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate at each balance sheet date. Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

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

Subsequent costs are included in the assets' carrying amount and recognized 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.

Leased

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

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

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

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized from the month, when these assets are available for use, using the straight line method, whereby the cost of the intangible asset is amortized 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 amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

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

5.6 Revenue recognition

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

The bank follows the finance method in recognizing income on ijarah contracts. Under this method the unearned income i.e. the excess of aggregate ijarah rentals over the cost of the asset is deferred and then amortized 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 recognized as income on a receipt basis. Income on ijarah is recognized from the date of delivery of the respective assets to the mustajir.

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

Profit on diminishing musharaka is recognized on accrual basis.

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

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

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

5.7 Taxation

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, or one half of one percent of turnover, whichever is higher. The charge for the current tax also includes adjustments, where considered necessary relating to prior years, arising from assessments finalized during the year.

Deferred

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

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

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

5.8 Staff retirement benefits

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 are amortized over the average remaining working lives of the employees.

Defined contribution plan

The bank also operates a recognized 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.

5.9 Impairment

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

5.10 Provisions, contingent assets and contingent liabilities

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

Contingent assets are not recognized and are also not disclosed unless an inflow of economic benefits is probable. Contingent liabilities are not recognized and are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

5.11 Functional and presentation currency

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

5.12 Foreign currency transactions

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

5.13 Financial assets and financial liabilities

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

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

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

5.14 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 recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

5.15 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.

Business segments

(a) Corporate finance

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

(b) Trading and sales

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

(c) **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.

(d) **Commercial banking**

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

5.16 Geographical segments

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

5.17 Dividend and appropriation to reserves

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

6. CASH AND BALANCES WITH TREASURY BANKS	**Note**	**2007**	**2006**
		Rupees in '000	
In hand			
Local currency		76,566	34
Foreign currency		20,556	-
With State Bank of Pakistan in			
Local currency current account	6.1	885,147	-
Foreign currency current account	6.2	4,654	-
Foreign currency deposit account	6.3	4,378	-
		991,301	34

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

6.2 This represents US Dollar Settlement Account maintained with SBP.

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

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

7. BALANCES WITH OTHER BANKS	**Note**	**2007**	**2006**
		Rupees in '000	
Inside Pakistan			
On current account		3,228	1,568
On deposit account	7.1	413,095	49,501
Outside Pakistan			
On current account		3,414	-
		419,737	51,069

7.1 These carry a return at rates ranging from 4.40% to 9.00% (2006: 4.40% to 8.63%) per annum.

		Note	2007	2006
8.	**DUE FROM FINANCIAL INSTITUTIONS**		Rupees in '000	
	Call money lendings		-	-
	Repurchase agreement lendings (Reverse Repo)		-	-
	Receivable against commodity murabaha	8.2 & 8.2.1	1,350,000	1,597,947
			1,350,000	1,597,947
8.1	**Particulars of due from financial institutions**			
	In local currency		1,350,000	1,597,947
	In foreign currency		-	-
			1,350,000	1,597,947
8.2	**Receivable against commodity murabaha**			
	Gross amount receivable against commodity murabaha		1,389,043	1,650,191
	Less: Profit for future periods		4,824	24,992
	Profit receivable as at December 31, 2007 - shown under other assets		9,219	2,252
			1,375,000	1,622,947
	Provision against commodity murabaha	8.2.2	25,000	25,000
			1,350,000	1,597,947

8.2.1 This represents placements made with various financial institutions against commodity murabaha agreement and carry return at rates ranging from 9.60% to 10.5% (2006: 11% to 13%) per annum. These placements are due to mature latest by February 2008.

8.2.2 This represents provision made by the bank in respect of commodity murabaha transaction with a leasing company. The amount due from the leasing company has been classified by the bank as "Loss" under the Prudential Regulations issued by the State Bank of Pakistan.

9. INVESTMENTS

9.1 Investments by types

	Note	2007			2006		
		Held by Bank	Given as Collateral	Total	Held by Bank	Given as Collateral	Total
		Rupees in '000					
Available for sale securities							
Sukuk certificates	9.5	2,228,817	-	2,228,817	-	-	-
Associate							
Takaful Pakistan Limited	9.4	52,200	-	52,200	-	-	-
		2,281,017		2,281,017			
Less: Provision for diminution in value of Investments	9.3	(5,894)	-	(5,894)	-	-	-
Investments (net of provision)		2,275,123	-	2,275,123	-	-	-
Deficit / surplus on revaluation of 'available for sale' securities		-	-	-	-	-	-
Total Investments at market value		2,275,123		2,275,123	-	-	-

		Note	2007	2006
9.2	**Investments by segments**		Rupees in '000	
	Bonds			
	Sukuk certificates	9.5	2,228,817	-
	Investment in an associate	9.4	52,200	-
	Total Investments at cost		2,281,017	-
	Less: Provision for diminution in value of Investments	9.3	(5,894)	-
	Investments (net of provision)		2,275,123	-
	Deficit / surplus on revaluation of "available for sale' securities		-	-
	Total Investments at market value		2,275,123	-

		Note	2007	2006
9.3	**Particulars of provision for diminution in value of investments :**		Rupees in '000	
9.3.1	Opening balance		-	-
	Charged during the year	9.3.3	5,894	-
	Reversed during the year		-	-
	Closing balance		5,894	-

9.3.2 Particulars of provision in respect of type and segment

	2007	2006
Investment in an associate		
Takaful Pakistan Limited	5,894	-

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

9.4 Investment in an associated company - unlisted

	2007	2006	2007	2006	Percentage of equity holding %	Break up value per share	Latest available audited financial statements	Name of the chief executive
	Number of shares		Rupees in '000					
Takaful Pakistan Limited	5,100,000	-	52,200	-	17	9.0796	December 31, 2006	Captain M. Jamil Akthar Khan
			52,200	-				

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

9.5 Sukuk certificates

Name of the investee company	2007	2006	2007	2006
	Number of certificates		Cost Rupees in '000	
Sukuk certificates				
Coastal Refinery Limited*	-	-	24,436	-
New Allied Electronics Industries Limited	80,000	-	25,000	-
National Industrial Parks Development and Management Company	396,000	-	2,003,381	-
Engro Chemical Pakistan Limited	10,000	-	50,000	-
Karachi Shipyard & Engineering Works	25,200	-	126,000	-
			2,228,817	-

9.5.1 Other particulars of sukuk bonds are as follows:

Particulars	Certificates denomination	Profit rate per annum	Profit payment	Redemption terms
Coastal Refinery Limited*	-	6 month KIBOR + 3.75 %	Semi annually	Payable in 10 consecutive semi annual installments commencing from the 18th month from the date of first draw down.
New Allied Electronics Industries 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.
Engro Chemical Pakistan Limited	5,000	6 month KIBOR + 1.5 %	Semi annually	Payable in 2 consecutive equal semi annual installments, the first such installment falling due on the 90th month from the date of first contribution.
Karachi Shipyard & Engineering Works	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.

* Out of the total participation of Rs. 200 million, the bank has made partial disbursement of Rs. 24.436 million till December 31, 2007, therefore sukuk certificates have not been issued to date.

		Note	2007	2006
			Rupees in '000	
10.	**FINANCING**			
	Inside Pakistan			
	- Murabaha finance	10.1	1,152,289	-
	- Net investment in Ijarah	10.2	861,670	2,284
	- Advance against ijarah financing	10.3	204,557	-
	- Diminishing musharaka financings		312,840	30,560
	- Over due acceptance payment		9,351	-
	- Salam financing		75,000	-
	- Qarz-e-Hasna	10.4	7,581	62
	- Rahnuma Travel Services		375	-
	Financing-gross		2,623,663	32,906
	Provision for non-performing financing - general		2,138	-
	Financing-net of provision		2,621,525	32,906
10.1	Murabaha receivable - gross	10.1.1	1,215,756	-
	Less: Deferred murabaha income		31,243	-
	Profit receivable as at December 31, 2007		32,224	-
	Murabaha financings		1,152,289	

10.1.1 This includes advance against murabaha amounting to Rs 249.413 million (2006: nil).

10.2 Net Investment in Ijarah

	2007				2006			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Ijarah rentals receivable	264,307	591,175	4,810	860,292	381	1,897	474	2,752
Residual value	-	160,242	3,892	164,134	-	-	-	-
Minimum ijarah payments	264,307	751,417	8,702	1,024,426	381	1,897	474	2,752
Profit for future periods	66,900	93,806	2,050	162,756	73	320	75	468
Present value of minimum ijarah payments	197,407	657,611	6,652	861,670	308	1,577	399	2,284

10.3 This represents advances to customers for purchase of assets to be leased out under ijarah financing arrangement.

10.4 This represents markup free loans to staff advanced under Bank's human resource policies.

		Note	2007	2006
			Rupees in '000	
10.5	**Particulars of financings**			
10.5.1	In local currency		2,621,525	32,906
	In foreign currency		-	-
			2,621,525	32,906
10.5.2	Short-term		1,703,222	2,008
	Long term		918,303	30,898
			2,621,525	32,906

10.6 Particulars of provision against non-performing financings

	Note	2007 Specific	2007 General	2007 Total	2006 Specific	2006 General	2006 Total
		(Rupees in '000)					
Opening balance		-	-	-	-	-	-
Charge for the year	10.6.1	-	2,138	2,138	-	-	-
Reversals		-	-	-	-	-	-
Closing balance		-	2,138	2,138	-	-	-

10.6.1 This represents provision against consumer finance portfolio in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP).

10.6.2 Particulars of provisions against non-performing financings

	2007 Specific	2007 General	2007 Total	2006 Specific	2006 General	2006 Total
	(Rupees in '000)					
In local currency	-	2,138	2,138	-	-	-
In foreign currencies	-	-	-	-	-	-
	-	2,138	2,138	-	-	-

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

	2007	2006
	Rupees in '000	
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other person*		
Balance at the beginning of the year	32,906	-
Financings granted during the year	130,024	34,077
Repayments	(12,147)	(1,171)
Balance at the end of the year	150,783	32,906
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	-	-
Loans granted 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	-	-
Financings granted during the year	9,676	-
Repayments	(417)	-
Balance at the end of the year	9,259	-

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

11. OPERATING FIXED ASSETS

	Note	2007	2006
		Rupees in '000	
Capital work-in-progress	11.1	236,207	75,768
Property and equipment	11.2	686,875	566,949
Intangible assets	11.3	30,782	14,255
		953,864	656,972

11.1 Capital work-in-progress

	2007	2006
Advance against purchase of property	131,663	-
Advances to suppliers and contractors	104,544	75,768
	236,207	75,768

11.2 Property and equipment

2007

	COST			ACCUMULATED DEPRECIATION			Written down value as at December 31, 2007	Rate of depreciation
	As at January 1, 2007	Additions/ (Deletions)	As at December 31, 2007	As at January 1, 2007	Charge for the year	As at December 31, 2007		
	Rupees in '000							%
Leasehold land	462,600	-	462,600	-	-	-	462,600	-
Building on leasehold land	22,277	61,811	84,088	1,188	2,401	3,589	80,499	5%
Furniture and fixture	4,952	13,023	17,975	121	1,022	1,143	16,832	10%
Computer equipment	28,000	26,915	54,915	4,772	13,866	18,638	36,277	33%
Office equipment	15,164	23,959 (20)	39,103	525	2,660 (2)	3,183	35,920	10%
Vehicles	270	1,365	1,635	17	213	230	1,405	20%
	533,263	127,073 (20)	660,316	6,623	20,162 (2)	26,783	633,533	
Assets held under finance lease:								
Vehicles	46,229	24,617	70,846	5,920	11,584	17,504	53,342	20%
December 31, 2007	579,492	151,690 (20)	731,162	12,543	31,746 (2)	44,287	686,875	

2006

	COST			ACCUMULATED DEPRECIATION			Written down value as at December 31, 2006	Rate of depreciation
	As at January 1, 2006	Additions/ (Deletions)	As at December 31, 2006	As at January 1, 2006	Charge for the year	As at December 31, 2006		
	Rupees in '000							%
Lease hold land	-	462,600	462,600	-	-	-	462,600	-
Building on lease hold land	-	22,277	22,277	-	1,188	1,188	21,089	5%
Furniture and fixture	225	4,727	4,952	8	113	121	4,831	10%
Computer equipment	2,625	25,375	28,000	110	4,662	4,772	23,228	33%
Office equipment	426	14,738	15,164	9	516	525	14,639	10%
Vehicles	-	270	270	-	17	17	253	20%
	3,276	529,987	533,263	127	6,496	6,623	526,640	
Assets held under finance lease:								
Vehicles	-	46,229	46,229	-	5,920	5,920	40,309	20%
December 31, 2006	3,276	576,216	579,492	127	12,416	12,543	566,949	

11.3 Intangible assets

2007

	COST			ACCUMULATED AMORTIZATION			Written down value as at December 31, 2007	Rate of amortization
	As at January 1, 2007	Additions/ (Deletions)	As at December 31, 2007	As at January 1, 2007	Charge for the year	As at December 31, 2007		
	Rupees in '000							%
Computer software	15,247	28,347	43,594	992	11,820	12,812	30,782	33%

2006

	COST			ACCUMULATED AMORTIZATION			Written down value as at December 31, 2006	Rate of amortization
	As at January 1, 2006	Additions/ (Deletions)	As at December 31, 2006	As at January 1, 2006	Charge for the year	As at December 31, 2006		
	Rupees in '000							%
Computer software	-	15,247	15,247	-	992	992	14,255	33%

12. DEFERRED TAX ASSETS - NET

	2007	2006
	Rupees in '000	
Deferred debits arising in respect of		
Provision against non performing financings	748	-
Provision against diminution in value of investments	2,063	-
Provision against commodity murabaha	8,750	8,750
Pre-commencement expenditure	51,512	60,365
Deferred tax asset in respect of minimum tax to be carried forward and adjusted against tax liability of future years	2,427	-
Tax loss	233,064	-
Excess of tax written down value over accounting net book value of owned assets	-	2,665
	298,564	71,780
Deferred credits arising due to		
Fixed assets-leased	257	-
Tax effects of accelerated depreciation charged for tax purposes on owned assets	27,408	-
Tax effect of fixed assets-subject to ijarah	160,966	-
	188,631	-
	109,933	71,780

12.1 Through the Finance Act 2007, a new section 100A read with the 7th schedule (the Schedule) was inserted in the Income Tax Ordinance, 2001 for the taxation of banking companies.The schedule seeks to simplify the taxation of banking companies and is applicable from the tax year 2009 (financial year ending on December 31, 2008).

The 7th Schedule does not contain transitory provisions to deal with the disallowances made upto the year ended December 31, 2007. This issue has been taken up with the tax authorities through Pakistan Banks Association for formulation of transitory provisions to deal with the items which were previously treated differently under the then applicable provisions.

The deferred tax asset on the deductible temporary differences disallowed as a deduction in the past upto December 31, 2007 is being kept as an asset as the bank is confident that transitory provisions would be introduced to set out the mechanism of claiming where benefit of these allowances can be claimed.

13. OTHER ASSETS

		2007	2006
		Rupees in '000	
Profit / return accrued in local currency		150,797	3,947
Advances, deposits and prepayments	13.1	55,602	23,209
Advance taxation (payments less provision)		5,220	-
Unrealised gain on forward foreign exchange contracts		4,373	-
Advance against purchase of shares		-	10,000
Receivable in respect of defined benefit plan	32.6	3,148	-
Stationery in hand		852	434
		219,992	37,590

13.1 This includes prepaid rent and prepaid insurance amounting to Rs 38.672 million(2006: Rs 17.64 million) and Rs 4.458 million (2006: Rs 0.527 million) respectively.

14. CONTINGENT ASSETS

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

15. BILLS PAYABLE

	2007	2006
	Rupees in '000	
In Pakistan	99,753	-
Outside Pakistan	-	-
	99,753	-

		Note	2007	2006
16.	**DUE TO FINANCIAL INSTITUTIONS**			
	In Pakistan		-	-
	Outside Pakistan		68,908	-
			68,908	-

16.1 Particulars of due to financial institutions with respect to currencies

	2007	2006
In local currency	-	-
In foreign currency	68,908	-
	68,908	-

16.2 Details of due to financial institutions secured / unsecured

	2007	2006
Unsecured		
Overdrawn nostro accounts	68,908	-
	68,908	-

16.3 Particulars of due to financial institutions

	2007	2006
Short-term	68,908	-
Long-term	-	-
	68,908	-

17. DEPOSITS AND OTHER ACCOUNTS

	2007	2006
Customers		
Fixed deposits	2,156,105	-
Savings deposits	1,628,093	-
Current Accounts-non-remunerative	527,615	-
Margin deposits	9,806	-
	4,321,619	-
Financial Institutions		
Remunerative deposits	231,286	-
Non-remunerative deposits	4	-
	231,290	-
	4,552,909	

17.1 Particulars of deposits

	2007	2006
In local currency	4,506,593	-
In foreign currencies	46,316	-
	4,552,909	

18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2007			2006		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	---------- Rupees in '000 ----------					
Not later than one year	25,956	5,316	20,640	15,574	4,279	11,295
Later than one year but not later than five years	34,873	2,904	31,969	33,810	3,840	29,970
Later than five years	-	-	-	-	-	-
	60,829	8,220	52,609	49,384	8,119	41,265

The bank has entered into various finance lease arrangements in respect of vehicles. The profit rates used as the discounting factor range between 11.15% to 16.32%(2006: 11.15% to 14%) per annum.

		Note	2007	2006
			Rupees in '000	
19.	**OTHER LIABILITIES**			
	Return on deposits and borrowings:			
	- payable in local currency		79,908	-
	- payable in foreign currency		38	-
	Accrued expenses	19.1	20,258	650
	Payable to Emirates Financial Holdings Limited		12,012	12,325
	Payable to Emirates Global Investments Limited		17,363	18,408
	Payable to Emirates International Holdings Limited		2,500	2,500
	Payable to Trust Securities Brokerage Limited		545	619
	Payable against software		4,328	-
	Retention money		1,801	1,316
	Taxation (Provision less payments)		-	5,443
	Branch adjustment account		1,995	-
	Security deposit against ijarah		164,134	-
	Charity payable	19.2	3,494	390
	Others		39,365	5,708
			347,741	47,359

19.1 This includes an accrual of Rs 18 million for the year ended December 31, 2007(2006: nil) in respect of employee bonus scheme.

19.2 According to the instructions of the Shariah Advisor, any income earned by the bank from Shariah non-compliant avenues should be donated for charitable purposes directly by the bank. Accordingly, an amount of Rs 3.494 million has been recognized as charity payable.

20. SHARE CAPITAL

20.1 Authorized Capital

2007	2006		2007	2006
Number of shares			Rupees in '000	
600,000,000	400,000,000	Ordinary shares of Rs 10 each	6,000,000	4,000,000

20.2 Issued, subscribed and paid up capital

2007	2006		2007	2006
Number of shares			Rupees in '000	
		Ordinary shares		
300,000,000	25,053,300	Fully paid in cash	3,000,000	250,533
-	-	Issued as bonus shares	-	-
-	-	Issued for consideration other than cash	-	-
300,000,000	25,053,300		3,000,000	250,533

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

	Number of shares	Amount Rupees in '000
Opening balance at January 1	25,053,300	250,533
Right shares issued during the year	274,946,700	2,749,467
Closing balance at December 31	300,000,000	3,000,000

20.4 Major shareholders as at December 31, 2007 are as follows:

Name of shareholder	Number of shares held	Percentage of shareholding
Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi	103,600,000	34.53%
Mal Alkhaleej Investment LLC	150,000,000	50.00%
Emirates Financial Holding LLC	34,917,000	11.64%
	288,517,000	96.17%

20.5 The break-up of share subscription money as at December 31, 2007 and as at December 31, 2006 is as follows:

	2007	2006
	Rupees in '000	
Syed Tariq Husain	13,100	-
Emirates Financial Holding LLC	244,098	321,086
Mal Alkhaleej Investment LLC	750,657	1,523,764
Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi	-	355,092
The Bank Of Punjab	-	20,000
Orix Leasing Pakistan Limited	-	20,000
	1,007,855	2,239,942

21. CONTINGENCIES AND COMMITMENTS

21.1 Transaction-related contingent liabilities

	2007	2006
Guarantees	1,181,066	-

21.2 Trade-related contingent liabilities

	2007	2006
Letters of credit	246,840	-
Acceptances	1,529,896	-

21.3 Commitments in respect of forward exchange contracts

	2007	2006
Purchase	560,568	-
Sale	379,286	-

21.4 Commitments for the acquisition of operating fixed assets

	2007	2006
Commitments in respect of lease of vehicle	-	2,047
Commitments in respect of purchase of property	400,056	-
Commitments for the acquisition of software license	-	8,656

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

	2007	2006
On financing to		
Customers	115,032	-
Employees	1,836	630
On investments in		
Available for sale securities	93,593	80
On Deposits with banks	30,677	7,051
On placements against commodity murabaha	139,730	9,573
On Wakalah transactions	304	-
	381,172	17,334

	Note	2007	2006
		Rupees in '000	
23. RETURN ON DEPOSITS AND OTHER DUES EXPENSED			
Return on deposits and other accounts		120,763	-
Return on other short term borrowings		4,243	-
		125,011	-
24. CAPITAL GAIN ON SALE OF SECURITIES			
Gain on sale of sukuk certificates		23,147	-
		23,147	-
25. OTHER INCOME			
Rent on property/ lockers		362	-
Recovery income		1,969	-
Financial advisory fee		18,069	-
		20,400	-
26. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other staff benefits.		157,382	74,287
Contribution to defined contribution plan		6,130	-
Charge for defined benefit plan	32.7	6,942	-
Rent, taxes, insurance, electricity, etc.		59,029	30,538
Legal and professional charges	26.1	22,107	16,210
License fee		5,617	5,757
Communication		14,606	2,017
Brokerage & commission		5,034	1,549
Traveling and conveyance		12,405	2,116
Repairs and maintenance		4,473	870
Training and development		1,386	798
Stationery and printing		4,529	886
Advertisement and publicity		32,346	3,112
Auditors' remuneration	26.2	839	351
Depreciation	11.2	31,746	12,415
Amortization	11.3	11,820	992
Security charges		5,348	1,320
Newspaper and periodicals		767	-
Financial charges on leased assets		4,556	2,485
Entertainment		4,324	1,957
Bank charges		1,461	-
Miscellaneous expenses		2,692	1,444
		395,539	159,104

26.1 It includes Shariah advisory fee amounting to Rs 1.815 million (2006: Rs 1.845 million).

26.2 Auditors' remuneration

	2007	2006
Audit fee	400	200
Half yearly review fee	200	60
Fee for audit of employees' funds	50	-
Special certifications	100	50
Out-of-pocket expenses	89	41
	839	351

27. OTHER CHARGES	Note	2007	2006
		Rupees in '000	
Penalties imposed by the State Bank of Pakistan			
- on shortage of statutory liquidity requirement		6	-
- on shortage of cash reserve requirement and special cash reserve requirement against foreign currency deposits		1	-
		7	-

28. TAXATION

	Note	2007	2006
For the year			
Current	28.1	(11,861)	(6,067)
Deferred		38,153	64,102
		26,292	58,035
For prior year			
Current		(137)	-
Deferred		-	-
		(137)	-
		26,155	58,035

28.1 Provision for current tax includes current tax at the rate of 35 percent on the profit earned by the bank before the commencement of banking business on placements and financing and minimum tax at the rate of 0.5 percent of turnover of the bank after the commencement of banking business.

28.2 Relationship between tax expense and accounting profit	2007	2006
	Rupees in '000	
Loss before taxation for the year	(83,654)	(166,770)
Tax at the applicable tax rate of 35 percent	(29,279)	(58,369)
Tax effect of permanent differences	1,053	-
Current tax effect due to prior year charge	137	-
Others	1,934	334
	(26,155)	(58,035)

29. BASIC LOSS PER SHARE

	2007	2006
Loss after taxation for the year	(57,499)	(108,735)
	Number of shares	
Weighted average number of ordinary shares	267,609,019	16,702,200
	Rupees	
Basic loss per share	(0.21)	(0.01)

29.1 There were no convertible dilutive potential ordinary shares in issue as at December 31, 2006 and 2007.

30. CASH AND CASH EQUIVALENTS	2007	2006
	Rupees in '000	
Cash and balances with treasury banks	991,301	34
Balances with other banks	419,737	51,069
	1,411,038	51,103

	2007	2006
	Number	

31. STAFF STRENGTH

	2007	2006
Permanent	226	97
Temporary / on contractual basis	4	22
Daily wagers	-	-
Consultants	3	4
Bank's own staff strength at the end of the year	233	123
Outsourced	98	-
Total Staff Strength	331	123

32. DEFINED BENEFIT PLAN

32.1 General description

As mentioned in note 5.8 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 salary for each completed year of service, subject to a minimum of three years of service.

32.2 Principal actuarial assumptions

The latest actuarial valuation was carried out as at December 31, 2007 using the "Projected Unit Credit Actuarial Cost Method". The main assumptions used for actuarial valuation were as follows:

	2007	2006
	Per annum	
- Discount rate	10%	-
- Expected rate of increase in salaries	10%	-
- Expected rate of return on plan assets	10%	-

	2007	2006
	Rupees in '000	

32.3 Reconciliation of (receivable)/payable to defined benefit plan

	2007	2006
Present value of defined benefit obligations	8,841	-
Fair value of any plan assets	(10,167)	-
Net actuarial gains or losses not recognised	(219)	-
Past service cost not recognised	(1,603)	-
	(3,148)	-

32.4 Movement in defined benefit obligation

	2007	2006
Obligation at the beginning of the year	-	-
Current service cost	5,156	-
Interest cost	321	-
Past service cost	3,207	-
Benefits paid	-	-
Actuarial (gain)/ loss on obligation	157	-
Obligation at the end of the year	8,841	-

32.5 Movement in fair value of plan assets

	2007	2006
Fair value at the beginning of the year	-	-
Expected return on plan assets	139	-
Contribution to the fund	10,090	-
Benefits paid	-	-
Actuarial gain/ (loss) on plan assets	(62)	-
Fair value at the end of the year	10,167	-

32.6 Movement in (receivable)/payable to defined benefit plan	2007	2006
	Rupees in '000	
Opening balance	-	-
Charge for the year	6,942	-
Bank's contribution to the fund made during the year	(10,090)	-
Closing balance	(3,148)	-

32.7 Charge for defined benefit plan	2007	2006
Current service cost	5,156	-
Interest cost	321	-
Expected return on plan assets	(139)	-
Past service cost	1,604	
	6,942	-

32.8 Actual return on plan assets	2007	2006
Expected return on plan assets	139	-
Actuarial gain/ (loss) on plan assets	(62)	-
	77	-

32.9 Components of plan assets as a percentage of total plan assets	2007 Rupees in '000	%	2006 Rupees in '000	%
Bank Balances	10,167	100	-	-
	10,167		-	

Based on the recommendation of the actuary the bank intends to charge an amount of Rs 9.195 million in the financial statements for the year ending December 31, 2008.

33. DEFINED CONTRIBUTION PLAN

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

	2007	2006
	Rupees in '000	
Contribution from the Bank	6,130	-
Contribution from the employee	6,130	-
	12,260	

34. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	Rupees in '000					
Managerial remuneration	8,936	8,047	-	-	37,368	20,435
Charge for defined benefit plan/ house rent allowance	463	-			2,137	-
Contribution to defined contribution plan	894	-	-	-	3,339	-
Rent and house maintenance	4,481	2,414	-	-	11,208	-
Utilities allowance	894	805	-	-	3,737	2,043
Medical allowance	894	805	-	-	3,737	2,043
Bonus	3,047	4,382	-	-	9,410	3,576
Conveyance	530	367	-	-	5,722	3,283
	20,139	16,820	-	-	76,658	31,380
Number of persons	1	1	7	7	49	30

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

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

In the opinion of the management, the fair value of the 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 investment in sukuk certificates, customer financings and deposits are frequently repriced.

The repricing profile, effective rates and maturity are stated in note 40 to these financial statements.

36 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	For the year ended December 31, 2007			
	Corporate Finance/Commercial Banking	Retail Banking	Treasury	Others
	(Rupees in '000)			
Total income	115,796	16,646	292,588	19,905
Total expenses	156,800	107,284	28,917	235,588
Net income / (loss)	(41,004)	(90,638)	263,671	(215,683)
Segment return on assets (ROA) (%)	14.00%	13.50%	14.50%	5.50%
Segment cost of funds (%)	8.20%	6.80%	10.50%	0.00%

	As at December 31, 2007			
	Corporate Finance/Commercial Banking	Retail Banking	Treasury	Others
	(Rupees in '000)			
Segment assets (gross of NPL provisions)	1,889,360	800,334	5,056,760	1,195,021
Segment non performing loans (NPL)	-	-	-	-
Segment provision required against NPL	-	-	-	-
Segment liabilities	2,630,072	2,300,168	68,908	122,772

36.1 Comparative information in respect of segment details is not relevant as the bank started its operations in the current year.

37. TRUST ACTIVITIES

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

38. RELATED PARTY TRANSACTIONS

38.1 The bank has related party relationship with its associated undertaking (refer note 9.4), employee benefit plan (refer note 32) and its directors and key management personnel.

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

Contributions to and accruals in respect of staff retirement benefit plan are made in accordance with the actuarial valuations / terms of the contribution plan (refer note 32 to these financial statements for the details of the plan). Remuneration to the executives, disclosed in note 34 to these financial statements are determined in accordance with the terms of their appointment.

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

	Total		Associates		Key management personnel	
	2007	2006	2007	2006	2007	2006
	---- Rupees in '000----					
Subscription money						
At January 1,	2,199,942	19,103	1,844,850	19,103	355,092	-
Received during the year	1,517,380	2,431,342	999,085	1,825,747	518,295	605,595
Allotment of shares	(2,709,467)	(250,503)	(1,849,180)	-	(860,287)	(250,503)
At December 31,	1,007,855	2,199,942	994,755	1,844,850	13,100	355,092
Financings						
At January 1,	22,444	1,800	-	-	22,444	1,800
Disbursed during year	88,632	21,485	9,676	-	78,956	21,485
Repaid during the year	(3,489)	(841)	(417)	-	(3,072)	(841)
At December 31,	107,587	22,444	9,259	-	98,328	22,444
Deposits						
At January 1,	-	-	-	-	-	-
Disbursed during year	365,716	-	159,856	-	205,860	-
Repaid during the year	(299,381)	-	(114,243)	-	(185,138)	-
At December 31,	66,335	-	45,613	-	20,722	-
Other payable						
At January 1,	33,852	33,564	33,852	33,564	-	-
Disbursed during year	-	997	-	997	-	-
Repaid during the year	(1,432)	(709)	(1,432)	(709)	-	-
At December 31,	32,420	33,852	32,420	33,852	-	-
Other Balances						
Profit receivable on financing	109	-	109	-	-	-
Investments	52,200	-	52,200	-	-	-
Provision for diminution in value of investment	5,894	-	5,894	-	-	-
Return payable on deposit	818	-	633	-	185	-
Transactions, income and expenses						
Profit earned on financing	1,697	436	589		1,108	436
Return on deposits expenses	1,746	-	1,308		438	-
Salaries and allowances	42,903	1,903	-		42,903	1,903

39. CAPITAL ADEQUACY

39.1 Capital Management

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

Goals of managing capital

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

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

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan vide circular no. 6 dated October 28, 2005 had raised the requirement of minimum paid up capital of banks to Rs 6 billion (net of losses) to be achieved upto December 31, 2009 in a phased manner. The requirement in respect of minimum paid up capital (net of losses) to be achieved by December 31, 2007 as per the aforementioned circular is Rs 4 billion. However, as at December 31, 2007, the paid up capital (net of losses) of the bank amounted to Rs 2,811.7 million. The Board of Directors in their meeting held on August 22, 2007 had approved to increase the paid up capital of the bank from Rs 3 billion to Rs 4.5 billion through a right issue. However, only an amount of Rs 1,007.855 million had been received upto December 31, 2007 in respect of the right issue.

The State Bank of Pakistan vide its letter no . BSD/SU-1/608/104/2008 dated January 16, 2008 advised the management to meet the capital requirement of Rs 4 billion not later than January 31, 2008. Consequently, the Board of Directors in their meeting held on January 29, 2008 had approved to allot shares to the members in respect of the share subscription money amounting to Rs 1,239.428 million received upto the date of the meeting. Accordingly, the paid-up capital of the bank subsequent to the year ended December 31, 2007 has been increased to Rs 4,239.428 million.

Bank's regulatory capital analyzed into two tiers.

Tier 1 capital, includes fully paid up capital (including the 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 subsidiary engaged in banking and financial activities and deficit on revaluation of available for sale investments.

Tier 2 capital, includes general provisions for loan losses (up to a maximum of 1.25% risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 50% 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. 6 dated October 28, 2006. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

The required capital adequacy ratio (8% 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 categorized 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 areas network basis, it is critical that it is able to continuously monitor the exposure across the entire organization and aggregate the risks so as to take an integrated approach / view.

The allocation of capital between specific operations and activities is, to a large extent driven by the optimization of the return achieved on the capital allocated. Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, etc. and the fit of the activity with the bank's long term strategic objectives. The bank has complied with all externally imposed capital requirements throughout the period. Further there has been no material change in the bank's management of capital during the period.

39.2 Capital Adequacy Ratio

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

	Note	2007
Regulatory Capital Base		**Rupees in'000**
Tier I Capital		
Shareholders Capital/Assigned Capital		3,000,000
Share subscription money		1,007,855
Reserves		
Unappropriated / unremitted profits (Net of Losses)		(188,300)
Less: Adjustments		
Total Tier I Capital		3,819,555
Tier II Capital		
Subordinated Debt (upto 50% of total Tier I Capital)		-
General Provisions subject to 1.25% of Total Risk Weighted Assets		2,138
Revaluation Reserve (upto 50%)		-
Total Tier II Capital		2,138
Eligible Tier III Capital		
Total Regulatory Capital	(a)	3,821,693

Risk-Weighted Exposures	2007	
	Book Value	**Risk Adjusted Value**
Credit Risk	**Rupees in '000**	
Balance Sheet Items:-		
Cash and other liquid Assets	1,411,038	83,947
Money at call	1,350,000	1,190,000
Investments	2,275,123	271,742
Financing	2,621,525	2,452,682
Fixed Assets	953,864	953,864
Other Assets	329,925	324,705
	8,941,475	5,276,940
Off Balance Sheet items		
Loan Repayment Guarantees	1,178,566	861,490
Purchase and Resale Agreements		
Performance Bonds etc	2,500	-
Revolving underwriting Commitments		
Stand By Letters of Credit	246,840	118,453
Acceptances	1,529,896	1,240,565
Outstanding Foreign Exchange Contracts		
-Purchase	560,568	981
-Sale	379,286	1,706
	3,897,656	2,223,195
Credit risk-weighted exposures		7,500,135
Market Risk		
General market risk		-
Specific market Risk		-
Capital charge for foreign exchange risk		137,885
Market risk-weighted exposures		137,885
Total (b)		7,638,020
Capital Adequacy Ratio [(a) / (b) x 100)		50.04%

Notes

Weightages as mentioned in BSD circular no. 12 dated August 25, 2004 have been applied to their respective "book value" to arrive at "risk values".

The amount of cash margins and deposits held against performance bonds, acceptances and standby letter of credit aggregates Rs 9.806 million has been deducted.

Lien on deposit amounting to Rs 609.035 million held against guarantee, letter of credit and acceptances has been deducted.

39.3 Comparative information in respect of risk weighted assets to capital ratio is not relevant as the bank started its operations in the current year.

40. RISK MANAGEMENT

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

- Credit risk is the risk of loss resulting from client or counterparty default
- Market risk is exposure to market variables such as interest rates, exchange rates and equity indices
- Liquidity risk is the risk that EGIBL may be unable to meet its payment obligations when due
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk

Representations of risk are for a given period and EGIBL's risk management will constantly evolve as its business activities change in response to credit, market, product and other developments. The bank manages the risk through a framework of risk management, policies and principles, organizational 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 organizational 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 Board Risk management committee 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 Board Risk management committee has delegated some of its tasks of risk management to sub committees which are as follows:

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

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

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

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

40.1 Credit risk

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

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

The bank has a well defined credit structure duly approved by the board under which delegated authorities at various levels are operating and which critically scrutinize 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 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 realization of any available collateral. Allowances or provisions are determined in accordance with the requirements of SBP. The authority to establish allowances, provisions and credit valuation adjustments for impaired claims, is vested in Credit Administration Department and is according to 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

	2007					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	3,346	0.13%	502	0.01%	-	0.00%
Mining and Quarrying	258,015	9.84%	823,326	18.08%	100,000	2.33%
Textile	276,751	10.56%	40,703	0.89%	22,651	0.53%
Chemical and Pharmaceuticals	62,688	2.39%	112,352	2.47%	23,780	0.55%
Metal industries	11,903	0.45%	5	0.00%	74,803	1.74%
Printing and stationery	-	0.00%	661	0.01%	-	0.00%
Manufacturing	-	0.00%	388	0.01%	-	0.00%
Cement	-	0.00%	-	0.00%	2,500	0.06%
Sugar	202,146	7.71%	-	0.00%	-	0.00%
Footwear and Leather garments	-	0.00%	-	0.00%	-	0.00%
Automobile and transportation equipment	-	0.00%	11,900	0.26%	14,020	0.33%
Electronics and electrical appliances	-	0.00%	-	0.00%	-	0.00%
Construction	68,976	2.63%	680,770	14.95%	400,056	9.31%
Power (electricity), Gas, Water, Sanitary	25,000	0.95%	-	0.00%	-	0.00%
Wholesale and Retail Trade	408,716	15.59%	1,616	0.04%	37,804	0.88%
Exports/Imports	341,374	13.02%	3,840	0.08%	2,364,202	55.01%
Transport, Storage and Communication	3,231	0.12%	-	0.00%	43,938	1.02%
Financial	339,612	12.95%	231,290	5.08%	939,854	21.87%
Insurance	817	0.03%	-	0.00%	-	0.00%
Services	20,960	0.80%	605,614	13.30%	3,032	0.07%
Individuals	331,886	12.66%	389,858	8.56%	164,975	3.84%
Staff	150,783	5.75%	153,630	3.37%	-	0.00%
Others	115,321	4.40%	1,496,454	32.87%	106,097	2.47%
	2,621,525	100.00%	4,552,909	100.00%	4,297,712	100.00%

40.1.1.2 Segment by sector

	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	-	0.00%	-	0.00%	-	0.00%
Private	2,621,525	100.00%	4,552,909	100.00%	4,297,712	100.00%
	2,621,525	100.00%	4,552,909	100.00%	4,297,712	100.00%

40.1.2 Details of non-performing advances and specific provisions by class of business segment and sector

The bank does not have any non-performing financings as at December 31, 2007 and accordingly no specific provision is held.

40.1.3 GEOGRAPHICAL SEGMENT ANALYSIS

The bank conducts its operation in Pakistan only.

40.2 Market Risk

Market risk is the risk of losses due to on and off balance sheet positions arising out of changes in the market prices. Market risk mainly arises from trading activities undertaken by the bank's treasury. It also includes investment and structured positions in the banking book. To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically.

The bank has established a Treasury Middle Office to effectively monitor day-to-day trading activities of the dealing room. It has to ensure monitoring and implementation of market risk and other policies, limits monitoring, escalation of any deviation to senior management, and MIS reporting, etc.

40.2.1 Foreign Exchange Risk

	2007				2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000				Rupees in '000			
Pakistan rupee	8,908,744	5,006,659	(185,534)	3,716,551	2,448,298	88,624	-	2,359,674
United States dollar	16,584	100,312	48,847	(34,881)	-	-	-	-
Great Britain pound	10,891	9,790	-	1,101	-	-	-	-
Euro	5,256	5,159	136,687	136,784	-	-	-	-
	8,941,475	5,121,920	-	3,819,555	2,448,298	88,624	-	2,359,674

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

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

40.2.2 Equity position risk

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

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

40.2.3 Mismatch of interest rate sensitive assets and liabilities

	Effective yield	Total	2007 Exposed to Yield/ Interest rate risk: Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.00%	991,301	-	-	-	-	-	-	-	-	-	991,301
Balances with other banks	4.40% - 9.00%	419,737	-	-	413,095	-	-	-	-	-	-	6,642
Due from financial institutions	9.60% - 10.50%	1,350,000	1,150,000	200,000	-	-	-	-	-	-	-	-
Investments	10.34% - 13.89%	2,275,123	-	676,846	500,845	200,338	826,352	-	24,436	-	-	46,306
Financings	3.00% - 15.00 %	2,621,525	245,456	404,693	557,521	274,588	318,134	343,962	106,500	42,992	105,815	221,864
Other assets		167,842	-	-	-	-	-	-	-	-	-	167,842
		7,825,328	1,395,456	1,281,539	1,471,461	474,926	1,144,486	343,962	130,936	42,992	105,815	1,433,755
Liabilities												
Bills payable		99,753	-	-	-	-	-	-	-	-	-	99,753
Due to financial institutions		68,908	-	-	-	-	-	-	-	-	-	68,908
Deposits and other accounts	2.00% - 10.60%	4,562,909	2,622,971	116,930	33,506	1,160,052	-	36,500	47,525	-	-	537,425
Sub-ordinated loans		-										-
Liabilities against assets subject to finance lease	11.15% - 16.32%	52,609	1,518	3,174	4,942	11,006	21,098	10,871	-	-	-	-
Other liabilities		160,603	-	-	-	-	-	-	-	-	-	150,603
		4,924,782	2,624,489	119,104	38,448	1,171,058	21,098	46,371	47,525	-	-	856,689
On-balance sheet gap		2,900,546	(1,229,033)	1,162,435	1,433,013	(696,132)	1,123,388	297,591	83,411	42,992	105,815	577,066
Non financial assets												
Operating fixed assets		953,864										
Other assets		52,350										
Deferred tax asset		109,933										
		1,116,147										
Non financial liabilities												
Other liabilities		197,138										
		197,138										
Total net assets		3,819,555										
Off-balance sheet financial instruments												
Forward Lending		-	-	-	-	-	-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total yield/profit risk sensitivity gap			(1,229,033)	1,162,435	1,433,013	(696,132)	1,123,388	297,591	83,411	42,992	105,815	577,066
Cumulative yield/profit risk sensitivity gap			(1,229,033)	(66,598)	1,366,415	670,283	1,793,671	2,091,262	2,174,673	2,217,665	2,323,480	2,900,546

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.

			2006									
			Exposed to Yield/ Interest rate risk									
	Effective yield	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-profit bearing financial instruments
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	34	-	-	-	-	-	-	-	-	-	34
Balances with other banks	4.4% - 8.625%	51,069	51,069	-	-	-	-	-	-	-	-	-
Due from financial institutions	-	1,597,947	-	-	-	-	-	-	-	-	-	1,597,947
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Financing	9%	32,906	159	344	485	957	2,012	2,124	4,587	10,745	11,431	82
Other assets	-	18,907	-	-	-	-	-	-	-	-	-	18,907
		1,700,863	51,228	344	485	957	2,012	2,124	4,587	10,745	11,431	1,616,950
Liabilities												
Bills payable	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	11.15% - 14 %	41,265	941	1,883	2,824	5,647	11,988	17,982	-	-	-	-
Other liabilities	-	41,916	-	-	-	-	-	-	-	-	-	41,916
		83,181	941	1,883	2,824	5,647	11,988	17,982	-	-	-	41,916
On-balance sheet gap		1,617,682	50,287	(1,539)	(2,339)	(4,690)	(9,976)	(15,858)	4,587	10,745	11,431	1,575,034
Non financial assets												
Operating fixed assets		656,972										
Other assets		18,683										
Deferred tax asset		71,780										
		747,435										
Non financial liabilities												
Other liabilities		5,443										
		5,443										
Total net assets		2,359,674										
Off-balance sheet financial instruments												
Forward Lending		-	-	-	-	-	-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total Yield / Profit Risk Sensitivity Gap			50,287	(1,539)	(2,339)	(4,690)	(9,976)	(15,858)	4,587	10,745	11,431	1,575,034
Cumulative Yield / Profit Risk Sensitivity Gap			50,287	48,748	46,409	41,719	31,743	15,885	20,472	31,217	42,648	1,617,682

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

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

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

40.3.1 Maturities of assets and liabilities

	2007									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	Rupees									
Assets										
Cash and balances with treasury banks	991,301	991,301	-	-	-	-	-	-	-	-
Balances with other banks	419,737	419,737	-	-	-	-	-	-	-	-
Due from financial institutions	1,350,000	1,150,000	200,000	-	-	-	-	-	-	-
Investments	2,275,123	-	676,846	500,845	200,338	826,352	-	70,742	-	-
Financings	2,621,525	255,444	610,501	559,396	277,881	319,002	343,994	106,500	42,992	105,815
Operating fixed assets	953,864	24,454	48,908	73,362	146,724	56,912	26,131	31,084	45,235	501,054
Deferred tax assets	109,933	-	-	-	-	-	-	109,933	-	-
Other assets	219,992	80,062	103,755	12,126	13,839	10,210	-	-	-	-
	8,941,475	2,920,998	1,640,010	1,145,729	638,782	1,212,476	370,125	318,259	88,227	606,869
Liabilities										
Bills payable	99,753	99,753	-	-	-	-	-	-	-	-
Due to financial institutions	68,908	68,908	-	-	-	-	-	-	-	-
Deposits and other accounts	4,552,909	3,160,396	115,930	33,506	1,160,052	-	35,500	47,525	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	52,609	1,518	3,174	4,942	11,006	21,098	10,871	-	-	-
Other liabilities	347,741	109,910	20,378	9,622	11,035	655	32,002	164,139	-	-
	5,121,920	3,440,485	139,482	48,070	1,182,093	21,753	78,373	211,664	-	-
Net assets	3,819,555	(519,487)	1,500,528	1,097,659	(543,311)	1,190,723	291,752	106,595	88,227	606,869
Share capital	3,000,000									
Share subscription money	1,007,855									
Unappropriated Loss	(188,300)									
Surplus/(Deficit) on revaluation of assets	-									
	3,819,555									

	2006									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	Rupees									
Assets										
Cash and balances with treasury banks	34	34	-	-	-	-	-	-	-	-
Balances with other banks	51,069	51,069	-	-	-	-	-	-	-	-
Due from financial institutions	1,597,947	922,377	675,570	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Financing	32,906	167	360	508	972	2,012	2,124	4,587	10,745	11,431
Operating fixed assets	658,972	8,994	17,987	26,981	53,961	32,156	13,414	16,687	14,203	472,589
Deferred tax assets	71,780	1,957	3,915	5,872	11,744	12,073	12,073	24,146	-	-
Other assets	37,590	5,941	13,103	4,366	6,716	3,142	-	-	4,322	-
	2,448,298	990,539	710,935	37,727	73,393	49,383	27,611	45,420	29,270	484,020
Liabilities										
Bills payable	-	-	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	41,255	941	1,883	2,824	5,647	11,988	17,982	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	47,359	4,253	2,495	33,852	6,759	-	-	-	-	-
	88,624	5,194	4,378	36,676	12,406	11,988	17,982	-	-	-
Net assets	2,359,674	985,345	706,557	1,051	60,987	37,395	9,629	45,420	29,270	484,020
Share capital	250,533									
Share subscription money	2,239,942									
Unappropriated Loss	(130,801)									
Surplus/(Deficit) on revaluation of assets	-									
	2,359,674									

40.4 Operational Risk

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

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

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

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

41. DATE OF AUTHORIZATION

These financial statements were authorized for issue on 16 MAR 2009 by the Board of Directors of the bank.

42. GENERAL

42.1 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements as follows:

Rs 2.252 million has been re-classified from receivable against commodity murabaha (Due from financial institutions) to profit / return accrued in local currency (Other Assets).

Rs 250.533 million has been re-classified from 'issue of share capital' to 'receipt of share subscription money' in the cash flow statement.

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

President / Chief Executive	Director	Director	Director