EMIRATES GLOBAL ISLAMIC BANK LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

A.F.Ferguson & Co
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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Emirates Global Islamic Bank Limited** as at December 31, 2008, and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for ten branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2008 and its true balance of loss, its cash flows and changes in equity for the year then ended; and

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

Without qualifying our opinion, we draw attention to note 40 to the financial statements which more fully explains that the bank has not met the minimum paid up capital requirement (net of losses) of Rs 5 billion as applicable to the bank for the current year. The State Bank of Pakistan has granted extension to the bank upto March 31, 2009 in respect of meeting the afore-mentioned capital requirement.

Chartered Accountants
Karachi

0 9 MAR 2009

EMIRATES GLOBAL ISLAMIC BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2008

	Note	2008	2007
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	6	909,378	991,301
Balances with other banks	7	195,134	419,737
Due from financial institutions	8	320,000	1,350,000
Investments	9	2,756,159	2,275,123
Financing	10	9,967,625	2,621,525
Operating fixed assets	11	1,619,029	953,864
Deferred tax assets - net	12	239,336	109,933
Other assets	13	530,726	219,992
		16,537,387	8,941,475
LIABILITIES			
Bills payable	15	148,403	99,753
Due to financial institutions	16	725,000	68,908
Deposits and other accounts	17	10,892,602	4,552,909
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	18	77,486	52,609
Deferred tax liabilities		-	-
Other liabilities	19	625,057	347,741
		12,468,548	5,121,920
NET ASSETS		4,068,839	3,819,555
REPRESENTED BY			
Share capital	20	4,500,000	3,000,000
Share subscription money	20.5	657	1,007,855
Reserves		-	-
Accumulated loss		(448,416)	(188,300)
		4,052,241	3,819,555
Surplus on revaluation of assets	28	16,598	-
		4,068,839	3,819,555
CONTINGENCIES AND COMMITMENTS	21		

The annexed notes 1 to 43 form an integral part of these financial statements

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

EMIRATES GLOBAL ISLAMIC BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008	2007
		Rupees in '000	
Profit / return earned on financings, investments and placements	22	1,060,376	381,172
Return on deposits and other dues expensed	23	598,062	125,011
Net spread earned		462,314	256,161
Provision against non-performing financings	10.7	9,043	2,138
Provision for diminution in the value of investments	9.3.1	6,534	5,894
Reversal of provision against non-performing commodity murabaha	8.3	(17,388)	-
		(1,811)	8,032
Net spread after provisions		464,125	248,129
Other income			
Fee, Commission and Brokerage Income		39,775	15,079
Dividend Income		10,308	-
Income / (loss) from dealing in foreign currencies		(5,089)	5,137
Capital gain on sale of securities	24	1,462	23,147
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other Income	25	48,655	20,400
Total other income		95,111	63,763
		559,236	311,892
Other expenses			
Administrative expenses	26	949,634	395,539
Other provisions / write offs		-	-
Other charges	27	965	7
Total other expenses		950,599	395,546
		(391,363)	(83,654)
Extra ordinary / unusual items		-	-
Loss before taxation		(391,363)	(83,654)
Taxation - Current - for the year		-	(11,861)
- for prior year		-	(137)
- Deferred	29	131,247	38,153
		131,247	26,155
Loss after taxation		(260,116)	(57,499)
Accumulated loss brought forward		(188,300)	(130,801)
Accumulated loss carried forward		(448,416)	(188,300)
Loss per share	30	(0.60)	(0.21)

The annexed notes 1 to 43 form an integral part of these financial statements

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

EMIRATES GLOBAL ISLAMIC BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008	2007
		Rupees in '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(391,363)	(83,654)
Adjustments:			
Dividend income		(10,308)	-
Depreciation		70,667	31,746
Amortization		24,851	11,820
Provision against non-performing financings		9,043	2,138
Provision for diminution in the value of investments		6,534	5,894
Finance charges on leased assets		8,100	4,556
Provision against non-performing commodity murabaha		(17,388)	-
		91,499	56,154
		(299,864)	(27,500)
(Increase) / decrease in operating assets			
Due from financial institutions		1,047,388	247,947
Financing		(7,355,143)	(2,590,757)
Others assets (excluding advance taxation)		(302,464)	(177,182)
		(6,610,219)	(2,519,992)
Increase / (decrease) in operating liabilities			
Bills payable		48,650	99,753
Borrowings		656,092	68,908
Deposits and other accounts		6,339,693	4,552,909
Other liabilities		277,316	305,825
		7,321,751	5,027,395
Income tax paid		(6,426)	(22,661)
Net cash inflow from operating activities		405,242	2,457,242
CASH FLOW FROM INVESTING ACTIVITIES			
Net Investments in available-for-sale securities		(470,972)	(2,281,017)
Net Investments in operating fixed assets		(708,773)	(315,859)
Dividend income received		10,308	-
Received on disposal of operating fixed assets		6,617	18
Net cash outflow on investing activities		(1,162,820)	(2,596,858)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments of lease obligations		(41,750)	(17,829)
Receipt of shares subscription money		492,802	1,517,380
Net cash inflow from financing activities		451,052	1,499,551
Increase / (decrease) in cash and cash equivalents		(306,526)	1,359,935
Cash and cash equivalents as at January 01		1,411,038	51,103
Cash and cash equivalents as at December 31	31	1,104,512	1,411,038

The annexed notes 1 to 43 form an integral part of these financial statements

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

EMIRATES GLOBAL ISLAMIC BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

	Share capital	Share subscription money	Capital reserve	Statutory reserve	Revenue reserve	Accumulated loss	Total
	Rupees in '000						
Balance as at January 01, 2007	250,533	2,239,942	-	-	-	(130,801)	2,359,674
Receipt of shares subscription money	-	1,517,380	-	-	-	-	1,517,380
Issue of share capital	2,749,467	(2,749,467)	-	-	-	-	-
Loss for the year	-	-	-	-	-	(57,499)	(57,499)
Balance as at December 31, 2007	3,000,000	1,007,855	-	-	-	(188,300)	3,819,555
Receipt of shares subscription money	-	492,802	-	-	-	-	492,802
Right shares issued during the period	1,500,000	(1,500,000)	-	-	-	-	-
Loss for the year	-	-	-	-	-	(260,116)	(260,116)
Balance as at December 31, 2008	4,500,000	657	-	-	-	(448,416)	4,052,241

The annexed notes 1 to 43 form an integral part of these financial statements

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

1. LEGAL STATUS AND NATURE OF BUSINESS

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

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

The Bank was operating through forty branches as at December 31, 2008 (2007: ten branches). 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 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

During the year ended December 31, 2008, IFRIC Interpretation 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' became effective. The interpretation provides guidance on assessing the limit in IAS 19 - 'Employee Benefits' on the amount of the surplus that can be recognised as an asset. It also explains how the gratuity asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have a significant impact on the bank's financial statements as the bank's gratuity fund is not subject to any minimum funding requirements.

There are other interpretations that were mandatory for accounting periods beginning on or before January 1, 2008 but were considered not to be relevant or did not have any significant effect on the bank's operations.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the bank's accounting periods beginning on or after January 1, 2009:

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

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

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

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

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

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

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

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

IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. This amendment is not expected to have a significant effect on the bank's financial statements.

IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This amendment is not expected to have a significant effect on the bank's financial statements.

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

IFRS 7 'Financial Instruments: Disclosures'. The SECP vide S.R.O 411 (I) / 2008 dated April 28, 2008 notified the adoption of IFRS 7 'Financial Instruments: Disclosures'. IFRS 7 is mandatory for the bank's accounting period beginning on or after the date of notification i.e. April 28, 2008. IFRS 7 has superseded IAS 30 and disclosure requirements of IAS 32. The bank will apply IFRS 7 from January 1, 2009. Adoption of IFRS 7 will only impact the format and extent of disclosures presented in the financial statements.

IFRS 8 'Operating segments', (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This may result in an increase in the number reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The management is in the process of assessing the presentation impact of its adoption on the bank's financial statements.

IFAS 2 'Ijarah'. The State Bank of Pakistan vide IBD circular No. 01 dated January 27, 2009 has directed that Islamic Financial Accounting Standard (IFAS) 2 'Ijarah' shall be followed for the bank's accounting period beginning on January 1, 2009. This standard requires that the 'Ijarah' transactions should be accounted for as operating leases whereby assets leased out under Ijarah should be recorded as fixed assets in the books of the bank and should be classified separately according to the nature of such assets distinguished from the assets in the use of the bank. These assets should be depreciated over the term of the 'ijarah'. Rental income should be 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.

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

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) and financings (notes 5.3 and 10.7)
iii) Current and deferred taxation (notes 5.7, 12 and 29)
iv) Provision for staff retirement benefits under the defined benefit plan (notes 5.8 and 33)
v) Determination of useful lives and depreciation rates of fixed assets (note 5.5 and 11)

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 charged off to the profit and loss account.

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

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 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 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 Advisor of the bank.

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 on investment in Sukuk bonds is recognised on accrual basis.

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. 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, as computed as of the previous balance sheet date, 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, investments, financing and certain receivables.

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

Financial assets and financial liabilities are 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 acquisitions, 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.

Geographical segments

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

5.16 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 a liability in the banks' financial statements in the year in which these are approved.

6. CASH AND BALANCES WITH TREASURY BANKS

	Note	2008	2007
		Rupees in '000	
In hand			
Local currency		199,550	76,566
Foreign currency		97,131	20,556
With State Bank of Pakistan in			
Local currency current account	6.1	506,711	885,147
Foreign currency current account	6.2	3,720	4,654
Foreign currency deposit account	6.3	76,199	4,378
		586,630	894,179
With National Bank of Pakistan		26,067	-
		909,378	991,301

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	2008	2007
		Rupees in '000	
Inside Pakistan			
On current account		2,402	3,228
On deposit account	7.1	168,928	413,095
Outside Pakistan			
On current account		23,804	3,414
		195,134	419,737

7.1 These carry a return at rates ranging from 4.63% to 13.5% (2007: 4.40% to 9.00%) per annum.

8. DUE FROM FINANCIAL INSTITUTIONS

	Note	2008	2007
		Rupees in '000	
Call money lendings		-	-
Repurchase agreement lendings (Reverse Repo)		-	-
Receivable against commodity murabaha	8.2 & 8.2.1	320,000	1,350,000
		320,000	1,350,000

8.1 Particulars of due from financial institutions

	2008	2007
In local currency	320,000	1,350,000
In foreign currency	-	-
	320,000	1,350,000

		Note	2008	2007
8.2	**Receivable against commodity murabaha**		**Rupees in '000**	
	Gross amount receivable against commodity murabaha		338,436	1,389,043
	Less: Profit for future periods		15,195	4,824
	Profit receivable as at December 31, 2008 - shown under other assets		3,241	9,219
			320,000	1,375,000
	Provision against commodity murabaha	8.3	-	25,000
			320,000	1,350,000

8.2.1 This represents placements made with various financial institutions against commodity murabaha agreement and carry return at rates ranging from 23% to 25% (2007: 9.60% to 10.5%) per annum.

		Note	2008	2007
8.3	**Particulars of provision against commodity murabaha**		**Rupees in '000**	
	Opening balance		25,000	-
	Charge for the year		-	25,000
	Reversal		(17,388)	-
	Writtenoff		(7,612)	-
	Closing balance		-	25,000

9. INVESTMENTS

9.1 Investments by types	Note	2008			2007		
		Held by Bank	**Given as Collateral**	**Total**	**Held by Bank**	**Given as Collateral**	**Total**
		Rupees in '000					
Available for sale							
Sukuk certificates / bonds	9.5	2,594,177	-	2,594,177	2,228,817	-	2,228,817
Ordinary shares	9.6	103,768		103,768	-	-	-
Associate							
Takaful Pakistan Limited	9.4	52,200	-	52,200	52,200	-	52,200
		2,750,145	-	2,750,145	2,281,017	-	2,281,017
Less: Provision for diminution in value of Investments	9.3	(12,428)	-	(12,428)	(5,894)	-	(5,894)
Investments (net of provision)		2,737,717	-	2,737,717	2,275,123	-	2,275,123
(Deficit)/ surplus on revaluation of 'available for sale' securities	28	18,442	-	18,442	-	-	-
Total Investments at market value		2,756,159	-	2,756,159	2,275,123	-	2,275,123

		Note	2008	2007
9.2	**Investments by segments**		**Rupees in '000**	
	Bonds			
	Sukuk certificates / bonds	9.5	2,594,177	2,228,817
	Fully paid-up ordinary shares			
	Gharibwal cement	9.6	100,000	-
	Huffaz Seamless Pipes	9.6	3,768	-
	Investment in an associate	9.4	52,200	52,200
	Total Investments at cost		2,750,145	2,281,017
	Less: Provision for diminution in value of Investments	9.3	(12,428)	(5,894)
	Investments (net of provision)		2,737,717	2,275,123
	Deficit / surplus on revaluation of "available for sale' securities	28	18,442	-
	Total Investments at market value		2,756,159	2,275,123

9.3 Particulars of provision for diminution in value of investments:

		Note	2008	2007
9.3.1	Opening balance		5,894	-
	Charged during the year		6,534	5,894
	Reversed during the year		-	-
	Closing balance	9.3.3	12,428	5,894

	Note	2008	2007
9.3.2 Particulars of provision in respect of type and segment		Rupees in '000	
Investment in an associate			
Takaful Pakistan Limited		12,428	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

	2008	2007	2008	2007	Percentage of equity holding %	Latest available audited financial statements	Name of the chief executive
	Number of shares		Rupees in '000				
Takaful Pakistan Limited	5,100,000	5,100,000	52,200	52,200	17	December 31,2007	Captain M. Jamil Akthar Khan
			52,200	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 / bonds

Name of the investee company	2008	2007	2008	2007
	Number of certificates		Cost Rupees in '000	
Sukuk certificates / bonds				
Coastal Refinery Limited*	-	-	59,185	24,436
New Allied Electronics Industries Limited	-	80,000	-	25,000
National Industrial Parks Development and Management Company	327,409	396,000	1,656,896	2,003,381
Engro Chemical Pakistan Limited	-	10,000	-	50,000
Karachi Shipyard & Engineering Works	87,600	25,200	438,000	126,000
House Building Finance Corporation	12,600	-	63,635	-
Educational Excellence Limited **	33,000	-	165,000	-
GOP ijarah sukuk bonds	2,115,000	-	211,461	-
			2,594,177	2,228,817

9.5.1 Other particulars of sukuk bonds are as follows:

Particulars	Certificates denomination in PKR	Profit rate per annum	Profit payment	Redemption terms
Coastal Refinery Limited*	5,000	6 month KIBOR + 3.75 %	Semi annually	Payable in 10 consecutive semi annual installments commencing from the 18th month from the date of first draw down.
New Allied Electronics Industries 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.
Ijarah Sukkuk Bond	100	T-Bill + 0.49 %	Semi annually	Bullet payment on maturity.
Educational Excellence Limited **	5,000	6 month KIBOR + 2.50 %	Semi annually	Payable in 15 equal quarterly installments commencing from the 15th month from the date of drawdown.
House Building Finance Corporation	5,000	6 month KIBOR + 1.00 %	Semi annually	Payable in 10 equal semi annual installment starting from the 12th month after issue date.

* Out of the total participation of Rs. 200 million, the bank has made partial disbursement of Rs. 59.185 million till December 31, 2008. Until the entire disbursement is not made, the Sukuk Certificates cannot be issued.

**Certificates not issued as yet. Under Process.

9.6 Particulars of investments in ordinary shares of listed companies

Company Name	Number of shares / certificates held	Paid up value per share / certificates	Total paid up value	Cost	Market Value
Available for sale					
Gharibwal Cement Limited	6,666,666	10	66,667	100,000	117,600
Huffaz Seamless Pipes Limited	139,941	10	1,399	3,768	4,610
				103,768	122,210

9.7 Quality of available for sale securities

	2008		2007	
	Amount (Rupees in '000)	Rating	Amount (Rupees in '000)	Rating
Coastal Refinery Limited*	59,185	Unrated	24,436	Unrated
New Allied Electronics Industries Limited	-	D	25,000	A-
National Industrial Parks Development and Management Company	1,656,896	GOP Guaranteed	2,003,381	GOP Guaranteed
Engro Chemical Pakistan Limited	-	Unrated	50,000	Unrated
Karachi Shipyard & Engineering Works	438,000	GOP Guaranteed	126,000	GOP Guaranteed
Ijarah Sukkuk Bond	211,461	GOP Guaranteed	-	
Educational Excellence Limited	165,000	Unrated	-	
House Building Finance Corporation	63,635	A+	-	
Takaful Pakistan Limited	52,200	A-	52,200	A-
Huffaz Seamless Pipes	3,768	Unrated	-	
Gharibwal Cement Limited	100,000	BB+ *	-	
Total	2,750,145		2,281,017	

* Represents rating of the entity

10. FINANCING

	Note	2008	2007
		Rupees in '000	
Inside Pakistan			
- Murabaha finance	10.1	4,762,840	1,152,289
- Net investment in Ijarah	10.2	1,454,505	861,670
- Advance against ijarah financing	10.3	577,995	204,557
- Diminishing musharaka financing		2,471,518	312,840
- Over due acceptance payment		7,666	9,351
- Salam financing		607,183	75,000
- Musawamah Financing		79,892	-
- Qarz-e-Hasna	10.4	15,652	7,581
- Rahnuma Travel Services		1,555	375
Financing-gross		9,978,806	2,623,663
Provision for non-performing financing - specific	10.7	2,047	-
Provision for non-performing financing - general	10.7	9,134	2,138
Financing-net of provision		9,967,625	2,621,525

	Note	2008	2007
		Rupees in '000	
10.1 Murabaha receivable - gross	10.1.1	4,990,259	1,215,756
Less: Deferred murabaha income		100,010	31,243
Profit receivable as at December 31, 2008		127,409	32,224
Murabaha financing		4,762,840	1,152,289

10.1.1 This includes advance against murabaha amounting to Rs 1,612.147 million (2007: 249.413 million).

10.2 Net Investment in Ijarah

	2008				2007			
	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	627,010	914,487	8,066	1,549,563	264,307	591,175	4,810	860,292
Residual value	3,534	259,685	7,291	270,510	-	160,242	3,892	164,134
Minimum ijarah payments	630,544	1,174,172	15,357	1,820,073	264,307	751,417	8,702	1,024,426
Profit for future periods	187,767	177,450	351	365,568	66,900	93,806	2,050	162,756
Present value of minimum ijarah payments	442,777	996,722	15,006	1,454,505	197,407	657,611	6,652	861,670

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.

	2008	2007
10.5 Particulars of financing	Rupees in '000	
10.5.1 In local currency	9,967,625	2,621,525
In foreign currency	-	-
	9,967,625	2,621,525
10.5.2 Short-term	6,691,559	1,703,222
Long term	3,276,066	918,303
	9,967,625	2,621,525

10.6 Advances include Rs 13.537 million (2007: Rs Nil) which have been placed under non-performing status as detailed below:

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

Category of classification	2007				
	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
	-	-	-	-	-

Ab/to

10.7 Particulars of provision against non-performing financing

	Note	2008 Specific	2008 General	2008 Total	2007 Specific	2007 General	2007 Total
		(Rupees in '000)					
Opening balance		-	2,138	2,138	-	-	-
Charge for the year	10.7.1	2,047	6,996	9,043	-	2,138	2,138
Reversals		-	-	-	-	-	-
Closing balance		2,047	9,134	11,181	-	2,138	2,138

10.7.1 Particulars of provisions against non-performing financing

	2008 Specific	2008 General	2008 Total	2007 Specific	2007 General	2007 Total
	(Rupees in '000)					
In local currency	2,047	9,134	11,181	-	2,138	2,138
In foreign currency	-	-	-	-	-	-
	2,047	9,134	11,181	-	2,138	2,138

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

	2008	2007
	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	150,783	32,906
Financing during the year	167,169	130,024
Repayments	(26,039)	(12,147)
Balance at the end of the year	291,913	150,783
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	9,259	-
Financing during the year	8,968	9,676
Repayments	(4,029)	(417)
Balance at the end of the year	14,198	9,259

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

11. OPERATING FIXED ASSETS

	Note	2008	2007
		Rupees in '000	
Capital work-in-progress	11.1	501,931	236,207
Property and equipment	11.2	1,065,992	686,875
Intangible assets	11.3	51,106	30,782
		1,619,029	953,864

11.1 Capital work-in-progress

	2008	2007
Advance against purchase of property	251,680	131,663
Advances to suppliers and contractors	250,251	104,544
	501,931	236,207

11.2 Property and equipment

2008

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

2007

	COST			ACCUMULATED DEPRECIATION				
	As at January 1, 2008	Additions/ (Disposals) / (write offs)	As at December 31, 2008	As at January 1, 2008	Charge for the year / (reversal on disposals) / (reversal on write offs)	As at December 31, 2008	Written down value as at December 31, 2008	Rate of depreciation
	Rupees in '000							%
Leasehold land	462,600	-	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	39,103	525	2,660	3,183	35,920	10%
		(20)			(2)			
Vehicles	270	1,365	1,635	17	213	230	1,405	20%
	533,263	127,073	660,316	6,623	20,162	26,783	633,533	
		(20)			(2)			
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	731,162	12,543	31,746	44,287	686,875	
		(20)			(2)			

11.3 Intangible assets

2008

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

2007

	COST			ACCUMULATED 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	Written down value as at December 31, 2007	Rate of amortization
	Rupees in '000							%
Computer software	15,247	28,347	43,594	992	11,820	12,812	30,782	33%

11.4 Disposals of operating fixed assets during the year

The details of disposals of operating fixed assets whose original cost or book value exceeds one million rupees or two hundred and fifty thousand rupees respectively, whichever is lower, are given below:

Particulars		Cost	Accumulated depreciation	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser / Insurer
Other Equipment							
Disposed							
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000							
	I- Mate K Jam	20	12	8	8	Sold Under HR Poicy	Shoaib Ahmad (Ex-executive)
		20	12	8	8		
Motor vehicles							
Disposed							
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000							
	Honda Civic	1,043	596	447	447	Sold Under HR Poicy	Ahmed Saqib Asad
	Honda Civic	1,238	732	506	506		Ahmed Jamal Khan
	Suzuki Alto	469	188	281	281	Sold Under HR Poicy	Bilal Aqleem
	Suzuki Alto	469	227	242	242		Muhammad Ali
	Suzuki Alto	469	203	266	266		Syed Zulqarnain Raza
	Suzuki Alto	469	203	266	266		Ali Abbas Munir
	Suzuki Alto	464	155	309	309		Usman Fayyaz
	Suzuki Alto	469	149	320	320		Shezad Sheikh
	Suzuki Alto	469	133	336	336		Yousuf Ikram
	Suzuki Alto	469	188	281	281		Muhammad Ijaz Siddiqui
	Suzuki Alto	464	155	309	309		Saif Rafiq
	Suzuki Cultus	560	243	317	317	Sold Under HR Poicy	Muhammad Nasir Khan
	Suzuki Cultus	560	224	336	336		Asim Maniar
	Toyota Corolla	925	77	848	848	Sold Under HR Poicy	Kunwar atif
	Honda City	887	369	518	517	Sold Under HR Poicy	Syed Asif Azeem
	Honda City	846	310	536	536		Mohammad Ismail
	Honda City	840	350	490	490		Shezad Ismail
	Honda City	886	295	591	-		Insurance claim received by Lessor
	Suzuki Bolan	367	67	300	-		
		12,363	4,864	7,499	6,607		
2008		12,383	4,876	7,507	6,615		
2007		20	2	18	18		

Atto

12. DEFERRED TAX ASSETS - NET

	2008	2007
	Rupees in '000	
Deferred debits arising in respect of		
Provision against non performing financings	3,913	748
Provision against diminution in value of investments	-	2,063
Provision against commodity murabaha	-	8,750
Pre-commencement expenditure	38,634	51,512
Deferred tax asset in respect of minimum tax to be carried forward and adjusted against tax liability of future years	2,427	2,427
Tax loss	359,254	233,064
	404,228	298,564
Deferred credits arising due to		
Fixed assets-leased	3,463	257
Tax effects of accelerated depreciation charged for tax purposes on owned assets	74,973	27,408
Tax effect of fixed assets-subject to ijarah	84,612	160,966
Tax effect of revaluation of AFS investments	1,844	-
	164,892	188,631
	239,336	109,933

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.

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

	Note	2008	2007
		Rupees in '000	
Profit / return accrued in local currency		348,086	150,797
Advances, deposits and prepayments	13.1	137,197	55,602
Advance taxation (payments less provision)		13,490	5,220
Unrealised gain on forward foreign exchange contracts		-	4,373
Branch adjustment account		27,456	-
Receivable in respect of defined benefit plan	33.6	3,484	3,148
Stationery in hand		1,013	852
		530,726	219,992

13.1 This includes prepaid rent and prepaid insurance amounting to Rs 102.231 million(2007: Rs 38.872 million) and Rs 7.609 million (2007: Rs 4.458 million) respectively.

14. CONTINGENT ASSETS

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

15. BILLS PAYABLE

	2008	2007
	Rupees in '000	
In Pakistan	148,403	99,753
Outside Pakistan	-	-
	148,403	99,753

16. DUE TO FINANCIAL INSTITUTIONS

	2008	2007
In Pakistan	725,000	-
Outside Pakistan	-	68,908
	725,000	68,908

	2008	2007
	Rupees in '000	
16.1 Particulars of due to financial institutions with respect to currencies		
In local currency	725,000	-
In foreign currency	-	68,908
	725,000	68,908
16.2 Details of due to financial institutions secured / unsecured		
Unsecured		
Overdrawn nostro accounts	-	68,908
Wakalah Borrowing	725,000	-
	725,000	68,908
16.3 Particulars of due to financial institutions		
Short-term	725,000	68,908
Long-term	-	-
	725,000	68,908

17. DEPOSITS AND OTHER ACCOUNTS

	2008	2007
Customers		
Fixed deposits	5,593,099	2,156,105
Savings deposits	2,319,177	1,628,093
Current Accounts-non-remunerative	1,808,931	527,615
Margin deposits	36,691	9,806
	9,757,898	4,321,619
Financial Institutions		
Remunerative deposits	1,128,519	231,286
Non-remunerative deposits	6,185	4
	1,134,704	231,290
	10,892,602	4,552,909

17.1 Particulars of deposits

	2008	2007
In local currency	10,197,182	4,506,593
In foreign currencies	695,420	46,316
	10,892,602	4,552,909

18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	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	41,298	9,398	31,900	25,956	5,316	20,640
Later than one year but not later than five years	53,410	7,824	45,586	34,873	2,904	31,969
Later than five years	-	-	-	-	-	-
	94,708	17,222	77,486	60,829	8,220	52,609

The bank has entered into various finance lease arrangements in respect of vehicles. The profit rates used as the discounting factor range between 13% to 22%(2007: 11.15% to 16.32%) per annum.

19. OTHER LIABILITIES

	Note	2008	2007
		Rupees in '000	
Return on deposits and borrowings:			
- payable in local currency		140,784	79,908
- payable in foreign currency		479	38
Accrued expenses		5,282	20,258
Payable to Emirates Financial Holdings Limited		12	12,012
Payable to Emirates Global Investments Limited		1,384	17,363
Payable to Emirates International Holdings Limited		2,500	2,500
Payable to Trust Securities Brokerage Limited		439	545
Payable against software		-	4,328
Retention money		3,831	1,801
Branch adjustment account		-	1,995
Security deposit against ijarah		270,510	164,134
Payable to charity	19.1 & 19.1.1	31,895	3,494
Unrealised loss on mark to market of forward exchange contracts		2,787	-
Others		165,154	39,365
		625,057	347,741

19.1 Payable to charity

	2008	2007
Opening balance	3,494	390
Amount transferred during the year	28,401	3,104
Payments/ Utilization during the year	-	-
Closing balance	31,895	3,494

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.

20. SHARE CAPITAL

20.1 Authorized Capital

2008	2007		2008	2007
Number of shares			Rupees in '000	
600,000,000	600,000,000	Ordinary shares of Rs 10 each	6,000,000	6,000,000

20.2 Issued, subscribed and paid up capital

2008	2007		2008	2007
Number of shares			Rupees in '000	
		Ordinary shares		
450,000,000	300,000,000	Fully paid in cash	4,500,000	3,000,000
-	-	Issued as bonus shares	-	-
-	-	Issued for consideration other than cash	-	-
450,000,000	300,000,000		4,500,000	3,000,000

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	300,000,000	3,000,000
Right shares issued during the year	150,000,000	1,500,000
Closing balance at December 31	450,000,000	4,500,000

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20.4 Major shareholders as at December 31, 2008 are as follows:

Name of shareholder	Number of shares held	Percentage of shareholding
Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi	133,949,984	29.77%
Mal Alkhaleej Investment LLC	225,000,000	50.00%
Emirates Financial Holding LLC	52,375,500	11.64%
	411,325,484	91.41%

20.5 The break-up of share subscription money as at December 31, 2008 and as at December 31, 2007 is as follows:

	2008	2007
	Rupees in '000	
Syed Tariq Husain	-	13,100
Emirates Financial Holding LLC	-	244,098
Mal Alkhaleej Investment LLC	657	750,657
	657	1,007,855

21. CONTINGENCIES AND COMMITMENTS

21.1 Transaction-related contingent liabilities

	2008	2007
Guarantees	504,957	1,181,066

21.2 Trade-related contingent liabilities

	2008	2007
Letters of credit	259,694	246,840
Acceptances	85,747	1,529,896

21.3 Commitments in respect of forward exchange contracts

	2008	2007
Purchase	1,303,054	560,568
Sale	628,971	379,286

21.4 Commitments for the acquisition of operating fixed assets

	2008	2007
Commitments in respect of purchase of property	281,728	400,056

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

	2008	2007
On financing to		
Customers	719,612	115,032
Employees	6,484	1,836
On investments in		
Available for sale securities	299,977	93,593
On Deposits with banks	16,038	30,677
On placements against commodity murabaha	18,135	139,730
On Wakalah transactions	130	304
	1,060,376	381,172

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		Note	2008	2007
23.	**RETURN ON DEPOSITS AND OTHER DUES EXPENSED**		**Rupees in '000**	
	Return on deposits and other accounts		530,619	120,768
	Return on other short term borrowings		67,443	4,243
			598,062	125,011
24.	**CAPITAL GAIN ON SALE OF SECURITIES**			
	Gain on sale of sukuk certificates		1,416	23,147
	Gain on sale of shares-listed		46	-
			1,462	23,147
25.	**OTHER INCOME**			
	Rent on property/ lockers		1,142	362
	Recovery income		1,490	1,969
	Financial advisory fee		43,839	18,069
	Others		2,184	-
			48,655	20,400
26.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other staff benefits.		338,334	157,382
	Contribution to defined contribution plan		14,539	6,130
	Charge for defined benefit plan	33.7	14,064	6,942
	Rent, taxes, insurance, electricity, etc.		170,661	59,029
	Legal and professional charges	26.1	30,271	22,107
	License fee		13,210	5,617
	Communication		35,606	14,606
	Brokerage & commission		48,018	5,034
	Traveling and conveyance		38,871	12,405
	Repairs and maintenance		10,412	4,473
	Training and development		3,421	1,386
	Stationery and printing		18,259	4,529
	Advertisement and publicity		68,993	32,346
	Auditors' remuneration	26.2	1,242	839
	Depreciation	11.2	70,667	31,746
	Amortization	11.3	24,851	11,820
	Security charges		19,042	5,348
	Newspaper and periodicals		1,296	767
	Financial charges on leased assets		8,100	4,556
	Entertainment		10,966	4,324
	Bank charges		1,139	1,461
	Miscellaneous expenses		7,672	2,692
			949,634	395,539

26.1 It includes Shariah advisory fee amounting to Rs 2.955 million (2007: Rs 1.815 million).

		2008	2007
26.2	**Auditors' remuneration**	**Rupees in '000**	
	Audit fee	600	400
	Half yearly review fee	250	200
	Fee for audit of employees' funds	-	50
	Special certifications	100	100
	Out-of-pocket expenses	292	89
		1,242	839
27.	**OTHER CHARGES**		
	Penalties imposed by the State Bank of Pakistan		
	- on delayed / incomplete / wrong reporting to SBP, non-compliance etc.	963	-
	- on shortage of statutory liquidity requirement	2	6
	- on shortage of cash reserve requirement and special cash reserve requirement against foreign currency deposits	-	1
		965	7

	2008	2007
	Rupees in '000	

28. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

Surplus on revaluation of available for sale securities:

	2008	2007
Ordinary shares - listed	18,442	-
Related deferred tax liability	(1,844)	-
	16,598	-

29. TAXATION

	2008	2007
For the year		
Current	-	(11,861)
Deferred	131,247	38,153
	131,247	26,292
For prior year		
Current	-	(137)
Deferred	-	-
	-	(137)
	131,247	26,155

29.1 Relationship between tax expense and accounting profit

	2008	2007
Loss before taxation for the year	(391,363)	(83,654)
Tax at the applicable tax rate of 35 percent	(136,977)	(29,279)
Tax effect of differential in tax rates	-	1,053
Tax effect of permanent differences	10,278	-
Current tax effect due to prior year charge	-	137
Others	(4,548)	1,934
	(131,247)	(26,155)

30. LOSS PER SHARE

	2008	2007
Loss after taxation for the year	(260,116)	(57,499)
	2008	**2007**
	Number of shares	
Weighted average number of ordinary shares	435,116,049	267,609,019
	Rupees	
Loss per share	(0.60)	(0.21)

30.1 There were no convertible dilutive potential ordinary shares in issue as at December 31, 2007 and 2008.

31. CASH AND CASH EQUIVALENTS

	Note	2008	2007
		Rupees in '000	
Cash and balances with treasury banks	6	909,378	991,301
Balances with other banks	7	195,134	419,737
		1,104,512	1,411,038

	2008	2007
	Number	
32. STAFF STRENGTH		
Permanent	486	226
Temporary / on contractual basis	4	4
Consultants	9	3
Bank's own staff strength at the end of the year	499	233
Outsourced	200	98
Total Staff Strength	699	331

33. DEFINED BENEFIT PLAN

33.1 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 basic salary for each completed year of service, subject to a minimum of three years of service.

33.2 Principal actuarial assumptions

The latest actuarial valuation was carried out as at December 31, 2008 using the "Projected Unit Credit Actuarial Cost Method". The main assumptions used for actuarial valuation were as follows:

	2008	2007
	Per annum	
- Discount rate	15%	10%
- Expected rate of increase in salaries	15%	10%
- Expected rate of return on plan assets	15%	10%

	2008	2007
	Rupees in '000	
33.3 Reconciliation of (receivable)/payable to defined benefit plan		
Present value of defined benefit obligations	22,857	8,841
Fair value of plan assets	(23,855)	(10,167)
Net actuarial losses not recognised	(2,486)	(219)
Past service cost not recognised	-	(1,603)
	(3,484)	(3,148)
33.4 Movement in defined benefit obligation		
Obligation at the beginning of the year	8,841	-
Current service cost	12,594	5,156
Interest cost	884	321
Past service cost	-	3,207
Benefits paid	-	-
Actuarial (gain)/ loss on obligation	538	157
Obligation at the end of the year	22,857	8,841
33.5 Movement in fair value of plan assets		
Fair value at the beginning of the year	10,167	-
Expected return on plan assets	1,017	139
Contribution to the scheme	14,400	10,090
Benefits paid	-	-
Actuarial gain/ (loss) on plan assets	(1,729)	(62)
Fair value at the end of the year	23,855	10,167

		2008	2007
33.6	**Movement in (receivable)/payable to defined benefit plan**	**Rupees in '000**	
	Opening balance	(3,148)	-
	Charge for the year	14,064	6,942
	Bank's contribution to the fund made during the year	(14,400)	(10,090)
	Closing balance	(3,484)	(3,148)
33.7	**Charge for defined benefit plan**		
	Current service cost	12,594	5,156
	Interest cost	884	321
	Expected return on plan assets	(1,017)	(139)
	Past service cost	1,603	1,604
		14,064	6,942
33.8	**Actual return on plan assets**		
	Expected return on plan assets	1,017	139
	Actuarial gain/ (loss) on plan assets	(1,729)	(62)
		(712)	77

		2008 Rupees in '000	%	2007 Rupees in '000	%
33.9	**Components of plan assets as a percentage of total plan assets**				
	Bank balances	23,855	100	10,167	100
		23,855		10,167	

Based on the recommendation of the actuary the bank intends to charge an amount of Rs 14.932 million in the financial statements for the year ending December 31, 2009.

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 percent of basic salary.

	2008	2007
	Rupees in '000	
Contribution from the Bank	14,539	6,130
Contribution from the employee	14,539	6,130
	29,078	12,260

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2008	2007	2008	2007	2008	2007
	Rupees in '000					
Managerial remuneration	13,242	8,936	-	-	79,518	37,368
Charge for defined benefit plan	1,457	463			6,627	2,137
Contribution to defined contribution plan	1,748	894	-	-	6,962	3,339
Rent and house maintenance	3,973	4,481	-	-	23,865	11,208
Utilities allowance	1,324	894	-	-	7,952	3,737
Medical allowance	1,324	894	-	-	7,941	3,737
Bonus	1,457	3,047	-	-	17,880	9,410
Conveyance	461	530	-	-	14,369	5,722
	24,986	20,139	-	-	165,114	76,658
Number of persons	1	1	6	7	110	49

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

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36. 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.

36.1 On - balance sheet financial instruments

	2008		2007	
	Book Value	Fair Value	Book Value	Fair Value
	Rupees in '000			
Assets				
Cash and balances with treasury banks	909,378	909,378	991,301	991,301
Balances with other banks	195,134	195,134	419,737	419,737
Due from financial institutions	320,000	320,000	1,350,000	1,350,000
Investments	2,756,159	2,756,159	2,275,123	2,275,123
Financing	9,967,625	9,967,625	2,621,525	2,621,525
Operating fixed assets	1,619,029	1,619,029	953,864	953,864
Deferred tax assets - net	239,336	239,336	109,933	109,933
Other assets	530,726	530,726	219,992	219,992
	16,537,387	16,537,387	8,941,475	8,941,475
Liabilites				
Bills payable	148,403	148,403	99,753	99,753
Due to financial institutions	725,000	725,000	68,908	68,908
Deposits and other accounts	10,892,602	10,892,602	4,552,909	4,552,909
Sub-ordinated loans	-	-	-	-
Liabilities against assets subject to finance lease	77,486	77,486	52,609	52,609
Deferred tax liabilities	-	-	-	-
Other liabilities	625,057	625,057	347,741	347,741
	12,468,548	12,468,548	5,121,920	5,121,920

36.2 Off - balance sheet financial instruments

	2008		2007	
	Book value	Fair value	Book value	Fair value
	(Rupees in '000)			
Forward purchase of foreign exchange	**1,303,054**	**1,291,902**	**560,568**	**560,568**
Forward agreement for borrowing	-	-	-	-
Forward sale of foreign exchange	**628,971**	**620,606**	**379,286**	**379,286**
Forward agreement for lending	-	-	-	-

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 are frequently repriced as in the case of investment in sukuk certificates, customer / bonds financings and deposits.

The repricing profile, effective rates and maturity are stated in note 42 to these financial statements.

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	For the year ended December 31, 2008			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	(Rupees in '000)			
Total income	43,839	340,960	72,814	697,874
Total expenses	9,575	95,897	752,566	688.812
Net income / (loss)	34,264	245,063	(679,752)	9.062
Segment return on assets (ROA) (%)	4.96%	14.11%	14.73%	15.08%
Segment cost of funds (%)	0%	8.16%	6.42%	10.24%

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	As at December 31, 2008			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	(Rupees in '000)			
Segment assets (gross of provisions)	38,992	3,520,276	2,018,581	10,983,147
Segment non performing loans (NPL)	-	-	3,100	10,437
Segment provision required against NPL	-	-	775	10,406
Segment liabilities	9,385	744,316	4,361,988	7,352,859

	For the year ended December 31, 2007			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	(Rupees in '000)			
Total income	18,069	292,501	10,335	124,030
Total expenses	8,700	30,432	244,966	244,491
Net income / (loss)	9,369	262,069	(234,631)	(120,461)
Segment return on assets (ROA) (%)	0.93%	6.35%	-18.53%	-4.75%
Segment cost of funds (%)	0%	10.50%	6.80%	8.20%

	As at December 31, 2007			
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	(Rupees in '000)			
Segment assets (gross of NPL provisions)	1,009,187	4,128,309	1,266,138	2,537,841
Segment non performing loans (NPL)	-	-	-	-
Segment provision required against NPL	-	-	-	-
Segment liabilities	-	68,908	2,575,302	2,477,710

38. 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.

39. RELATED PARTY TRANSACTIONS

39.1 The bank has related party relationship with its associated undertaking (refer note 9.4), employee benefit plan (refer note 33) 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 33 to these financial statements for the details of the plan). Remuneration to the executives, disclosed in note 35 to these financial statements are determined in accordance with the terms of their appointment.

39.2 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	
	2008	2007	2008	2007	2008	2007
	Rupees in '000					
Subscription money						
At January 1,	1,007,855	2,193,942	994,755	1,844,850	13,100	355,092
Received during the year	492,802	1,517,380	492,802	999,085	-	518,295
Refund during the year			-	-	-	
Allotment of shares	(1,500,000)	(2,709,467)	(1,486,900)	(1,849,180)	(13,100)	(860,287)
At December 31,	657	1,007,855	657	994,755	-	13,100
Financings						
At January 1,	107,587	22,444	9,259	-	98,328	22,444
Disbursed during year	58,984	88,632	8,351	9,676	50,633	78,956
Repaid during the year	(38,126)	(3,489)	(3,413)	(417)	(34,713)	(3,072)
At December 31,	128,445	107,587	14,197	9,259	114,248	98,328
Deposits						
At January 1,	72,328	-	51,131	-	21,197	-
Disbursed during year	868,657	391,274	616,367	185,166	252,290	206,108
Repaid during the year	(817,849)	(318,946)	(573,661)	(134,035)	(244,188)	(184,911)
At December 31,	123,136	72,328	93,837	51,131	29,299	21,197
Other payable						
At January 1,	32,420	33,852	32,420	33,852	-	-
Disbursed during year	4,632	-	4,632	-	-	-
Repaid during the year	(32,718)	(1,432)	(32,718)	(1,432)	-	-
At December 31,	4,334	32,420	4,334	32,420	-	-
Other Balances						
Profit receivable on financing	343	109	110	109	233	-
Investments	52,200	52,200	52,200	52,200	-	-
Provision for diminution in value of investment	12,428	5,894	12,428	5,894	-	-
Return payable on deposit	1,409	818	1,346	633	63	185
Transactions, income and expenses						
Profit earned on financing	4,291	1,697	1,957	589	2,334	1,108
Return on deposits expenses	3,812	1,746	3,352	1,308	460	438
Salaries and allowances	76,502	42,903	-	-	76,502	42,903
Contribution to defined contribution plan	14,539	6,130	-	-	14,539	6,130
Contribution for defined benefit plan	14,400	10,090	-	-	14,400	10,090

40. CAPITAL ADEQUACY

40.1 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. 19 dated September 05, 2008 had raised the requirement of minimum paid up capital of banks to Rs 23 billion (net of losses) to be achieved upto December 31, 2013 in a phased manner. The requirement in respect of minimum paid up capital (net of losses) to be achieved by December 31, 2008 as per the aforementioned circular is Rs 5 billion. However, as at December 31, 2008, the paid up capital (net of losses) of the bank amounted to Rs 4.052 billion.

In this connection, the State Bank of Pakistan vide its letter BSD/BAI – 3/608/110/2009 dated January 27, 2009 has granted an extension to the bank upto March 31, 2009 for meeting the capital requirement (net of accumulated losses) of Rs 5 billion. The afore-mentioned capital requirement may be met either through merger of certain non-banking finance companies / modaraba with the bank or by way of capital injection through a rights issue.

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. 30 dated November 25, 2008. The adequacy of the capital is tested with reference to the risk-weighted assets of the bank.

The required capital adequacy ratio (9 percent of the risk-weighted assets) is achieved by the bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk and market risk.

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

40.2 Capital Adequacy Ratio

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy using Basel 2 standardised approach is presented below. Comparative information for 2007 is given in note 40.4 which has been prepared based on Basel 1 requirements which were then applicable.

Regulatory Capital Base		2008 Rupees in'000
Tier I Capital		
Share Capital		4,500,000
Share subscraiption money		657
Reserves		-
Accumulated loss		(448,416)
Less: [Book value of intangible assets, investment in associate (50%)*]		(70,992)
Total Tier I Capital		3,981,249
Tier II Capital		
Subordinated Debt (upto 50% of total Tier I Capital)		-
General Provisions subject to 1.25% of Total Risk Weighted Assets		9,134
Revaluation Reserve (upto 45%)		8,299
Less: Investment in associate (50%)*		(19,886)
Total Tier II Capital		(2,453)
		3,978,796
Eligible Tier III Capital		-
Total Regulatory Capital	(a)	3,978,796

* 50% of the amount of investment in associate amounting to Rs 39, 952 thousand has been deducted from Tier I capital and 50% of Tier II Capital.

Risk-weighted exposures		2008 Capital Requirement	2008 Risk adjusted value
Credit risk		---------- Rupees in '000	----------
Portfolios subject to standardised approach (Simple Approach)			
On-Balance Sheet Items:			
Sovereign and Central Banks		-	-
Public Sector Entities (PSEs)		4,281	53,518
Banks and Securities Firms		3,539	44,240
Corporates Portfolio		709,442	8,868,029
Retail Non Mortgages		9,432	117,894
Mortgages – Residential		19,924	249,052
Securitized Assets		-	-
Listed equities and regulatroy capital issued by banks		8,301	103,768
Unlisted equity investments		-	-
Fixed Assets		125,434	1,567,923
Other Assets		61,605	770,062
Past Due Exposures		1,083	13,537
Off balance sheet items:			
Non-Market Related:-			
Direct credit substitutes	40.3	38,106	476,321
Performance-related contingencies		-	-
Trade-related contingencies	40.3	4,673	58,418
Lending of securities or posting of securities as collateral		-	-
Other commitments		-	-
Other commitments with certain drawdown		-	-

Risk-weighted exposures		2008	
		Capital Requirement	**Risk adjusted value**
		---------- Rupees in '000 ----------	
Market related:-			
Outstanding Interest rate contracts		-	-
Outstanding Foreign Exchange Contracts		583	7,282
Portfolios subject to Internal Rating Based (IRB) Approach			
e.g. Corporate, Sovereign, Retail, Securitization etc.	N/A		
Equity Exposure Risk in the Banking Book			
Equity portfolio subject to market-based approaches			
Under simple risk weight method	N/A		
Under Internal models approach			
Equity portfolio subject to PD / LGD	N/A		
Market Risk			
Capital Requirement for portfolios subject to Standardized Approach			
Interest rate risk		-	-
Equity position risk		-	-
Foreign Exchange Risk		15,159	189,488
Position in Options		-	-
Capital Requirement for portfolios subject to Internal Models Approach			
Interest rate risk	N/A		
Foreign exchange risk etc.			
Operational Risk			
Capital Requirement for operational risks		47,989	599,863
TOTAL	(b)	1,049,551	13,119,395
Capital Adequacy Ratio			
Total eligible regulatory capital held	(a)	3,978,796	
Total Risk Weighted Assets	(b)	13,119,395	
Capital Adequacy Ratio	(a / b)	30.33%	

40.3 The amount of cash margins, deposits and lien on deposits held against guarantees, performance bonds, acceptances and standby letter of credit aggregating Rs 38.335 (2007: Rs 618.841) million has been deducted.

40.4 Capital adequacy ratio

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

Regulatory Capital Base		2007 Rupees in'000
Tier I Capital		
Shareholders Capital/Assigned Capital		4,007,855
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 45%)		
Less: Adjustments		-
Total Tier II Capital		2,138
		3,821,693
Eligible Tier III Capital		-
Total Regulatory Capital	(a)	3,821,693

Risk-Weighted Exposures	Note	2007 Book Value	2007 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
Operating 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	40.5	2,500	-
Revolving underwriting Commitments			
Stand By Letters of Credit	40.5	246,840	118,453
Acceptances	40.5	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
Operational risk-weighted exposures			-
Total Risk-Weighted exposures	(b)		7,638,020
Capital Adequacy Ratio [(a) / (b) x 100)			50.04%

Notes

40.5 The amount of cash margins, deposits and lien on deposits held against guarantees, performance bonds, acceptances and standby letters of credit aggregating Rs 618.841 million has been deducted.

41 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.

41.1 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 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 /collateral support. The Internal Credit Risk Rating System which has been implemented in the Bank assign 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 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.

41.1.1 Segmental information

41.1.1.1 Segments by class of business

	2008					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	-	0.00%	712,011	6.54%	-	0.00%
Mining and Quarrying	219,338	2.20%	332,695	3.05%	170,800	5.57%
Textile	925,847	9.28%	198,555	1.82%	69,723	2.28%
Chemical and Pharmaceuticals	758,989	7.61%	57,425	0.53%	97,887	3.19%
Metal industries	237,357	2.38%	1,942	0.02%	18,810	0.61%
Printing and stationery	300,000	3.01%	120,437	1.11%	-	0.00%
Manufacturing	797,458	7.99%	59,578	0.55%	162,042	5.29%
Cement	-	0.00%	845	0.01%	2,500	0.08%
Sugar	746,575	7.48%	41,571	0.38%	-	0.00%
Footwear and Leather garments	-	0.00%	9,759	0.09%	-	0.00%
Automobile and transportation equipment	-	0.00%	-	0.00%	-	0.00%
Electronics and electrical appliances	-	0.00%	44,399	0.41%	-	0.00%
Construction	1,279,774	12.82%	781,047	7.17%	38,546	1.26%
Power (electricity), Gas, Water, Sanitary	5,365	0.05%	-	0.00%	-	0.00%
Wholesale and Retail Trade	131,834	1.32%	65,390	0.60%	-	0.00%
Exports/Imports	2,002,258	20.07%	120,972	1.11%	3,294	0.11%
Transport, Storage and Communication	291,534	2.92%	384,376	3.53%	11,000	0.36%
Financial	460,361	4.61%	1,134,704	10.42%	1,932,025	63.05%
Insurance	-	0.00%	-	0.00%	-	0.00%
Services	756,822	7.58%	3,197,856	29.36%	75,796	2.47%
Individuals	519,082	5.20%	1,596,702	14.66%	-	0.00%
Staff	270,636	2.71%	1,048,248	9.62%	-	0.00%
Others	275,576	2.76%	984,090	9.03%	481,728	15.72%
	9,978,806	100.00%	10,892,602	100.00%	3,064,151	100.00%

	2007					
	Financings (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%

41.1.1.2 Segment by sector

2008

	Financings		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	-	0.00%	2,171,562	19.94%	-	0.00%
Private	9,978,806	100.00%	8,721,040	80.06%	3,064,151	100.00%
	9,978,806	100.00%	10,892,602	100.00%	3,064,151	100.00%

2007

	Financings		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	41.80%	4,297,712	140.26%
	2,621,525	100.00%	4,552,909	41.80%	4,297,712	140.26%

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

	2008		2007	
	Classified Financings	Specific Provisions Held	Classified Financings	Specific Provisions Held
	(Rupees in '000)			
Agriculture, Forestry, Hunting and Fishing	-	-	-	-
Mining and Quarrying	-	-	-	-
Chemical & Pharmaceuticals	-	-	-	-
Cement	-	-	-	-
Textile	-	-	-	-
Sugar	-	-	-	-
Footwear & Leather garments	-	-	-	-
Automobile & Transportation equipment	-	-	-	-
Electronics and electrical appliances	-	-	-	-
Construction	-	-	-	-
Wholesale / Retail Trade	-	-	-	-
Exports / Imports	-	-	-	-
Transport, Storage and Communication	-	-	-	-
Financial	-	-	-	-
Insurance	-	-	-	-
Services	3,100	775	-	-
Individuals	10,437	1,272	-	-
Others	-	-	-	-
	13,537	2,047	-	-

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

	2008		2007	
	Classified Financings	Specific Provisions Held	Classified Financings	Specific Provisions Held
	(Rupees in '000)			
Public / Government	-	-	-	-
Private	13,537	2,047	-	-
	13,537	2,047	-	-

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41.1.1.5 Geographical segment analysis

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

	2007			
	Profit / (Loss) before taxation	Total assets employed	Net assets employed	Contingen-cies and Commit-ments
	(Rupees in '000)			
Pakistan	(83,654)	8,941,475	3,819,555	4,297,712
Others	-	-	-	-
	(83,654)	8,941,475	3,819,555	4,297,712

41.2 Credit Risk – General Disclosures, Basel II Specific

The bank has adopted Standardized Approach, under Basel II. According to the regulatory statement submitted under the Standardized Approach, the financing portfolio has been divided into claims on corporate and claims categorized as retail portfolio. Claims on corporate constitute 98.3% of the total exposure and the remaining 1.87% exposure pertains to claims categorized as retail portfolio.

41.3 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	JCR-VIS	PACRA	Fitch
Corporate	✓	✓	-
Banks	✓	✓	✓
Sovereigns	-	-	-
SME's	-	-	-
Securitizations	-	-	-

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 standardized approach, amount of bank's/DFI's outstandings (rated & 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
Corporate	1-4	9,485,053	-	9,485,053
Banks	1-4	44,240	-	44,240
Sovereigns	1	-	-	-
Public sector entities	1	53,517	-	53,517
Unrated (others)	unrated	2,722,819	147,563	2,575,256
Total		12,305,629	147,563	12,158,066

* 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 have not applied any haircuts to the collateral. Moreover our eligible collateral only includes cash / liquid securities.

41.4 Market risk

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

41.4.2 Foreign Exchange Risk

	2008				2007			
	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	16,318,782	11,772,634	(674,084)	3,872,064	8,908,744	5,006,659	(185,534)	3,716,551
United States dollar	134,439	412,284	477,186	199,341	16,584	100,312	48,847	(34,881)
Great Britain pound	21,364	56,532	31,578	(3,590)	10,891	9,790	-	1,101
Euro	40,552	134,127	94,221	646	5,256	5,159	136,687	136,784
AED	22,250	92,971	71,099	378				
	16,537,387	12,468,548	-	4,068,839	8,941,475	5,121,920	-	3,819,555

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.

41.4.3 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.

41.4.4 Mismatch of interest rate sensitive assets and liabilities

	Effective yield	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
		2008										
			Exposed to Yield/ Interest rate risk									
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.00%	909,378	-	-	-	-	-	-	-	-	-	909,378
Balances with other banks	4.63% - 13.50%	195,134	-	-	168,928	-	-	-	-	-	-	26,206
Due from financial institutions	9.50% - 25%	320,000	-	320,000	-	-	-	-	-	-	-	-
Investments	10.34% - 18.39%	2,756,159	-	-	-	-	-	211,461	224,185	2,158,531	-	161,982
Financings	3.00% - 20.00 %	9,967,625	1,966,129	3,507,580	777,339	425,541	1,066,487	1,004,125	617,720	233,107	352,390	17,207
Other assets		357,878	-	-	-	-	-	-	-	-	-	357,878
		14,506,174	1,966,129	3,827,580	946,267	425,541	1,066,487	1,215,586	841,905	2,391,638	352,390	1,472,651
Liabilities												
Bills payable		148,403	-	-	-	-	-	-	-	-	-	148,403
Due to financial institutions		725,000	425,000	300,000	-	-	-	-	-	-	-	-
Deposits and other accounts	5.00% - 13.00%	10,892,602	2,980,688	1,810,131	918,891	770,765	3,500	173,506	2,383,314	-	-	1,851,807
Sub-ordinated loans		-										-
Liabilities against assets subject to finance lease	13.00% - 22.00%	77,486	2,601	5,202	7,803	15,606	31,213	15,061	-	-	-	-
Other liabilities		323,538	-	-	-	-	-	-	-	-	-	323,538
		12,167,029	3,408,289	2,115,333	926,694	786,371	34,713	188,567	2,383,314	-	-	2,323,748
On-balance sheet gap		2,339,145	(1,442,160)	1,712,247	19,573	(360,830)	1,031,774	1,027,019	(1,541,409)	2,391,638	352,390	(851,097)
Non financial assets												
Operating fixed assets		1,619,029										
Other assets		172,848										
Deferred tax asset		239,336										
		2,031,213										
Non financial liabilities												
Other liabilities		301,519										
Total net assets		4,068,839										
Off-balance sheet financial instruments												
Forward Lending		-	-	-	-	-	-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total yield/profit risk sensitivity gap			(1,442,160)	1,712,247	19,573	(360,830)	1,031,774	1,027,019	(1,541,409)	2,391,638	352,390	(851,097)
Cumulative yield/profit risk sensitivity gap			(1,442,160)	270,087	289,660	(71,170)	960,604	1,987,623	446,214	2,837,852	3,190,242	2,339,145

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

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

	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
		2007										
			Exposed to Yield/ Interest rate risk									
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	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
Financing	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		167,642	-	-	-	-	-	-	-	-	-	167,642
		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% - 10.50%	4,552,909	2,622,971	115,930	33,506	1,160,052	-	35,500	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	-	150,603	-	-	-	-	-	-	-	-	-	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.

41.5 Liquidity Risk

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

Asset 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.

41.5.1 Maturities of assets and liabilities

	2008									
	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	909,378	909,378	-	-	-	-	-	-	-	-
Balances with other banks	195,134	195,134	-	-	-	-	-	-	-	-
Due from financial institutions	320,000	-	320,000	-	-	-	-	-	-	-
Investments	2,756,159	-	122,210	-	-	-	211,461	263,957	2,158,531	-
Financings	9,967,625	1,967,953	3,510,637	781,572	431,397	1,068,756	1,004,125	617,720	233,107	352,358
Operating fixed assets	1,619,029	257,659	14,816	22,223	44,447	88,893	340,573	89,496	131,887	629,035
Deferred tax assets	239,336	-	-	-	-	-	-	239,336	-	-
Other assets	530,726	380,760	13,209	18,451	31,782	86,524	-	-	-	-
	16,537,387	3,710,884	3,980,872	822,246	507,626	1,244,173	1,556,159	1,210,509	2,523,525	981,393
Liabilities										
Bills payable	148,403	148,403	-	-	-	-	-	-	-	-
Due to financial institutions	725,000	425,000	300,000	-	-	-	-	-	-	-
Deposits and other accounts	10,892,602	4,832,495	1,810,131	918,891	770,765	3,500	173,506	2,383,314	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	77,486	2,601	5,202	7,803	15,606	31,213	15,061	-	-	-
Other liabilities	625,057	287,200	130	34,158	26,970	276,599	-	-	-	-
	12,468,548	5,695,699	2,115,463	960,852	813,341	311,312	188,567	2,383,314	-	-
Net assets	4,068,839	(1,984,815)	1,865,409	(138,606)	(305,715)	932,861	1,367,592	(1,172,805)	2,523,525	981,393
Share capital	4,500,000									
Share subscription money	657									
Unappropriated Loss	(448,416)									
Surplus/(Deficit) on revaluation of assets	16,598									
	4,068,839									

	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	-	-
Financing	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	-	-	-	-	-	-	-	-
Deposits and other accounts	68,908	68,908	-	-	-	-	-	-	-	-
Sub-ordinated loans	4,552,909	3,160,396	115,930	33,506	1,160,052	-	35,500	47,525	-	-
Liabilities against assets subject to finance lease	-									
Deferred tax liabilities	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									

41.6 Operational Risk

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

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

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

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

42. DATE OF AUTHORIZATION

These financial statements were authorized for issue on 0 9 MAR 2009 by the Board of Directors of the bank.

43. GENERAL

43.1 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements. There were no significant reclassifications / re-arrangements of the corresponding figures.

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

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