



annual
report
2008



Dawood Islamic
BANK LTD.
with you every step of the way

VISION

- To be the best provider of customer – centric shariah compliant services and products in Pakistan.
- To help our customers to succeed financially and to promote economic and social progress in Pakistan through innovative sharia compliant products. Our aim is to first create wealth and then help our clients to manage it.

MISSION

- To serve as a trusted provider of Islamic financial products and services, by focusing on the following key objectives:
 - Attracting, training and retaining staff who are best able to accomplish our mission.
 - Creating a riba free, rewarding, challenging, supportive and trusting work environment.
 - Developing a core competence in diversified and innovative products to meet the growing demand of business community for sharia compliant competitive products and services.
 - Pro-actively growing and developing mutually beneficial and profitable long-term customer relationships and creating confidence on sharia compliant products through best banking practices.
 - Investing our time, talents and resources in the social progress of the Ummah and establishing banking services in areas – urban and rural – which are so far not covered, without forsaking the profitability of the institution.
 - Supporting and maintaining sustainable growth for clients, shareholders, employees, ummah and the country and meeting our financial goals and measuring our success against the best performing Islamic and conventional banks in the Pakistan.

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Corporate Information

Board of Directors

Mr. Rafique Dawood	Chairman / Director
Mr. Ayaz Dawood	Director
Mr. Aamir Husain Khan	Director
Mr. Mohammad Tariq	Director
Mr. Azam Essof Kolia	Director
Mr. Jamil A. Qureshi	Director
Mr. Adel Yousef Al-Saqabi	Director
Mr. Shehab M. Gargash	Director
Mr. Nikolaus Schwarz	President / CEO

Company Secretary

Mr. Rauf Ahmed Butt

Auditors

M/s M. Yousuf Adil Saleem & Co.
Chartered Accountants

Legal Advisors

M/s Mohsin Tayabaly & Co.
Advocates & Corporate Councilors

Management Committee

Mr. Nikolaus Schwarz, CEO & President
Syed Rashid Rahman, Head of Corporate Business
Mr. Sohail Sikandar, Chief Financial Officer
Mr. Aamir Shamim, Head of Treasury
Mr. Shahid Anwar, Head of Financing
Ms. Shaheen Qureshi, Head of Human Resources
Mr. Farrukh Siddiqui, Head of Centralized Operations
Mr. Ashfaq Ahmed, Head of Information Technology
Syed Ali Asad, Head of Compliance
Mr. Mujeeb Beig, Head of Product Development
Mr. Naushad Kamil, Head of Internal Audit
Mr. Omar Bangash, Head of Investment Banking

Audit Committee

Mr. Mohammad Tariq Chairman
Mr. Azam Essof Kolia Member

Sharia Advisor

Mufti Munib ur Rehman

Share Registrar

FD Registrar Services (SMC-Pvt) Ltd.
1700-A, Saima Trade Towers, I. I. Chundrigar Road
Karachi

Registered Office

1500-A, Saima Trade Towers
I. I. Chundrigar Road, Karachi

Head Office

Trade Tower
I. I. Chundrigar Road, Karachi

**Notice of Annual General Meeting (AGM-III)
Dawood Islamic Bank Limited**

Notice is hereby given that the AGM-III of Dawood Islamic Bank Limited will be held at 3rd Floor, Board Room, Trade Centre, I .I. Chundrigar Road, Karachi, Pakistan on Thursday, 26th March 2009 at 10.00 a.m. to transact the following businesses:

Ordinary Business

1. To confirm the minutes of the last EGM meeting.
2. To receive, consider and adopt the Audited Accounts for the year ended December 31, 2008 together with the Auditors' and Directors' Report thereon.
3. To appoint Auditors and to fix their remuneration.
4. Any other item with the permission of the Chair.

By Order of the Board

Sd/-

**March 5, 2009
Karachi**

Rauf A. Butt
Company Secretary

Notes:

1. **The share transfer books of the Company shall remain closed from March 18, 2009 to March 26, 2009 (both days inclusive).**
2. **A member entitled to attend and vote at the Annual General Meeting may appoint another member as his / her proxy to attend, speak and vote instead of him / her behalf at the meeting. No person other than a member shall act as proxy.**
3. **An instrument appointing a proxy and the power of attorney or other Authority under which it is signed or a notarially certified copy of the Power or Authority, in order to be valid, must be deposited at the Registered Office**

- of the Company not later than 48 hours before the time fixed for holding the meeting and must be duly stamped, signed and witnessed.
4. Shareholders are requested to notify the Company of any change of address immediately.
 5. CDC account holders will in addition, have to follow under mentioned guidelines as laid down in Circular No. 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan for attending the meeting.

A. For attending the meeting

- i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.
- ii) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

B. For appointing proxies

- i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the regulations, shall submit the proxy form as per the above requirement.
- ii) The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be mentioned on the form.
- iii) Attested copies of NIC or the passport of the beneficial owners and of the proxy shall be furnished with the proxy form.
- iv) The proxy shall produce his/her original CNIC or original passport at the time of the meeting.
- v) In case of a corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

DIRECTORS REPORT TO THE SHAREHOLDER FINANCIAL STATEMENTS FOR THE YEAR 2008

On behalf of the Board of Directors, I am pleased to present the 2nd Annual Report of your Bank. It contains the audited financial statements of your Bank showing the financial performance of the Bank for the year ended 31st December 2008. The Bank has emerged as true Islamic financial institution by setting new standards and through its innovative Sharia compliant products in Islamic Banking in Pakistan.

Economic Review

Pakistan is a nation with a diverse economy that includes textiles, chemicals, food processing, agriculture and other industries. In terms of purchasing power, it is the 26th largest economy in the world while in absolute dollar terms it is the 47th largest economy.

Pakistan's upbeat economic momentum broken up by several adverse developments, such as global shocks as extraordinary and unanticipated rise in food, energy and commodity prices, and disruptions in the international financial markets, as well as domestic shocks and policy decisions contributed significantly to the imbalances in the economy. Consequently real GDP growth declined to 5.8% in FY08, down considerably from the 6.8% recorded in previous year.

Despite these adverse events, Pakistan's economy kept growing, and economic growth accelerated towards the end of this period. This resilience has led to a change in perceptions of the economy, with leading international institutions such as the IMF, World Bank, and the ADB praising Pakistan's performance on the face of adversity.

Foreign Direct Investment (FDI) during July to December 08 recorded at US \$2.33 billion and exports for the same period recorded as US \$11.89 billion ended with US \$9.92 billion trade deficit. Our economic barometer KSE was immensely affected by freezing floor due to that a total outflow of US \$407million, of which US\$167million came after the removal of the price floor mechanism on 15 December. Inflation has reached at its maximum level to 34% in August, 2008 which prompt SBP to increase the discount rate by 500 bps during the year.

Banking Sector

Performance of the Banking sector was depressed mainly due to rising cost of funds, low volumetric growth in average earning assets as against average paying liabilities. The incremental provisioning against non-performing loans, (NPLs) were the major factors

responsible for the plunge in the profitability. The consolidated numbers of the Banking sector depicted a continued declining trend in earnings in 2nd quarter Y08. The total profit after tax of the listed Banks declined by 19% at PKR 35.9bn in 1st Half Y08 down from PKR 44.3bn in the corresponding period of last year.

Islamic Banking

Islamic Banking industry continued its progress during the year 2008. As per the latest SBP bulletin Islamic Banks increasing their share of assets in the overall Banking system to 4.3% up to June 2008. The growth in IBIs is also reflected in increased share of Islamic Banking deposits and financings & investments that stood at 4.0% and 4.1% respectively at the end of June 2008. Phenomenal 70% growth recorded in mark up income and in total earnings 25% given the small base progress seems quite impressive. The Islamic Banks have also continued their efforts to extend the outreach of Islamic Banking pacifically, the number of branches in June 2008 reached 326 from 289 branches since December 2007.

The deposits of IBIs as on June 30, 2008 stood at Rs.168.9 billion reflecting an impressive growth. Investment position of IBIs as on June 30, 2008 stood at Rs.34.9 billion which showed an increase of 9%. Islamic Banking Industry in Pakistan depicts financings (net of provisions) of Rs.131.5 billion at end June 2008, reflecting an increase of 10%. Total Assets of IBIs stood at Rs.235 billion showing an impressive increase of 11% during Apr-Jun 2008. This positive growth trend is completely in line with SBP strategic plan whereby SBP is targeting to increase Islamic Banks share to 12% in terms of assets and deposits by 2012 that is almost 3 times from the current position.

Financial Review

In 2008, Dawood Islamic Bank continued the successful performance of prior year and further grew its business volumes and other segments. This year the Bank has posted an after tax profit of PKR 32.7 million, has increased a deposit base by 78% i.e, from PKR 2.8 to PKR5 billion and the balance sheet size has increased from PKR 6.8 to PKR9.56 billion. Financings and investments stood at PKR 5.64 billion and PKR 2 billion with 51% and 59% growth respectively.

Markup income rose in reporting year by 242% to PKR 855 million, commission income by 241% to PKR 20.4 million and other income including income on dealing in foreign currencies rose by 811% to PKR 25.77 million. Administrative expenses rose 162% to PKR 434 million, most rise in the expenses attributable to our branch network expansion and necessary induction of human resources.

The equity of the Bank has increased from Rs.3.66 billion to Rs.4.1 billion in 2008. This is a reflection of the sponsors' strong commitment to strengthening the Bank and trust on management. On the regulatory front, the State Bank of Pakistan has increased the Minimum Capital Requirement (MCR) for all commercial Banks to PKR 5 billion by December, 2008. However, your Bank has been granted an extension by SBP to meet MCR stipulation by 2nd March, 2009. Your Bank has complied with the said requirement with in stipulated time.

The Financial performance summary is as follows:

	2008	2007
Particulars	PKR in 000'	PKR in 000'
Financings	5,639,877	3,723,752
Investments	2,045,146	1,318,657
Deposits	5,063,393	2,888,762
Profit before Tax	60,111	32,259
Profit after Tax	32,727	51,031
Equity	4,074,810	3,665,888
Capital Adequacy Ratio *	45.15%	51.80%

* 2008 : as per Basel-II (2007 as per Basel-I)

Credit Rating

JCR-VIS a Credit Rating Company has assigned the DIBL a long term rating of A- (Single A minus) with a 'stable' outlook and a short term rating of A-2 (A Two) to the Bank.

Products and Services

It is one of the main objectives of Dawood Islamic Bank Limited (DIBL) to satisfy all the Banking needs of its customers through development of Shari'ah Compliant innovative products and quality services, on both asset & liability sides. Hence, considering the excellent market potential for Shari'ah Compliant products and services, DIBL offered and has planned to offer various innovative products, to cater Banking needs of the customers in Shari'ah compliant manner.

On the asset side, DIBL mainly focused corporate customers. For short term financing, Murabahah financing facilitated the customers to meet their local and imported raw material financing requirements, whereas the corporate customers who do not require financing for fresh raw material procurement rather they need to finance their receivables or extended days of their inventories, are being facilitated through Shari'ah compliant financing transactions on the basis of goods manufactured by such customers. In the same manner the exporters are also being facilitated by DIBL along with taking care of movements in FOREX spot and future conversion rates. Tangible Fixed Assets required by the corporate customers for capital expenditure requirements are financed through Diminishing Musharakah and Ijarah Modes. In consumer

Banking DIBL has successfully developed Car Ijarah and Diminishing Musharakah Housing Finance portfolio of assets.

On the liability side, DIBL has very successfully made monthly/six monthly at maturity profit payments to saving accounts holders on fixed tenor deposits, and DIBL customers earned most competitive returns on their deposits.

Branch Network

The Bank has opened 16 more branches in 2008 (including six sub branches) as per permission by the State Bank of Pakistan that lead your Bank to total 21 branches. In terms of geographical distribution Dawood Islamic Bank has a presence in big cities like Karachi, Lahore, Multan, Sialkot, Faisalabad and Islamabad. Out of the 21 branches, 11 are in Karachi, 2 in Lahore, Multan and Khushab each and 1 in Islamabad, Faisalabad, Sialkot and Rahimyar Khan. In order to substantially lower our cost of funds, we will be focusing in 2009 again on creating a distribution / deposit mobilizing network in rural areas for our products and services by providing Banking facilities to under-served areas of the country which is also in line with SBP's branch expansion policy.

Dawood Islamic Bank will continue to grow its branch network in the years to come to ease customer access and strengthen its distribution capability.

Information Technology

We at Dawood Islamic Bank understand the importance of IT in reaching and providing customer centric solutions. At DIBL, IT department's main objective is to ensure that it remains a breast of latest developments in technology. In light of this, Dawood Islamic has been successful in implementing Core Banking Application across the network of its all branches and departments. All branches are online 24/7 on real time basis. The technology initiatives have been implemented enabling customers e-Banking such as Internet, Intranet, SMS and ATM. In 2009 we are planning to add inter Bank fund transfer, Intra Bank fund transfer and utility bill payment via ATM/POS, Debit and Visa card facilities. In addition to the core Banking, a new software the "Edge Financials" is implemented to facilitate corporate accounting culture, this also supports a seamless integration with our core Banking, this will lead to a robust MIS reporting and enhances more transparency and visibility to our every Banking and non Banking transactions.

Human Resource Training and Development

On the Human Resources front, we continued with our strategy of being equal opportunity employer for those who have conviction for Islamic Banking. DIBL believes that its 220

employees are the real assets and strength of the Bank and the reason of its growth and success. Our recruitment process is transparent, unbiased and geared to hire people who have high moral and ethical values. Training and Development is yet strength of ours. We have a formal training and development center in the Head Office.

Risk Management and Internal Controls

In compliance with the requirements of SBP, Bank has in place an approved integrated Risk management frame work for managing credit risk, market risk, liquidity risk and operational risk. RMU has been structured to address credit risk, market and operational risk and a team of suitable personnel have been hired.

Credit Risk Management

The Credit Committee is monitoring credit risk. The Committee reviews and evaluates a proposal against the Bank's internal credit policy which has been designed to assess the borrower according to the SBP's Prudential Regulations. RMU a risk management unit is fulfilling all the regulatory requirements allied with credit risk.

Market Risk Management

To ensure an effective monitoring and assessment of market risk, our Risk Management Unit fully equipped to review each and every asset acquired by the business groups and to judge the level of risk assets quality as a consequence of changes in key economic factors such as supply and demand situation and market rates. It also assesses the risks imposed by changes in the regulatory environment for the Banking industry. Additionally, market risk is also being measured internally through different MIS reports such as, VAR, (value added risk) for foreign currencies and Stress Testing report on an asset portfolio.

Liquidity Risk Management

Liquidity risk is monitored by ALCO that formulates Dawood Islamic overall Liquidity Policy. It serves to assess the liquidity needs of the Bank and plans accordingly to ensure that the Bank can meet its current and future re-financing needs at reasonable cost. ALCO also manages maturity mismatches.

Operational Risk Management

The Risk Management Unit is ultimately responsible to assess and monitor operational risk and inform management accordingly. With the help of the RMU, each of the business groups, where operational risk arises, are responsible of managing operational risk within the approved risk framework.

In order to make our risk management department more effective, a new risk management software has been deployed to measure risk in a more accurate and sophisticated manner. Our risk management department is fully complied by the State Bank of Pakistan's guide lines i.e (IRAF) Internal Risk Assessment Frame work.

We are committed to embracing Risk management and Basel II implementation at our Bank not just as a regulatory compliance exercise as means to adopt best international practices to enhance stake holders value.

Corporate Governance

The Bank has complied with the requirements of the Code of Corporate Governance relevant for the year ended December 31, 2008. A prescribed statement together with the Auditors Review Report thereon is annexed. During the year a casual vacancy occurred in Board of Directors which will be filled after obtaining prior approval from the State Bank of Pakistan as per its directives.

Financial Statements

The financial statements prepared by the management of the Bank present a fair state of affairs, the result of its operations, cash flows and changes in equity. Proper books of account of the Bank have been maintained.

Appropriate accounting policies have been consistently applied, in preparation of financial statements and accounting estimates. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed. No dividend / bonus shares have been declared for the year.

The system of internal control is sound in design and has been effectively implemented and monitored on the best possible efforts basis. There are no doubts upon the Bank's ability to continue as a going concern. There has been no material departure from best practices of corporate governance, as detailed in the listing regulations.

Key operating and financial data of the last six years has not been given with the Directors' Report since this is the 2nd year of Bank's operations so two years financial data is given in (Table 1) attached. There is no overdue statutory payment on account of taxes, duties, levies and charges.

Employee Benefits Scheme

Value of investments of Employees' Provident Fund for the year ended December 31, 2008 is PKR 19.72 million out of which the Principal amount is PKR 17.65 million and profit amount is 2.07 million.

Share Acquisitions by Directors

No trades in the shares of the Bank were carried out by the Directors, CEO, CFO, Company Secretary their spouses and minor children during the year 2008.

Pattern of Shareholding

The Pattern of shareholding as on December 31, 2008 along with disclosures required under the Code of Corporate Governance is annexed to the Report.

Directors

During the year, a director, Mr. Arif M. Ali, resigned. The Board wishes to place on record its appreciation for the services rendered by Mr. Arif M. Ali. The said casual vacancy will be filled after obtaining necessary approval from the State Bank of Pakistan as per its directives.

Board of Directors Meetings

Nine Board of Directors meetings were held during the financial year.

Information about the attendance is as under:

Name of Director	No. of meetings attended
Mr. Rafique Dawood	9
Mr. Nikolaus Schwarz	9
Mr. Aamir Khan	7
Mr. Arif M Ali	4
Mr. Adel Yousef Al Saqabi	6
Mr. Ayaz Dawood	9
Mr. Azam Essof Kolia	6
Mr. Jamil Qureshi	7
Mr. Mohammad Tariq	6
Mr. Shehab Gargash	3

Auditors

Present auditors, M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants member firm of Deloitte Touche Tohmatsu international, retired and offer themselves for reappointment. On the recommendation of the Audit Committee of your Bank, the Board has agreed to recommend the re-appointment of M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants, to function as Bank's statutory auditors for the current year ending December 31, 2009.

Future Outlook

The Bank is poised to expand its branch network more aggressively in 2009, has already obtained approval for the opening of 29 more branches including 2 sub branches.

For IPO all the required permissions and approvals had been obtained. However, due to the unavoidable circumstances such as freeze floor price in Stock Exchanges and acute liquidity shortage compelled us to defer the IPO for a suitable time.

We believe there is substantial room of growth for Islamic Banking in the country and we are poised to penetrate the corporate as well as the retail sector more aggressively.

Despite of all adverse economic conditions, Bank has successfully managed the year 2008 as profitable year. Dawood Islamic has established a reputation of being profitable in its 2nd successive year of operations that is the sign of its quality management, services and products in the Banking industry.

We would like to take this opportunity to place on record, our gratitude to State Bank of Pakistan and other regulatory bodies, for their cooperation and continued guidance. We also commend the dedication, loyalty and hard work of our all staff members.

Finally, on behalf of the Board of Directors, I would like to thank our valued clients, well-wishers and correspondents for their support, trust and confidence.

Sd/-
Rafique Dawood
Chairman
For & on behalf Board of Directors

Karachi
March 05, 2009

STATEMENT OF INTERNAL CONTROL

Statement of Management's Responsibility:

As per Internal Control Guidelines issued by the State Bank of Pakistan in 2004 Internal Control refers to policies, plans and processes *as* affected by the Board of Directors and performed on continuous basis by the senior management and all levels of employees within the Bank.

The Board of Directors is ultimately responsible to provide strategic guideline through policy framework and placing overall internal controls, however it is the responsibility of the management to establish and maintain an adequate and effective system of internal controls and procedures for an efficient working environment for obtaining desired objectives.

The management evaluates the effectiveness of the Bank's internal controls system that encompasses material matters to provide reasonable assurance regarding the achievement of organizational objectives.

Management's Evaluation of the Effectiveness of the Bank's Internal Control System

The system of internal controls in Dawood Islamic Bank encompasses the policies, processes, tasks, behaviors and other aspects of a Bank that, taken together: facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the Bank's objectives.

The Bank formulated all key policies and procedures for its different line of business, and these policies are updated on regular basis. Through these policies effective frame work of authority and responsibility has been established. The Bank has established an independent audit and compliance function. The audit and compliance department closely monitors the effectiveness of system and controls, placed by the management across the Bank, covering all banking areas particularly the risk areas. The Audit Committee of the Board meets regularly and reviews the audit function including audit program/planning and surprise audit along with testing of specific controls relating to key risk areas.

The system is designed to manage and minimize the risk rather than to eliminate risks like business, financial, reputational and other risks. The control function of the Bank can only provide reasonable assurance and not the absolute assurance against material misstatement or loss. Nevertheless, the management is committed to strengthen further the vibrancy of system in a way that it should identify, evaluate and manage all significant risk being faced by the Bank.

The Board of Directors endorses the above management evaluation regarding effectiveness of internal control system.

For and on Behalf of the Board

Sd/-
Nikolaus Rafiq Schwarz
President & CEO

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation G-1 of the Prudential Regulations for Corporate/Commercial Banking issued by the State Bank of Pakistan for the purpose of establishing a framework of good governance, whereby the Bank is managed in compliance with the best practice of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

1. The Bank encourages requirements of independent non-executive on its Board of Directors. At present the Board consists of nine members. Out of 9 directors eight of them are non-executive directors and none of the directors is serving as a director in more than ten listed companies including the Bank.
2. All the resident directors of the Bank are registered as taxpayer and none of them has defaulted in payment of any loan to a banking company, or a DFI, or an NBFI, or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange. The directors of the Bank are individuals of repute and integrity with vast diversified experience of the corporate affairs.
3. During the year, a casual vacancy occurred in the Board which will be filled after obtaining prior approval from the State Bank of Pakistan as per its directives.
4. The Board has formulated 'Vision Statement' and 'Mission Statement'
5. The Bank has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Bank.
6. Corporate strategies and significant policies of the Bank have been made with appropriate delegation of authorities and responsibilities to various levels of management. Record of particulars of significant policies and the approvals/amendments has been maintained.
7. All the powers of the Board are duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer has been taken by the Board.
8. The Board has approved the appointment of CFO, Head of Internal Audit and Company Secretary, including their remuneration and terms and conditions of employment, as determined by CEO, authorized by the Board.
9. Board meetings were held at least once in a quarter presided over by the Chairman. Written notices of the Board meetings along with agendas were circulated seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
10. The directors, CEO and executives do not hold any interest in the shares of the bank other than that disclosed in the pattern of shareholdings.

11. The Director's report for this year has been prepared in compliance with the requirements of the Code and the corporate and financial reporting requirements have been complied with.
12. The financial statements of the Bank were duly endorsed by the Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The Board has formed an Audit Committee comprising of three non executive Directors including Chairman of the Committee. Terms of reference of the Audit Committee have been formed, approved by the Board and advised to the Committee for compliance. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the Code.
14. Board has set up an effective internal audit function. The staff of internal Audit Department is suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Bank.
15. The system of sound internal control is in place and effectively monitored.
16. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan.
17. The statutory auditors of the Bank have confirmed that they or any partners of the firm, their spouses and minor children do not at any time hold, purchase, sell or take any position in shares of the Bank.
18. The statutory auditors of the Bank or person associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed the IFAC guidelines in this regard.
19. The quarterly un-audited financial statements of the Bank are circulated along with the Directors' report. Half yearly financial statements were subject to limited review by the statutory auditors and are circulated along with the Directors' report. Financial statements for the year ended December 31, 2008 have been audited and will be circulated in accordance with the clause (xxii) of the Code.
20. We confirm that all the other material principles contained in the Code have been complied with.

Sd/-
Rafique Dawood
Chairman

Karachi
3 February 2009



M. Yousuf Adil Saleem & Co
Chartered Accountants
Cavish Court, A-35, Block 7 & 8
KCHSU, Sharea Faisal,
Karachi-75350
Pakistan

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Auditors' Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Dawood Islamic Bank Limited to comply with the Prudential Regulation No.G-1, Responsibilities of the Board of Directors vide BSD Circular No. 15, dated June 13, 2002.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on the internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2008.

Sd/-
Chartered Accountants
Karachi
Date:

A member firm of
Deloitte Touche Tohmatsu

SHARIAH ADVISOR'S REPORT

In the name of Allah the Merciful, the Compassionate

The shareholders of Dawood Islamic Bank Ltd:

The year under review was the financial year 2008 of Islamic Commercial Banking Operations of the Bank. During the year and the previous year, Dawood Islamic Bank Ltd (DIBL) developed and executed a number of Islamic Commercial Banking Products in consultation with the Shari'ah Advisor of the Bank. I have approved the following asset and liability side products.

LIABILITY SIDE:

- **for general deposits and treasury functions based on the Islamic contract of Mudarabah**
 - Normal Saving accounts for general deposit holders, non banking financial institutions and mutual funds
 - Normal Term Deposit Receipts(TDRs) for general deposit holders, non banking financial institutions and mutual funds
 - Ujala Education saving Plan. A saving plan to enable parents to meet their children education expenses with their savings.
 - Munafa Smart Deposit Account. A customer can get issued a TDR against the deposits with profit payment on monthly basis by DIBL. Different tenors are available.
 - Smart Saving Deposits (For individuals & corporate).A PLS saving deposit account with profit payment by DIBL on monthly basis.
 - Inter-bank clean fund receipts from Financial Institutions (FIs) Islamic Financial Institutions (IFIs).
 - Inter-bank secured (as substitute for conventional Repo) fund receipts from FIs/IFIs
 - Restricted Musharakah Pool for inter-bank transactions.To deal with inter-banks transactions

- **Liability side products for treasury functions based on Islamic contract of Murabaha**
 - Inter-bank clean funds receipts from FIs/IFIs(based on commodity Murabahah)
 - Funds receipts from non banking financial institutions (based on Commodity Murabahah)

- Treasury functions product based on Islamic "wa'ad"
 - Inter-bank clean foreign currency funds buying from FIs/IFIs(based on Islamic wa'ad)

ASSETS SIDE:

- Corporate Banking products based on Islamic contracts of Murabahah, Ijarah (Ijarat-ul-A~ayan and Ijarat-ul-Ashkhas), Musharakah(Shirkat-ul-Aqd and Shirkat-ul-Milk), Istisna'a, Mudarabah and

Qard (interest free loan) and Wakalah (Agency)

- For working Capital Finance
- For Medium & Long Term Finance
- For Leasing/Ijarah (for both assets and services)
- Islamic Export Refinance Scheme
- Long Term Finance for plant and Machinery(new version of LTF-EOP)

Treasury functions products based on Islamic contract of Mudarabah

- Inter-bank clean funds placements
- Funds placements with non banking financial institutions

Treasury functions products based on Islamic contracts of Murabahah

- Inter-bank clean funds placements (based on commodity Murabahah)
- Funds placements with non banking financial institutions (based on Commodity Murabahah)

Treasury functions product based on Islamic contracts of Wa'ad

- Inter-bank clean foreign currency funds selling to FIs/IFIs(based on Islamic wa'ad)
- **Murabahah based Trade Finance facilities based on Islamic contract of Murabaha**
 - Letters of Credit (Sight & Usance) local and foreign both.
- **Services based facilities to issue different guarantees based on Islamic sub-contract of Kafalah**
 - Different modes of Letters of Guarantee
- **Consumer Banking**
 - Auto Ijarah based on Islamic mode of Ijarah
 - Musharakah(Shirkat-ul-Milk)mode based Housing finance

My observations are as follows:

1. During the year, DIBL requested on behalf of clients for the transfer of Murabaha Advance in a main bank account of those clients maintained with some specific Bank(s), however, most of the requests were declined by me after thorough investigation of the matter concerned.
2. In some of the cases, when it became difficult to ascertain the "possession" of DIBL over goods, before they could be utilized or sold to the client on Murabaha basis, DIBL was barred from executing Murabaha contracts (e.g Raw Milk Murabahas).
3. I endeavored my level best not to allow DIBL to receive any profit on financing transactions unless goods/assets were sold on Murabaha basis or delivered to clients on Ijarah/Diminishing Musharakah basis.
4. The charity due to over dues Murabahas receivable, Ijaras and Diminishing Musharakahas rentals was duly received by DIBL and kept in separate charity account, however, the bank did not distribute this charity to the deserving institutions/people because charity policy approved by me is yet to be endorsed by the Board of Directors.
5. In some cases, where clients requested for the waiver of charity applied to them due to unavoidable circumstances, it was communicated to them that according to Shariah ruling no one is allowed to waive *Nazar-ul-Allah*

once it is intended by the *Nazir*, therefore, they were told that if they don't deposit their charity in DIBL charity account still they will remain liable to make their charity in the way of Allah by their own arrangement according to their ease. But on my part, I have exempted them from paying their charity through bank on the recommendation of the Corporate department.

6. We examine every transaction before and after execution to avoid any negligence in Shariah compliance by the relevant staff, through such practice we were able to check and rectify the negligence.
7. We have prepared the compliance record system duly computerized for most of the transactions executed by DIBL.

Munib-ur-Rehman

Prof. Mufti Munib-ur-Rehman
Shari'ah Advisor

AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **DAWOOD ISLAMIC BANK LIMITED** (the Bank) 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 branches except for three 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 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 amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than 60 percent of the total financings 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 purpose 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;



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Chartered Accountants
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KCHSU, Sharea Faisal,
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Pakistan

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Fax: +92 (0) 21- 454 1314
Web: www.deloitte.com

- 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 expenditures 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 the profit, 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.

Sd/-
Chartered Accountant
Engagement Partner
Mushtaq Ali Hirani
Date:

A member firm of
Deloitte Touche Tohmatsu

DAWOOD ISLAMIC BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2008

		<i>December 31, 2008</i>	<i>December 31, 2007</i>
	<i>Note</i>	<i>Rupees in '000</i>	
ASSETS			
Cash and balances with treasury banks	6	418,948	380,381
Balances with other banks	7	255,703	187,747
Due from financial institutions	8	250,040	725,022
Investments	9	2,045,146	1,318,657
Financings	10	5,639,877	3,723,752
Operating fixed assets	11	417,364	299,404
Deferred tax assets	12	-	20,065
Other assets	13	539,632	195,505
		9,566,710	6,850,534
LIABILITIES			
Bills payable	14	20,138	80,240
Due to financial institutions	15	50,704	-
Deposits and other accounts	16	5,063,393	2,888,762
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	12	8,612	-
Other liabilities	17	349,053	215,644
		(5,491,900)	(3,184,646)
NET ASSETS		4,074,810	3,665,888
REPRESENTED BY			
Share capital	18	4,001,333	3,601,200
Reserves		16,751	10,206
Unappropriated profit		67,007	40,825
		4,085,091	3,652,231
Surplus on revaluation of assets - net	19	(10,281)	13,657
		4,074,810	3,665,888
CONTINGENCIES AND COMMITMENTS	20		

The annexed notes from 1 to 38 form an integral part of these financial statements.

PRESIDENT AND CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

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

		<i>For the period from April 10, 2007 to</i>	
		<i>December 31, 2008</i>	<i>December 31, 2007</i>
	<i>Note</i>	<i>Rupees in '000</i>	
Profit / return earned	21	855,374	249,763
Profit / return expensed	22	(403,500)	(57,906)
Net spread earned		451,874	191,857
Provision against non-performing financings (net)	10.5	3,875	1,857
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(3,875)	(1,857)
Net spread after provisions		447,999	190,000
OTHER INCOME			
Fee, commission and brokerage income		20,494	6,007
Dividend income		3,550	-
Income from dealing in foreign currencies		19,458	2,014
Capital gain on sale of investment		140	-
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	23	2,631	816
Total other income		46,273	8,838
		494,272	198,838
OTHER EXPENSES			
Administrative expenses	24	(433,996)	(165,999)
Other provisions / write offs		-	-
Other charges	25	(164)	(580)
Total other expenses		(434,161)	(166,579)
		60,111	32,259
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		60,111	32,259
Taxation - Current	26	-	(1,293)
- Prior years	26	1,293	-
- Deferred	26	(28,677)	20,065
		(27,384)	18,772
PROFIT AFTER TAXATION		32,727	51,031
Unappropriated profit / (loss) brought forward		40,825	-
Profit available for appropriation		73,552	51,031
Earnings Per Share - Basic	27	0.084	0.170
- Diluted	27	0.084	0.169

The annexed notes from 1 to 38 form an integral part of these financial statements.

PRESIDENT AND CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

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

December 31, December 31,
2008 2007
Rupees in '000

A. CASH FLOW FROM OPERATING ACTIVITIES

Profit before taxation	60,111	32,259
Add: Deferred cost incurred - net	-	25,978
Less: Dividend income	(3,550)	-
	56,561	58,237
Adjustments:		
Depreciation	51,245	26,081
Amortization	44,461	13,442
Gain on disposal of fixed assets	(73)	-
Capital gain on sale of investments	(140)	-
Provision against non performing financings	3,875	1,857
	99,368	41,380
	155,929	99,617
(Increase)/Decrease in operating assets		
Due from financial institutions	474,982	(725,022)
Financings	(1,919,999)	(3,712,976)
Other assets (excluding advance taxation and deferred cost)	(345,904)	(122,421)
	(1,790,921)	(4,560,419)
Increase/(Decrease) in operating liabilities		
Bills payable	(60,101)	80,240
Due to financial institutions	50,704	-
Deposits and other accounts	2,174,631	2,888,762
Other liabilities	133,408	206,260
	2,298,642	3,175,262
	663,651	(1,285,541)
Income tax paid	(3,518)	(10,916)
Net cash generated from / (used in) operating activities	660,132	(1,296,457)

B. CASH FLOW FROM INVESTING ACTIVITIES

Net investments in available-for-sale securities	(1,058,250)	(1,318,657)
Investments in operating fixed assets	(208,851)	(203,293)
Dividend received	3,550	-
Proceeds from disposal of fixed assets	1,846	-
Proceeds from sale of investments	307,963	-
Net cash used in investing activities	(953,742)	(1,521,950)

	<i>December 31,</i> <i>2008</i>	<i>December 31,</i> <i>2007</i>
<i>Note</i>	<i>Rupees in '000</i>	

C. CASH FLOW FROM FINANCING ACTIVITIES

Issue of share capital	400,133	314,547
Subscription of right shares	-	600,200
	<hr/>	<hr/>
Net cash flow from financing activities	400,133	914,747
	<hr/>	<hr/>
Increase/ (Decrease) in cash and cash equivalents (A+B+C)	106,523	(1,903,660)
Cash and cash equivalents at beginning of the year	568,128	2,471,788
	<hr/>	<hr/>
Cash and cash equivalents at end of the year	28 674,651	568,128
	<hr/> <hr/>	<hr/> <hr/>

The annexed notes from 1 to 38 form an integral part of these financial statements.

PRESIDENT AND CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

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

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Unappropriated Profit</i>	<i>Total</i>
	< ----- Rupees in '000 ----- >			
Balance as at January 01, 2007	2,686,453	-	-	2,686,453
Issue of share capital	1,001,000	-	-	1,001,000
Right shares allotted	(686,453)	-	-	(686,453)
Right shares subscribed but not allotted	600,200	-	-	600,200
Profit after taxation for the year	-	-	51,031	51,031
Transferred to statutory reserve	-	10,206	(10,206)	-
Balance at December 31, 2007	3,601,200	10,206	40,825	3,652,231
Issue of share capital	400,133	-	-	400,133
Profit after taxation for the year	-	-	32,727	32,727
Transferred to statutory reserve	-	6,545	(6,545)	-
Balance at December 31, 2008	4,001,333	16,751	67,007	4,085,091

The annexed notes from 1 to 38 form an integral part of these financial statements.

PRESIDENT AND CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

DAWOOD ISLAMIC BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

1. STATUS AND NATURE OF BUSINESS

- 1.1** Dawood Islamic Bank Limited (the Bank) was incorporated in Pakistan as a public limited company on August 29, 2005 under the Companies Ordinance, 1984 to carry out business of an Islamic Commercial Bank in accordance with the principles of Islamic Sharia. The registered office of the Bank is situated at Saima Trade Tower, I.I Chundrigar Road, Karachi.
- 1.2** State Bank of Pakistan (SBP) issued a "Scheduled Islamic Commercial Bank" license to the Bank on March 16, 2007 and granted approval for commencement of Islamic Banking Business on April 09, 2007. The Bank is principally engaged in commercial, consumer and investment activities. At present the Bank has been operating through its twenty one branches including six sub branches (2007: five branches).

2. STATEMENT OF COMPLIANCE

- 2.1** These financial statements are prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board and Islamic Financial Accounting Standards issued by the Institute of Chartered Accountants of Pakistan, as are notified under the provision of the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, by the Securities and Exchange Commission of Pakistan and the Banking Companies Ordinance, 1962, and the directives issued by the State Bank of Pakistan (SBP). In case the requirements of provisions and directives issued under the Companies Ordinance, 1984, and the Banking Companies Ordinance, 1962, and the directives issued by the SBP differ with the requirements of IFRS, the provisions of and the directives issued under the Companies Ordinance, 1984, and the Banking Companies Ordinance, 1962, and the directives issued by the SBP shall prevail.
- 2.2** SBP through its BSD Circular No. 10 dated August 26, 2002 has deferred the implementation of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" and IAS 40 "Investment Property" for Banks in Pakistan. Accordingly, the requirements of those IASs have not been considered in preparation of the financial statements. However, the investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

Interpretations to published approved accounting standards that are not yet effective

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

Standards and Interpretations

Effective date (accounting periods beginning on or after)

IFAS 2	Islamic Financial Accounting Standard-2, Ijarah	January 01,2009
IFRIC 12	Service Concession Agreements	January 01,2009
IFRIC 13	Customer Loyalty Programs Minimum Funding Requirements and their Interactions	July 01, 2008

IFRIC 14 - IAS 19 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 01,2009
IFRIC 15 Agreements for construction of real estates	January 01, 2009
IFRIC 16 Hedges of Net Investment in a Foreign Operations	October 01, 2008

Adoption of IFAS 2 will result in following changes: -

- Assets underlying Ijarah financing will be recorded as operating fixed assets separately from the assets in Bank's own use. These assets will be carried at cost less accumulated depreciation and impairment, if any.
- Rentals receivable from Ijarah financing net of depreciation charged during the year will be taken to profit and loss account.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for the measurement of certain financial instruments at fair value.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

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

4.2 Revenue Recognition

4.2.1 Profit from Murabaha is accounted for on culmination of Murabaha transaction. However, the profit on that portion of Murabaha not due for payment is deferred by accounting for "Deferred Murabaha Income" with a corresponding credit to "Unearned Murabaha Income" which is recorded as a liability. The same is then recognised on a time proportion basis.

4.2.2 The Bank follows the finance method in recognising income on Ijarah contracts. Under this method the unearned income i.e. the excess of aggregate Ijarah rentals over the cost of the asset and documentation charges under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah. Gains / losses on termination of Ijarah contracts are recognised as income on a receipt basis. Income on Ijarah is recognised from the date of delivery of the respective assets to the Mustajir (lessee).

4.2.3 Profit on Diminishing Musharika and Modaraba are recognised on an accrual basis.

4.2.4 Service charges on letters of credits and acceptances is recognised on receipt basis.

4.2.5 Profit on investment in Sukuk bonds is recognised on an accrual basis.

4.2.6 Dividend income is recognised when the Bank's right to receive dividend is established.

4.3 Investments

Investments of the Bank, other than investment in associate are classified as securities held-to-maturity, held-for-trading and available-for-sale.

Held-to-maturity

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

Held-for-trading

These investments are either acquired for generating a profit from short-term fluctuations in prices or securities included in portfolio for which there is evidence of a recent actual pattern of short-term profit taking.

Available-for-sale

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

Investments in securities are recognized on a trade-date basis.

Subsequent measurement***Held-to-maturity***

These are measured at amortized cost using effective profit rate method, less any impairment loss recognized to reflect irrecoverable amount.

Held-for-trading

These are measured at subsequent reporting dates at fair value. Gains and losses on remeasurement are included in the net profit and loss for the year.

Available for sale

Quoted securities classified as available for sale investments are measured at subsequent reporting dates at fair value and surplus / deficit arising thereon is kept in a separate account shown in the balance sheet below equity. The surplus / deficit arising on these securities is taken to the profit and loss account when actually realized upon disposal.

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. Investments in other unquoted securities are valued at cost less impairment losses.

Investments in associates

Investments in associate are valued using equity method of accounting.

Gain or loss on sale of investments is included in profit and loss for the year.

4.4 *Financings - Islamic Investment and Financing Products*

These are financial products originated by the Bank and principally comprised of Murabaha, Modaraba, Ijarah and Diminishing Musharika receivables. These are stated net of specific and general provision against non performing financings, if any, which are charged to the profit and loss account.

Specific provision

The Bank maintains specific provision for doubtful debts at a level that can reasonably be anticipated, keeping in view the requirements of the Prudential Regulations issued by the SBP.

General provision

The Bank also maintains general provision at the rate of 5% against unsecured consumer portfolio and at the rate of 1.5% against secured consumer portfolio in accordance with the Prudential Regulations issued by the SBP.

4.5 *Operating fixed assets****Capital work in progress***

These are stated at cost

Property and equipment

These assets are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Depreciation is charged to income by applying the straight line method over the estimated useful lives, at the rates stated in Note 11.2 to the financial statements. Depreciation is charged from the month of acquisition and up to the month preceding the month of disposal.

Assets residual values, if significant, and their useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Maintenance and normal repairs are charged to income, as and when incurred.

Gains and losses on disposal of property and equipment if any, are taken to profit and loss account for the year.

Intangible assets

These assets are stated at cost less accumulated amortization and accumulated impairment loss, if any. Amortization is carried on straight line method over the estimated useful life of respective asset, at the rate stated in Note 11.3 to the financial statements. Amortization is charged from the month of acquisition and up to the month preceding the month of deletion.

4.6 Impairment

At each balance sheet date, the Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the greater of net selling price and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as expense immediately.

Where an impairment loss reverses subsequently, the carrying amount of the assets is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately except for impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of assets.

4.7 Deferred costs

Pre-operating / preliminary expenses are included in deferred costs and these are amortized over a maximum period of five years on straight line basis from the date of commencement of business.

4.8 Taxation

Current

The charge for taxation is based on expected taxable income for the year, if any at current rates of taxation, after taking into consideration available tax credits, rebates and tax losses as required under seventh schedule of Income Tax Ordinance 2001.

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. The Bank records deferred tax assets / liabilities using the tax rates, enacted or subsequently enacted at the balance sheet date expected to be applicable at the time of its reversal.

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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

4.9 Staff retirement benefit

Defined Contribution Plan

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

4.10 Foreign Currencies

Foreign currency transactions are translated to Rupees at the foreign exchange rates prevailing on the date of transaction. Assets and liabilities in foreign currencies are translated into Rupees at the rate of exchange approximating those prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts other than those relating to foreign currency deposits are valued at the rates applicable to the respective maturities of the relevant foreign bills purchased and forward foreign exchange contracts. Exchange gains and losses are included in profit and loss account for the year.

4.11 Provisions and contingent assets and 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 recognised, and are also not disclosed unless an inflow of economic benefits is probable and contingent liabilities are disclosed but not recognised unless the probability of an outflow of resources embodying economic benefit is not remote.

4.12 Offsetting

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

4.13 Related party transactions

Transactions between the Bank and its related parties are carried out on an arm's length basis. The relevant rates are determined in accordance with the "Comparable Uncontrolled Price Method".

4.14 Financial instruments

All financial assets and liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the Bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any loss on derecognition of the financial assets and financial liabilities is taken to income directly. Financial assets carried on the balance sheet include cash and bank balances, due from financial institutions, investments, financings, certain receivables and financial liabilities include bills payable, due to financial institutions, deposits and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATING UNCERTAINTY

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows: -

- (a) Critical judgment in classification of investments (Note 4.3).
- (b) Provision for non-performing financings (Note 4.4).
- (c) Assumption and estimation in recognition of provision for taxation (current and prior years) and deferred taxation (Note 4.8).
- (d) Depreciation and amortization methods of operating fixed assets (Note 4.5).

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

	<i>Note</i>	<i>December 31, 2008</i>	<i>December 31, 2007</i>
		<i>Rupees in '000</i>	
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		91,298	19,586
Foreign currencies		24,429	6,012
With State Bank of Pakistan in			
Local currency current account	6.1	287,580	353,360
Foreign currency deposit account	6.2	5,616	1,423
With National Bank of Pakistan			
Local currency current account		10,025	-
		<u>418,948</u>	<u>380,381</u>

- 6.1** The current account is maintained under the requirement of Section 22 of the Banking Companies Ordinance, 1962.
- 6.2** This represents cash reserve and special cash reserve required to be maintained with the SBP on deposits held under the new foreign currency account scheme at nil return.

	<i>Note</i>	<i>December 31, 2008</i>	<i>December 31, 2007</i>
		<i>Rupees in '000</i>	
7. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		856	1,000
On deposit account	7.1	156,054	168,925
Outside Pakistan			
On current account		98,793	17,822
		<u>255,703</u>	<u>187,747</u>

- 7.1** This represents saving deposits carrying profit at the rate of 2.35% to 14% (December 31, 2007 : 5% to 9%) per annum.

8. DUE FROM FINANCIAL INSTITUTIONS

Commodity murabaha	8.1	150,040	725,022
Modaraba	8.3	100,000	-
		<u>250,040</u>	<u>725,022</u>

8.1 The return on these commodity murabaha ranges from 6% to 32% (December 31, 2007: 9.42% to 11.25%) per annum maturing overnight.

8.2 Murabaha sale price	14,999,414	4,759,067
Purchase price	14,980,000	4,628,182
	<u>19,414</u>	<u>130,885</u>

Deferred murabaha income

Opening balance	25,022	-
Deferred during the year	19,414	130,885
Recognised during the year	(44,396)	(105,863)
	40	25,022

Murabaha receivable

Opening balance	725,022	-
Sales during the year	14,999,414	4,759,067
Received during the year	(15,574,396)	(4,034,045)
	150,040	725,022

8.3 The return on Modaraba is 12.5% per annum maturing overnight.

8.4 Particulars of due from financial institutions

In local currency	250,040	725,022
In foreign currencies	-	-
	<u>250,040</u>	<u>725,022</u>

9. INVESTMENTS

9.1 Investments by types

	<i>December 31, 2008</i>			<i>December 31, 2007</i>		
	<i>Held by bank</i>	<i>Given as collateral</i>	<i>Total</i>	<i>Held by bank</i>	<i>Given as collateral</i>	<i>Total</i>
<i>Note</i>	<i><----- Rupees in '000' -----></i>					
Available-for-sale securities						
Investments at Cost	2,055,427	-	2,055,427	1,305,000	-	1,305,000
Less: Provision for diminution in value of Investments	-	-	-	-	-	-
Investments (Net of Provisions)	2,055,427	-	2,055,427	1,305,000	-	1,305,000
(Deficit)/Surplus on revaluation of available for sale securities	(10,281)	-	(10,281)	13,657	-	13,657
Total Investment at Market Value	2,045,146	-	2,045,146	1,318,657	-	1,318,657

	<i>Note</i>	<i>December 31, 2008</i>	<i>December 31, 2007</i>
		<i>Rupees in '000</i>	
9.2 Investments by Segment			
Sukuk Bonds		1,705,427	1,055,000
Units of open-end funds		350,000	250,000
Total investments at cost		<u>2,055,427</u>	<u>1,305,000</u>
Less: Provision for diminution in value of investments		-	-
Investments (Net of Provisions)		<u>2,055,427</u>	<u>1,305,000</u>
(Deficit) / surplus on revaluation of available-for-sale securities	19	<u>(10,281)</u>	<u>13,657</u>
Total investments at market value		<u><u>2,045,146</u></u>	<u><u>1,318,657</u></u>

9.3 Quality of Available for Sale Securities

	<i>December 31, 2008</i>		<i>December 31, 2007</i>	
	<i>Rupees in '000</i>	<i>Rating</i>	<i>Rupees in '000</i>	<i>Rating</i>
Sukuk Certificates				
Al-Zamin Leasing Modaraba	100,000	unrated	-	-
Amtex Limited	50,000	A+	50,000	A+
Century Paper and Board Mills Limited	25,000	AA-	25,000	unrated
EDEN Builders Limited	13,250	A	-	0
Engro Chemicals Pakistan Limited	100,000	AA	100,000	unrated
House Building Finance Corporation Limited	100,000	A+	-	-
Karachi Shipyard & Engineering Works Ltd.	100,000	unrated	-	-
Kolson Private Limited	30,000	unrated	-	-
Maple Leaf Cement Factory Limited	50,000	A-	-	-
Quetta Textile Mills Limited	150,000	A-	-	-
Security Leasing Corporation Limited	30,000	unrated	30,000	unrated
Shahmurad Sugar Mills Limited	25,000	A-	25,000	A-
Sitara Chemical Industries Limited	100,000	unrated	100,000	unrated
Sitara Energy Limited	32,177	unrated	25,000	unrated
State Bank Of Pakistan	200,000	unrated	-	0
Sui Southern Gas Company Limited	500,000	AA	600,000	unrated
WAPDA	100,000	unrated	100,000	unrated
Units of Open-End Funds				
Dawood Islamic Fund (9.3.1)	248,219	unrated	263,657	unrated
KASB Islamic Fund	91,500	unrated	-	
Total	<u><u>2,045,146</u></u>		<u><u>1,318,657</u></u>	

9.3.1 This represents investment in Seed Capital of Dawood Islamic Fund.

		<i>December 31,</i> <i>2008</i>	<i>December 31,</i> <i>2007</i>
	<i>Note</i>	<i>Rupees in '000</i>	
10. FINANCINGS			
In Pakistan			
Murabaha	10.1	2,419,839	1,892,191
Diminishing Musharaka		2,177,955	1,378,016
Net investment in Ijarah	10.2	678,343	145,754
Modaraba		304,945	276,029
Staff finance		64,527	33,620
Financings - gross		<u>5,645,609</u>	<u>3,725,610</u>
Provision against consumer financing	10.5	<u>(5,732)</u>	<u>(1,857)</u>
Financings - net of provision		<u><u>5,639,877</u></u>	<u><u>3,723,752</u></u>
10.1			
Murabaha sale price		6,330,321	2,548,888
Purchase price		<u>6,004,668</u>	<u>2,447,560</u>
		<u><u>325,653</u></u>	<u><u>101,328</u></u>
<i>Deferred Murabaha income</i>			
Opening balance		71,864	-
Deferred during the year		325,653	101,328
Recognised during the year		<u>(277,268)</u>	<u>(29,464)</u>
		120,249	71,864
<i>Murabaha receivable</i>			
Opening balance		1,892,191	-
Sales during the year		6,330,321	2,548,888
Received during the year		<u>(5,802,673)</u>	<u>(656,697)</u>
		2,419,839	1,892,191

10.2 Net investment in Ijarah

	<i>December 31, 2008</i>				<i>December 31, 2007</i>			
	<i>Not later than one year</i>	<i>Later than one and less than five years</i>	<i>Over five years</i>	<i>Total</i>	<i>Not later than one year</i>	<i>Later than one and less than five years</i>	<i>Over five years</i>	<i>Total</i>
	<----- Rupees in '000 ----->							
Ijarah rentals receivable	159,270	630,798	-	790,068	54,997	136,371	-	191,368
Residual value	-	79,574	-	79,574	-	18,541	-	18,541
Minimum ijarah payments	159,270	710,372	-	869,642	54,997	117,830	-	172,827
Less: Profits for future periods	90,060	101,239	-	191,299	14,006	22,418	-	27,073
Present value of minimum ijarah payments	69,210	609,133	-	678,343	40,991	95,412	-	145,754

	<i>December 31,</i> <i>2008</i>	<i>December 31,</i> <i>2007</i>
<i>Note</i>	<i>Rupees in '000</i>	
10.3 Particulars of financings		
10.3.1 In local currency	5,645,609	3,725,610
In foreign currencies	-	-
	<u>5,645,609</u>	<u>3,725,610</u>
10.3.2 Short Term	2,821,899	2,096,356
Long Term	2,823,710	1,629,254
	<u>5,645,609</u>	<u>3,725,610</u>

<i>Note</i>	<i>December 31, 2008</i>	<i>December 31, 2007</i>
	<i>Rupees in '000</i>	

10.6 Particulars of financings to Directors, Associated Companies etc.

Due from directors, executives or officers of the Bank or any of them either severally or jointly with any other persons

Balance at beginning of year		33,620	10,776
Disbursements during the year / period		44,899	23,372
Repayments		(13,991)	(528)
Balance at end of year	10.6.1	<u>64,528</u>	<u>33,620</u>

11. OPERATING FIXED ASSETS

Capital work-in-progress	11.1	30,875	18,939
Property and equipment	11.2	302,108	192,024
Intangible assets	11.3	84,381	88,442
		<u>417,364</u>	<u>299,405</u>

11.1 Capital work-in-progress

Civil works	9,808	8,094
Advance for computer hardware	3,240	3,066
Advance for computer software	14,805	7,779
Advance for vehicles	3,022	-
	<u>30,875</u>	<u>18,939</u>

11.2 Property and Equipment

	<i>Cost</i>			<i>Depreciation</i>		<i>Book value</i>		<i>Rate of Depreciation %</i>
	<i>at January 1, 2008</i>	<i>Additions/ (Deletions) during the year / period</i>	<i>at December 31, 2008</i>	<i>at January 1, 2008</i>	<i>for the year / period</i>	<i>at December 31, 2008</i>	<i>at December 31, 2008</i>	
<i>< ----- Rupees '000 ----- ></i>								
Leasehold improvements	94,611	67,751	162,362	2,636	12,587	15,223	147,139	10
Computer equipment	64,311	36,342	100,595	17,244	27,723	44,961	55,634	33.33
		(58)			(6)			
Furniture, fixtures and office equipment	21,018	34,903	55,921	1,474	3,645	5,118	50,804	10
Vehicles	40,425	24,106	62,230	6,989	7,290	13,699	48,531	20
		(2,301)			(580)			
	220,365	163,102	381,108	28,343	51,245	79,001	302,108	
		(2,359)			(586)			
2008	220,365	163,102	381,108	28,343	51,245	79,001	302,108	
2007	43,292	177,073	220,365	2,262	26,081	28,343	192,024	

December 31, 2008 December 31, 2007
Rupees in '000

11.2.1 Depreciation for the year / period

Charged to profit and loss account
Charged to deferred cost

	51,245	19,982
	-	6,099
	<u>51,245</u>	<u>26,081</u>

11.3 Intangible Assets

	<i>Cost</i>			<i>Amortisation</i>		<i>Book value</i>		<i>Rate of Amortization %</i>
	<i>at January 1, 2008</i>	<i>Additions during the year / period</i>	<i>at December 31, 2008</i>	<i>at January 1, 2008</i>	<i>for the year / period</i>	<i>at December 31, 2008</i>	<i>at December 31, 2008</i>	
<i>< ----- Rupees '000 ----- ></i>								
Computer Software	98,541	33,812	132,353	10,099	37,873	47,972	84,381	33.33
2008	98,541	33,812	132,353	10,099	37,873	47,972	84,381	
2007	14,523	84,018	98,541	1,598	8,501	10,099	88,442	

December 31, 2008 December 31, 2007
Rupees in '000

11.3.1 Amortisation for the year / period

Charged to profit and loss account
Charged to deferred cost

	37,873	7,182
	-	1,319
	<u>37,873</u>	<u>8,501</u>

11.2.2 Detail of disposal of fixed assets whose original cost or book value exceeds Rupees one million or Rupees two hundred fifty thousand, whichever is lower are given below: -

<i>Description</i>	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>Net Book Value</i>	<i>Sales Proceeds</i>	<i>Mode of Disposal</i>	<i>Particulars of Purchasers</i>
	<----- Rupees 000' ----->					
<i>Vehicles</i>						
Honda City Vario	915	152	763	840	Insurance Claim	New Jubilee Insurance
Toyota Altis	1,386	427	959	959	Bank's Policy	S.Shah Sajid Hussain (ex-Employee)

December 31, December 31,
2008 2007
Note Rupees in '000

12. DEFERRED TAX (LIABILITIES) / ASSETS

Deferred credits arising due to

Accelerated accounting depreciation on operating fixed assets	(25,445)	(31,751)
Accelerated depreciation on Ijarah assets	(125,321)	-

Deferred debits arising in respect of

Minimum tax liability	-	1,293
Unabsorbed depreciation on ijarah assets	80,577	-
Tax loss for the year	61,577	50,523
	(8,612)	20,065
	(8,612)	20,065

13. OTHER ASSETS

Profit / return accrued in local currency		245,647	90,376
Advances, deposits, advance rent and other prepayments		241,034	60,703
Advance taxation		15,732	10,923
Deferred costs	13.1	21,410	27,998
Others		15,809	5,506
		539,632	195,505
		539,632	195,505

13.1 Deferred costs

Represents preliminary / pre-commencement expenses incurred as follows: -

Opening balance		27,998	58,917
Incurred during the period		-	(25,978)
		27,998	32,939
Less: Amortized during the year / period		(6,588)	(4,941)
Closing balance		21,410	27,998
		21,410	27,998

14. BILLS PAYABLE

In Pakistan		20,138	80,240
Outside Pakistan		-	-
		20,138	80,240
		20,138	80,240

15. DUE TO FINANCIAL INSTITUTIONS

In Pakistan		50,000	-
Outside Pakistan		704	-
		50,704	-
		50,704	-

December 31, December 31,
2008 2007
Note Rupees in '000

15.1 Particulars of due to financial institutions

In local currency		50,000	-
In foreign currencies		704	-
		50,704	-
		50,704	-

15.2 Details of due to financial institutions

- Secured / Unsecured

Secured

Musharaka from State Bank of Pakistan under Islamic Export Refinance Scheme	15.2.1	50,000	-
---	--------	--------	---

Unsecured

Overdrawn nostro account		704	
		50,704	-
		50,704	-

15.2.1 The Musharaka is on profit and loss sharing basis maturing within four months and are secured against demand promissory note executed in favor of State Bank of Pakistan. A limit of Rs.100 million has been allocated to the bank by SBP under Islamic Export Refinance Scheme for the year 2008.

16. DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits		2,705,584	598,770
Savings deposits		625,468	394,076
Current accounts - Non-remunerative		357,821	125,372
Margin deposits		7,123	51,037
		3,695,996	1,169,255

Financial Institutions

Remunerative deposits		1,358,242	1,718,672
Non - remunerative deposits		9,155	835
		5,063,393	2,888,762
		5,063,393	2,888,762

16.1 Particulars of deposits

In local currency		5,029,160	2,884,192
In foreign currencies		34,233	4,570
		5,063,393	2,888,762
		5,063,393	2,888,762

	<i>Note</i>	<i>December 31, 2008</i>	<i>December 31, 2007</i>
		<i>Rupees in '000</i>	
17. OTHER LIABILITIES			
Profit / Return payable in local currency	17.1	89,316	38,091
Profit / Return payable in foreign currencies		72	8
Excess money received against right shares		12,585	24,988
Security deposits against Ijarah		79,574	18,541
Security deposit against Diminishing Musharaka		681	-
Unearned income on Commodity Murabaha	8.2	40	25,022
Unearned income on Financings	10.1	120,250	71,864
Charity collection account		5,097	-
Accrued expenses		28,205	34,998
Withholding tax payable		1,357	567
Unrealized loss on forward foreign exchange contracts		7,977	-
Others		3,899	1,564
		<u>349,053</u>	<u>215,644</u>

17.1 It includes Rs. 0.5 million in respect of return accrued on borrowings from SBP under Islamic export refinance scheme.

18. SHARE CAPITAL

18.1 Authorized Capital

	<i>December 31, 2008</i>	<i>December 31, 2007</i>		<i>December 31, 2008</i>	<i>December 31, 2007</i>
	<i>Numbers in '000</i>				
	<u>1,200,000</u>	<u>450,000</u>	Ordinary shares of Rs. 10 each	<u>12,000,000</u>	<u>4,500,000</u>

18.2 Issued, subscribed and paid up

		Ordinary shares			
400,133	300,100	Fully paid in cash	4,001,333	3,001,000	
<u>-</u>	<u>60,020</u>	Right shares subscribed but not yet allotted	<u>-</u>	<u>600,200</u>	
<u>400,133</u>	<u>360,120</u>		<u>4,001,333</u>	<u>3,601,200</u>	

18.3 Reconciliation of number of fully paid ordinary shares of Rs.10 each;

	<i>No. of Shares</i>	
At the beginning of the year	300,100	200,000
Add: Issue of shares	<u>100,033</u>	<u>100,100</u>
At the end of the year	<u>400,133</u>	<u>300,100</u>

As per BSD Circular No. 19 dated September 05, 2008 State Bank of Pakistan has laid down Minimum Capital Requirement (MCR) of Rs. 5 billion for the year ended December 31, 2008. The Board of Directors in their meeting held on December 04, 2008 approved the issue of right shares to meet MCR. Subsequent to year end the State Bank of Pakistan vide letter reference BSD/BAI - 3/608/164/2009 dated February 07, 2009 extended the deadline to meet MCR by March 02, 2009. Bank accomplished the directives of SBP within stipulated time for meeting the minimum capital requirement.

	<i>December 31, 2008</i>	<i>December 31, 2007</i>
<i>Note</i>	<i>Rupees in '000</i>	
19. (DEFICIT)/SURPLUS ON REVALUATION OF ASSETS		
Available for sale securities	(10,281)	13,657
20. CONTINGENCIES AND COMMITMENTS		
20.1 Direct Credit Substitutes	-	-
20.2 Transaction-related Contingent Liabilities		
Guarantees Favoring		
Government	1,153,159	-
Others	19,358	-
20.3 Trade-related contingent liabilities		
Import letters of credit	136,474	642,294
Acceptances	223,138	
20.4 Other Contingencies	-	-
20.5 Commitments in respect of forward lending	-	-
20.6 Commitments in respect of forward exchange contracts		
Forward purchase of foreign exchange	286,085	-
Forward sale of foreign exchange	355,697	-
20.7 Commitments in respect of operating leases	-	-
20.8 Commitments for the acquisition of operating fixed assets		
Civil works	18,965	842
Acquisition of computer hardware	12,292	31,331
Acquisition of computer software	11,853	-
	43,110	32,173
20.9 Other commitments	-	-

		<i>For the period from April 10, 2007 to December 31, 2007</i>	
	<i>Note</i>	<i>December 31, 2008</i>	<i>to December 31, 2007</i>
		<i>Rupees in '000</i>	
21. PROFIT / RETURN EARNED			
On financing to customers		653,763	87,432
On investments in available for sale securities		174,496	17,613
On deposits with financial institutions		7,390	38,856
On inter bank murabaha agreements		19,725	105,863
		<u>855,374</u>	<u>249,763</u>
22. PROFIT / RETURN EXPENSED			
On deposits		363,108	56,398
On borrowings from financial institutions		40,392	1,508
		<u>403,500</u>	<u>57,906</u>
23. OTHER INCOME		<u>2,631</u>	<u>816</u>
24. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		158,984	54,810
Contribution to defined contribution plan		6,783	2,458
Non-executive directors' fees, allowances and other expenses		7,125	2,625
Rent, taxes, insurance, electricity, etc.		68,251	24,233
Legal and professional		4,924	14,312
Communications		9,311	1,537
Fees and subscription		9,044	4,091
Repairs and maintenance		20,995	1,986
Traveling and conveyance		7,485	7,586
Stationery and printing		4,321	1,248
Advertisement and publicity		10,092	7,611
Brokerage and commission		2,598	1,419
Auditors' remuneration	24.1	2,342	800
Depreciation	11.2.1	51,245	19,982
Amortization	24.2	44,461	12,123
Security service charges		6,279	886
Others		19,756	8,291
		<u>433,996</u>	<u>165,999</u>
24.1 Auditors' remuneration			
Audit fee		1,275	550
Half yearly review and other certifications		735	200
Out-of-pocket expenses		332	50
		<u>2,342</u>	<u>800</u>

		<i>For the period from April 10, 2007 to December 31, 2007</i>	
	<i>Note</i>	<i>December 31, 2008</i>	<i>to December 31, 2007</i>
		<i>Rupees in '000</i>	
24.2 Amortization			
Deferred cost	13.1	6,588	4,941
Intangible assets	11.3.1	37,873	8,501
		<u>44,461</u>	<u>13,442</u>
Less: Charged to deferred cost		-	1,319
		<u>44,461</u>	<u>12,123</u>

25. OTHER CHARGES

Penalty imposed by the State Bank of Pakistan	<u>164</u>	<u>580</u>
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26. TAXATION

For the year			
Current		-	(1,293)
Deferred		(28,677)	20,065
Prior years		1,293	-
		<u>(27,384)</u>	<u>18,772</u>

26.1 Relationship between tax expense and accounting profit

The relationship between tax expense and accounting profit has not been presented in these financial statements as the total income of the Bank does not attract normal tax under Income Tax Ordinance, 2001.

27. EARNINGS PER SHARE

27.1 Basic earnings per share

Profit for the year		<u>32,727</u>	<u>51,031</u>
Weighted average number of ordinary share:	<i>No.</i>	<u>391,797</u>	<u>300,100</u>
Earnings per share		<u>0.084</u>	<u>0.170</u>

27.2 Diluted earnings per share

Profit for the year		<u>32,727</u>	<u>51,031</u>
Weighted average number of ordinary share:	<i>No.</i>	<u>391,797</u>	<u>302,567</u>
Earnings per share		<u>0.084</u>	<u>0.169</u>

There were no convertible potential ordinary shares outstanding on December 31, 2008.

		<i>December 31, 2008</i>	<i>December 31, 2007</i>
	<i>Note</i>	<i>Rupees in '000</i>	
28. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	418,948	380,381
Balances with other banks	7	255,703	187,747
		<u>674,651</u>	<u>568,128</u>

		<i>Number</i>	
29. STAFF STRENGTH			
Permanent		220	80
Temporary/on contractual basis		5	9
Bank's own staff strength at the end of the year		<u>225</u>	<u>89</u>
Outsource		141	37
Total staff strength		<u>366</u>	<u>126</u>

30. DEFINED CONTRIBUTION PLAN

The Bank participate in a provident fund scheme administered through the Board of Trustees of the Group for all its permanent employees. Equal monthly contributions are made both by the Bank and employees @ 10% of basic salary.

	<i>December 31, 2008</i>	<i>December 31, 2007</i>
	<i>Rupees in '000</i>	
Amount of contribution from the Bank	5,938	2,458
Amount of contribution from the employees	5,938	2,458
	<u>11,876</u>	<u>4,916</u>

31. COMPENSATION OF DIRECTORS AND EXECUTIVES

	<i>December 31, 2008</i>		
	<i>President / Chief Executive</i>	<i>Directors</i>	<i>Executives</i>
	<i>< ----- Rupees in '000 ----- ></i>		
Fees	-	7,125	-
Managerial remuneration	6,930	-	39,106
Contribution to defined contribution plan	693	-	3,407
Rent and house maintenance	2,052	-	17,166
Utilities	352	-	3,815
Medical	439	-	3,815
Others	1,454	-	-
	<u>11,920</u>	<u>7,125</u>	<u>67,309</u>
Number of persons	<u>1</u>	<u>10</u>	<u>39</u>

*For the period from April 10 to
December 31, 2007*

	<i>President / Chief Executive</i>	<i>Directors</i>	<i>Executives</i>
	<i>< ----- Rupees in '000 ----- ></i>		
Fees	-	2,625	-
Managerial remuneration	4,800	-	19,718
Contribution to defined contribution plan	480	-	1,840
Rent and house maintenance	1,106	-	8,873
Utilities	249	-	1,972
Medical	5	-	1,972
Others	131	-	
	<u>6,771</u>	<u>2,625</u>	<u>34,375</u>
Number of persons	<u>1</u>	<u>10</u>	<u>19</u>

31.1 Certain Executives are provided with free use of Bank's cars

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

32.1 On-balance sheet financial instruments

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
	<i>< ----- Rupees in '000 ----- ></i>			
Assets				
Cash and balances with treasury banks	418,948	418,948	380,381	380,381
Balances with other banks	255,703	255,703	187,747	187,747
Due from financial institutions	250,040	250,040	725,022	725,022
Investments	2,045,146	2,045,146	1,318,657	1,318,657
Financings	5,639,877	5,639,877	3,723,752	3,723,752
Other assets	288,839	288,839	156,585	156,585
	<u>8,898,553</u>	<u>8,898,553</u>	<u>6,492,145</u>	<u>6,492,145</u>

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
	<i>< ----- Rupees in '000 ----- ></i>			
Liabilities				
Bills payable	20,138	20,138	80,240	80,240
Due to financial institutions	50,704	50,704	-	-
Deposits and other accounts	5,063,393	5,063,393	2,888,762	2,888,762
Other liabilities	191,224	191,224	215,077	215,077
	<u>5,325,459</u>	<u>5,325,459</u>	<u>3,184,078</u>	<u>3,184,078</u>

<u>December 31, 2008</u>		<u>December 31, 2007</u>	
<i>Book value</i>	<i>Fair value</i>	<i>Book value</i>	<i>Fair value</i>
<----- Rupees in '000 ----->			

32.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	286,085	277,812	-	-
Forward agreements for borrowing	-	-	-	-
Forward sale of foreign exchange	355,697	355,400	-	-
Forward agreements for lending	-	-	-	-

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.

Quoted investments have been stated at their market value. Unquoted equity securities are valued at the lower of cost and break-up value. Other unquoted securities are valued at cost less impairment losses.

Fair values of financings cannot be determined with reasonable accuracy due to absence of current and active market. Financings are repriced frequently on market rates and are reduced for an impairment in accordance with Prudential Regulations.

Fair values of all other assets and liabilities including long term deposits cannot be calculated with sufficient accuracy as active market does not exist for these instruments. In the opinion of the management, fair value of these assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature or in case of deposits are frequently repriced.

33. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

<i>Corporate Finance</i>	<i>Trading & Sales</i>	<i>Retail Banking</i>	<i>Commercial Banking</i>	<i>Payment & Settlement</i>	<i>Agency Services</i>	<i>Assets Management</i>	<i>Retail Brokerage</i>
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<----- Rupees in '000 ----->

December 31, 2008

Total income	2,998	224,760	534,617	139,272	-	-	-	-
Total expenses	2,811	210,772	497,348	130,604	-	-	-	-
Net income / (loss)	187	13,988	37,269	8,668	-	-	-	-
Segment Assets (Gross)	31,948	2,139,128	5,533,230	1,868,135	-	-	-	-
Segment Non Performing Loans	-	-	50,000	-	-	-	-	-
Segment Provision Required	-	-	2,848	1,026	-	-	-	-
Segment Liabilities	18,246	1,149,905	3,149,128	1,174,619	-	-	-	-
Segment Return on net Assets (ROA) (%)	0.58	0.65	0.67	0.46	-	-	-	-
Segment Cost of funds (%)	15.41	18.33	15.79	11.12	-	-	-	-

<i>Corporate Finance</i>	<i>Trading & Sales</i>	<i>Retail Banking</i>	<i>Commercial Banking</i>	<i>Payment & Settlement</i>	<i>Agency Services</i>	<i>Assets Management</i>	<i>Retail Brokerage</i>
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<----- Rupees in '000 ----->

December 31, 2007

Total income	-	123,476	124,758	10,366	-	-	-	-
Total expenses	-	108,899	108,301	9,143	-	-	-	-
Net income / (loss)	-	14,577	14,729	1,224	-	-	-	-
Segment Assets (Gross)	-	3,051,144	3,448,396	350,993	-	-	-	-
Segment Non Performing Loans	-	-	-	-	-	-	-	-
Segment Provision Required	-	-	-	-	-	-	-	-
Segment Liabilities	-	1,617,675	1,439,536	127,435	-	-	-	-
Segment Return on net Assets (ROA) (%)	-	0.48	0.43	0.35	-	-	-	-
Segment Cost of funds (%)	-	6.73	7.52	7.17	-	-	-	-

34. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include a subsidiary company, associated companies with or without common directors, retirement benefit funds, directors, and key management personnel.

The bank has related party relationship with its associated undertakings, subsidiary companies, employee benefit plans, and its key management personnel (including their associates).

A number of banking transactions are entered into with related parties in the normal course of business. These include financings and deposits transactions. These transactions are executed on the same terms as those prevailing at the time for comparable transactions with unrelated parties.

The detail of transactions with related parties and balances with them, apart from compensation to executives as disclosed in Note 31, is given below: -

<i>Relationship</i>	<i>Nature of Transactions</i>	<i>December 31,</i>	<i>December 31,</i>
		<i>2008</i>	<i>2007</i>
		<i>Rupees '000'</i>	
Associated Companies	Expenses incurred by associated company on behalf of the bank	-	274
	Deposits received	33,636,327	288,919
	Deposits repaid	33,538,446	278,873
	Profit on deposits	67,054	18
	Rent paid	30,560	15,640
	Commodity murabaha disbursed	1,500,000	500,000
	Commodity murabaha repayments	(1,500,000)	(500,000)
	Income from commodity murabaha	3,509	10,895
	Investment made	-	250,000
	Letter of credits	78,143	-
	Guarantees	1,135,921	-
	Fee earned	4,653	-
	Security deposit	5	-
Directors	Deposits received	117,661	32,805
	Deposits repaid	110,796	23,549
	Profit on deposits	190	93
Provident Fund	Transfer to provident fund	11,876	4,916

35. CAPITAL ADEQUACY

35.1 Scope Of Applications

Capital Management aims to ensure strong capital position and efficient use of capital as determined by the underlying business strategy i.e. maximizing growth on continuing basis. This process is managed by Asset Liability Committee (ALCO) of the Bank. The objective for ALCO is to derive the most appropriate strategy in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movement, liquidity constraints and capital adequacy and its implication on risk management policies.

35.2 Capital Structure

Banks Regulatory Capital has been analyzed in Tiers i-e.: -

- Tier -1 Capital includes General Reserves, fully Paid-up capital and Un-appropriated Profit (Net off Losses).
- Tier -2 Capital includes General Provision for Loan Losses and Revaluation Reserve for its Available for Sale Securities.
- Tier -3 Capital has also been prescribed by SBP for managing Market Risk; however the bank does not have Tier – 3 capital.

December 31, 2008
Rupees in '000

35.3 Capital adequacy ratio

1. Tier 1 Capital

1.1	Share Capital	4,001,333
1.2	Balance in Share Premium Account	-
1.3	Reserve for issue of Bonus Shares	-
1.4	General Reserves as disclosed on the Balance Sheet	16,751
1.5	Un-appropriated profits	67,007
1.6	Minority interest	-
1.7	Sub-Total (1.1 to 1.6)	4,085,091

Deductions:

1.8	Book value of Goodwill / intangible assets (computer software)	-
1.9	Shortfall in provisions required against classified assets irrespective of any relaxation allowed.	-
1.10	Deficit on account of revaluation of investments held in AFS category	(10,281)
1.11	Any increase in equity capital resulting from a securitization transaction	-
1.12	Investments in TFCs of other banks exceeding the prescribed limit	-
1.13	Other deductions (50% of the amount as calculated on CAP 2)	-
1.14	Sub-Total (1.8 to 1.13)	(10,281)

1.15 Total eligible Tier 1 capital (1.7-1.14)

4,074,810

Supplementary Capital

2. Tier 2 Capital

2.1	General Provisions or general reserves for loan losses-up to maximum of 1.25% of Risk Weighted Assets	2,884
2.2	Revaluation Reserves up to 45%	-
2.3	Foreign Exchange Translation Reserves	-
2.4	Undisclosed reserves	-
2.5	Subordinated debt -upto maximum of 50% of Total eligible Tier 1 capital-Item 1.15	-
2.6	Total tier 2 Capital (2.1 to 2.5)	2,884

Deductions:

2.7	Other deductions (50% of the amount as calculated on CAP 2)	-
2.8	Total Deductions	-
2.9	Total eligible Tier 2 Capital (2.6-2.8)	2,884

3. Tier 3 Capital (eligible for market risk only)

3.1	Actual Tier 3 Capital	-
3.2	Eligible Tier 3 Capital	-

4. Total Supplementary Capital eligible for capital adequacy ratio (2.9+3.2)
(Maximum upto 100% of Total eligible Tier 1 capital)

2,884

5. Total Eligible Capital (1.15+4)

4,077,694

6. Risk Weighted Amount

6.1	Total Credit Risk Weighted Amount (Total of CR 1)	6,709,158
6.2	Total Market Risk Weighted Amount (Total of MR 1)	1,662,222
6.3	Total Operational Risk Weighted Amount (Total of OR 1)	659,350
6.4	Total Risk Weighted Amount (6.1+6.2+6.3)	9,030,730

7. Capital Adequacy Ratios

7.1	Credit Risk Capital Adequacy Ratio (1.15+2.9)/(6.1)	60.78%
7.2	Tier 1 Capital to Total Risk Weighted Amount (1.15 / 6.4)	45.12%
7.3	TOTAL CAPITAL ADEQUACY RATIO (5 / 6.4)	45.15%

36. **RISK MANAGEMENT ORGANIZATION**

The principal risks associated with the banking business are credit risk, market risk, liquidity risk and operational risk.

The Bank's risk management function is developed based on the SBP guidelines and International regulatory frameworks and in compliance with the Internal Risk Management Policy Manual, independent of the business areas. The Bank has constituted a Risk Management Committee with mandate as follows: -

- Setting up of sub - divisions within the Risk Management function to proactively monitor and provide strategic and tactical directions to all separate risk areas of functions. These include **Credit Risk Review** function, **Treasury Middle Office** function, **Basel II/IFSB Compliance** function and **Operational Risk Review** function.
- Review of pertinent internal risk management policies, strategies and overall Bank's risk adjusted performances across all areas of functions on periodic basis.
- To prepare all necessary items of agenda relating to the risk management function that are to be reviewed and subsequently adopted by the Board of Directors.
- To develop a robust risk management culture that is guided by the best industry practices.
- To co-ordinate efforts between various departments in order to create synergies for the Bank across all area of its operations. Such internal partnerships are designed to ensure ongoing alignment of business strategies and activities with the **Bank's overall risk appetite** and **economic capital requirements**.
- To continuously recruit, train and evaluate the necessary human capital for the Bank in the functional areas of risk management.

Key Risk management Principles and Procedures

Bank's business activities are subject to following critical principles in independent risk control management process, which are adopted by the Bank.

- Identification of risk through continuous monitoring of portfolios and by reviewing risks in the light of external events.
- Measurement of quantifiable risks using methodologies and models which have been independently validated and approved.
- Establishment of risk policies to reflect risk principles, risk capacity and risk appetite, and consistent with evolving business requirements and international best practices.
- Comprehensive risk reporting to stakeholders and to management at all levels.
- Control of risk by monitoring and enforcing compliance with the risk principles and policies.

36.1 Credit Risk

Credit risk represents the loss which Bank would suffer if a client or counterparty fails to meet its contractual obligations. It is an integral part of many of our business activities and is inherent in traditional banking products - financing, letters of credit and in traded treasury products.

All Business Groups taking material credit risk have independent credit risk control units. They are responsible for counterparty ratings and credit risk assessment.

The Bank manages credit risk through: -

- Accurate detailed information about the customers, cash flows, production, service and operation of an entity.
- Insights into the major factors influencing customer attrition and product cancellation.
- Credit and collections treated as a highly people-intensive business.
- Establishment of acceptable risk levels.

36.1.1 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of financing, deposits, contingencies and commitments.

36.1.1.1 Segments by class of business

	<i>December 31, 2008</i>					
	<i>Financings (Gross)</i>		<i>Deposits</i>		<i>Contingencies and Commitments</i>	
	<i>Rupees in '000</i>	<i>Percent</i>	<i>Rupees in '000</i>	<i>Percent</i>	<i>Rupees in '000</i>	<i>Percent</i>
Agri business (Food products and beverages)	870,164	15.41	717	0.01	-	-
Automobile and transportation equipment	333,540	5.91	-	-	35,086	2.33
Chemical and Pharmaceuticals	244,022	4.32	4,267	0.08	57,998	3.85
Electronics and electrical appliances	6,134	0.11	-	-	24,145	1.60
Fuel, Oil and Gas exploration	-	-	-	-	-	-
Financial Institutions (NBFI, DFI, Banks)	173,294	3.07	1,367,397	27.01	(69,612)	(4.62)
Individuals	272,480	4.83	1,071,883	21.17	3,000	0.20
Non-Government Organization (NGOs)	-	-	775,494	15.32	-	-
Others	1,000,715	17.73	1,227,732	24.25	162,322	10.78
Plastic products	74,719	1.32	141	0.00	-	-
Power (electricity), Gas, Water, Sanitary	-	-	601,375	11.88	-	-
Production and transmission of energy	152,950	2.71	2,730	0.05	1,222,978	81.23
Shoe & leather garments	30,185	0.53	629	0.01	-	-
Sugar	548,233	9.71	96	0.00	-	-
Textile	1,939,173	34.35	10,932	0.22	69,710	4.63
	<u>5,645,609</u>	<u>100</u>	<u>5,063,393</u>	<u>100</u>	<u>1,505,627</u>	<u>100</u>

	<i>December 31, 2007</i>					
	<i>Financings (Gross)</i>		<i>Deposits</i>		<i>Contingencies and Commitments</i>	
	<i>Rupees in '000</i>	<i>Percent</i>	<i>Rupees in '000</i>	<i>Percent</i>	<i>Rupees in '000</i>	<i>Percent</i>
Agri business (Food products and beverages)	137,004	3.68	29,965	1.04	-	-
Automobile and transportation equipment	216,506	5.81	-	-	150,719	22.35
Chemical and Pharmaceuticals	-	-	31,594	1.09	56,061	8.31
Financial Institutions	50,000	1.34	1,719,508	59.52	-	-
Individuals	123,453	3.31	337,491	11.68	-	-
Non-Government Organisations. (NGOs)	-	-	63,970	2.21	-	-
Others	802,996	21.55	505,084	17.48	104,046	15.43
Plastic products	59,230	1.59	-	-	-	-
Power (electricity), Gas, Water, Sanitary	-	-	-	-	276,388	40.98
Production and transmission of energy	420,178	11.28	200,000	6.92	-	-
Sugar	500,000	13.42	431	0.01	-	-
Telecommunication	89,198	2.39	275	0.01	72,316	10.72
Textile	1,327,045	35.62	444	0.02	14,938	2.21
	<u>3,725,610</u>	<u>100</u>	<u>2,888,762</u>	<u>100</u>	<u>674,467</u>	<u>100</u>

36.1.1.2 Segment by sector

	<i>December 31, 2008</i>					
	<i>Financings (Gross)</i>		<i>Deposits</i>		<i>Contingencies and Commitments</i>	
	<i>Rupees in '000</i>	<i>Percent</i>	<i>Rupees in '000</i>	<i>Percent</i>	<i>Rupees in '000</i>	<i>Percent</i>
Public / Government	-	-	1,641,375	32.42	1,190,255	79.05
Private	5,645,609	100	3,422,018	67.58	315,372	20.95
	<u>5,645,609</u>	<u>100</u>	<u>5,063,393</u>	<u>100</u>	<u>1,505,627</u>	<u>100</u>

	<i>December 31, 2007</i>					
	<i>Financings (Gross)</i>		<i>Deposits</i>		<i>Contingencies and Commitments</i>	
	<i>Rupees in '000</i>	<i>Percent</i>	<i>Rupees in '000</i>	<i>Percent</i>	<i>Rupees in '000</i>	<i>Percent</i>
Public / Government	-	-	200,000	6.92	-	-
Private	3,725,610	100	2,688,762	93.08	674,467	100
	<u>3,725,610</u>	<u>100</u>	<u>2,888,762</u>	<u>100</u>	<u>674,467</u>	<u>100</u>

36.1.1.3 Geographical segment analysis

<i>December 31, 2008</i>					
	<i>Profit before taxation</i>	<i>Total assets employed</i>	<i>Net assets employed</i>	<i>Contingencies and commitments</i>	
	<i>< ----- Rupees in '000 ----- ></i>				<i>Percent</i>
Pakistan	60,111	9,438,774	3,980,909	1,150,340	76.40
Asia Pacific (including South Asia)	-	4,305	2,377	8,653	0.57
Europe	-	13,356	3,962	162,161	10.77
United States of America and Canada	-	110,275	87,562	184,473	12.25
Middle East	-	-	-	-	-
Others	-	-	-	-	-
	<u>60,111</u>	<u>9,566,710</u>	<u>4,074,810</u>	<u>1,505,627</u>	<u>100</u>

<i>December 31, 2007</i>					
	<i>Profit before taxation</i>	<i>Total assets employed</i>	<i>Net assets employed</i>	<i>Contingencies and commitments</i>	
	<i>< ----- Rupees in '000 ----- ></i>				<i>Percent</i>
Pakistan	32,259	6,850,534	3,665,888	674,467	100
Asia Pacific (including South Asia)	-	-	-	-	-
Europe	-	-	-	-	-
United States of America and Canada	-	-	-	-	-
Middle East	-	-	-	-	-
Others	-	-	-	-	-
	<u>32,259</u>	<u>6,850,534</u>	<u>3,665,888</u>	<u>674,467</u>	<u>100</u>

36.1.1.4 Credit Risk-Types of Exposure and ECAI's Used

Bank has implemented Standardized Approach for Credit Risk for its entire portfolio.

Bank has used following External Credit Assessment Institutions (ECAI's) for the portfolio under Standardized Approach: -

- JCR-VIS
- PACRA

<i>Exposures</i>	<i>JCR-VIS</i>	<i>PACRA</i>	<i>Others (Specify)</i>
Corporate	No	Yes	Unrated
Banks	Yes	Yes	-
Sovereigns	-	-	-
SME's	-	-	Unrated
Securitized	-	-	-

Credit Exposures subject to Standardized Approach

<i>Exposures</i>	<i>Rating Category</i>	<i>Amount Outstanding Rs. in '000</i>	<i>Deduction CRM</i>	<i>Net Amount Rs. in '000</i>
Corporate	1	-	-	-
	2	216	-	216
	5	-	-	-
	None	5,542,545	-	5,542,545
Banks	1	242,019	-	242,019
	2	134	-	134
	4	-	-	-
	None	416,841	-	416,841
Sovereigns	None	293,196	-	293,196
Retail	None	1,219,564	-	1,219,564

36.2 Market Risk

Market risk is the risk of loss arising from movements in market variables, including observable variables such as profit rates, exchange rates and equity markets, and others which may be only indirectly observable such as volatilities and correlations. The risk of price movements on securities and other obligations in tradable form, resulting from general credit and country risk factors and events specific to individual issuers, is also considered market risk.

The Bank applies Stress Testing and Value at Risk (VaR) techniques as Risk Management Tool; Stress Testing enables the Bank to estimate changes in the value of the portfolio, if exposed to various risk factors. VaR quantifies the maximum loss that might arise due to changes in risk factors, if exposure remains unchanged for a given period of time.

36.2.1 Foreign Exchange Risk

The Foreign Exchange Risk is the risk that the value of a financial instrument will fluctuate due to the changes in Foreign Exchange Rates.

The Bank does not take any currency exposure except to the extent of statutory net open position prescribed by SBP. Foreign Exchange open and mis-match positions controlled through internal limits and are marked to Market on a daily basis to contain the Foreign Exchange Exposure.

	<i>December 31, 2008</i>			
	<i>Assets</i>	<i>Liabilities</i>	<i>Off-balance sheet items</i>	<i>Net foreign currency exposure</i>
	<i>< ----- Rupees in '000 ----- ></i>			
Pakistan rupee	9,438,773	5,457,864	(355,286)	3,625,623
United States dollar	111,022	22,713	184,473	272,782
Great Britain pound	5,485	1,332	1,104	5,257
Euro	7,871	8,062	158,694	158,503
Japanese Yen	3,559	1,928	8,653	10,284
Canadian dollar	-	-	2,362	2,362
	<u>9,566,710</u>	<u>5,491,899</u>	<u>-</u>	<u>4,074,810</u>

	<i>December 31, 2007</i>			
	<i>Assets</i>	<i>Liabilities</i>	<i>Off-balance sheet items</i>	<i>Net foreign currency exposure</i>
	<i>< ----- Rupees in '000 ----- ></i>			
Pakistan rupee	6,823,349	3,173,956	(518,717)	3,130,676
United States dollar	13,824	8,861	507,225	512,188
Great Britain pound	3,208	634	-	2,574
Euro	10,152	1,195	11,492	20,449
	<u>6,850,533</u>	<u>3,184,646</u>	<u>-</u>	<u>3,665,887</u>

36.2.2 Equity position Risk

Equity position risk is the risk arising from taking long positions, in the trading book, in the equities and all instruments that exhibit market behavior similar to equities.

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

36.2.3 Mismatch of profit rate sensitive assets and liabilities

Effective Yield/ Profit rate	Total	December 31, 2008										Non-Profit Bearing financial instruments
		Exposed to Yield / Profit risk										
		Upto 1 months	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 '000' -----										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	418,948	-	-	-	-	-	-	-	-	-	418,948
Balances with other banks	2.35%-9%	255,703	156,054	-	-	-	-	-	-	-	-	99,649
Due from financial institutions	6%-32%	250,040	250,040	-	-	-	-	-	-	-	-	-
Investments	13.13%-17.74%	2,045,146	-	40,403	-	147,134	386,503	356,590	501,144	613,372	-	-
Financings	5%-22%	5,639,877	767,553	1,113,771	832,726	105,000	46,399	492,329	2,087,635	36,989	157,475	-
Other assets	-	288,839	130,445	-	-	-	-	-	-	-	-	158,394
		8,898,553	1,304,092	1,154,174	832,726	252,134	432,902	848,919	2,588,779	650,361	157,475	676,991
Liabilities												
Bills payable		20,138	-	-	-	-	-	-	-	-	-	20,138
Due to financial institutions	2%-32%	50,704	-	-	50,000	-	-	-	-	-	-	704
Deposits and other accounts	0.5%-24.7%	5,063,393	2,345,902	736,877	296,650	1,253,206	-	14,355	42,304	-	-	374,099
Other liabilities		191,224	-	-	-	-	-	-	-	-	-	191,224
		5,325,459	2,345,902	736,877	346,650	1,253,206	-	14,355	42,304	-	-	586,165
On-balance sheet gap		3,573,095	(1,041,810)	417,297	486,076	(1,001,072)	432,902	834,564	2,546,475	650,361	157,475	90,826
Total Yield / Profit Risk Sensitivity Gap			(1,041,810)	417,297	486,076	(1,001,072)	432,902	834,564	2,546,475	650,361	157,475	90,826
Cumulative Yield / Profit Risk Sensitivity Gap			(1,041,810)	(624,513)	(138,436)	(1,139,508)	(706,606)	127,959	2,674,434	3,324,794	3,482,269	3,573,095

Effective Yield/ Profit rate	Total	December 31, 2007										Non-Profit Bearing financial instruments
		Exposed to Yield / Profit risk										
		Upto 1 months	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 '000' -----										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	380,381	-	-	-	-	-	-	-	-	-	380,381
Balances with other banks	5%-9%	187,747	187,747	-	-	-	-	-	-	-	-	-
Due from financial institutions	9.4%-11.3%	725,022	400,000	-	325,022	-	-	-	-	-	-	-
Investments	9.85%-12.27%	1,318,657	-	-	-	-	-	-	830,000	488,657	-	-
Financings	8.0%-14.4%	3,723,752	418,614	636,229	978,590	197,892	159,892	41,497	1,119,041	91,171	80,826	-
Other assets	-	184,583	8,621	-	4,000	-	-	-	-	-	-	171,962
		6,520,143	1,014,982	636,229	1,307,612	197,892	159,892	41,497	1,949,041	579,828	80,826	552,343
Liabilities												
Bills payable		80,240	-	-	-	-	-	-	-	-	-	80,240
Deposits and other accounts	0.4%-10.5%	2,888,762	1,458,955	770,883	250,250	-	211,030	400	20,000	-	-	177,244
Other liabilities		215,077	-	-	-	-	-	-	-	-	-	215,077
		3,184,078	1,458,955	770,883	250,250	-	211,030	400	20,000	-	-	472,560
On-balance sheet gap		3,336,065	(443,973)	(134,654)	1,057,362	197,892	(51,138)	41,097	1,929,041	579,828	80,826	79,783
Total Yield / Profit Risk Sensitivity Gap			(443,973)	(134,654)	1,057,362	197,892	(51,138)	41,097	1,929,041	579,828	80,826	79,783
Cumulative Yield / Profit Risk Sensitivity Gap			(443,973)	(578,627)	478,735	676,627	625,489	666,586	2,595,627	3,175,456	3,256,282	3,336,064

- Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.
- Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates.

36.4 Operational Risk

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of processes, systems, personnel and other risks having an operational impact such as unauthorized activities, fraud and business malpractice.

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.

A business continuity plan and a disaster recovery plan have also been formulated to ensure uninterrupted flow of operations of the Bank.

37. DATE OF AUTHORIZATION FOR ISSUE

The financial statements have been authorized for issue on **March 05, 2009** by the Board of Directors of the Bank.

38. GENERAL

38.1 The Bank has commenced its operations on April 10, 2007 and all expenditures net of income incurred till that date has been shown as "Deferred Cost", therefore comparative figures for profit and loss account and transactions / movements during that period are not comparable to the current year.

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

PRESIDENT AND CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

PATTERN OF SHAREHOLDING AS ON 31-12-2008

Number of Shareholders	Shareholding		Total Number of Shares Held
	From	To	
7	1	1,000	4,200
1	1,001	200,000	200,000
1	200,001	270,000	270,000
1	270,001	390,000	390,000
1	390,001	550,000	550,000
1	550,001	735,000	730,600
1	735,001	825,000	822,600
2	825,001	1,000,000	2,000,000
1	1,000,001	1,200,000	1,200,000
1	1,200,001	1,225,000	1,222,600
3	1,225,001	1,335,000	3,999,999
2	1,335,001	1,340,000	2,680,000
1	1,340,001	2,350,000	2,345,034
3	2,350,001	2,500,000	7,500,000
2	2,500,001	5,000,000	10,000,000
1	5,000,001	10,000,000	10,000,000
1	10,000,001	11,500,000	11,500,000
1	11,500,001	12,360,000	12,360,000
1	12,360,001	14,840,000	14,838,285
1	14,840,001	16,320,000	16,320,000
1	16,320,001	16,670,000	16,666,666
2	16,670,001	20,000,000	40,000,000
1	20,000,001	26,670,000	26,666,666
1	26,670,001	40,000,000	40,000,000
2	40,000,001	88,935,000	177,866,666
40			400,133,316

PATTERN OF SHAREHOLDING AS ON 31-12-2008

Shareholder's Category	Number of Shareholders	Number of Shares Held	Percentage
Financial Institutions	4	181,411,700	45.34%
Individuals	24	107,696,665	26.92%
investment Companies	4	68,198,285	17.04%
joint Stock Companies	5	23,840,000	5.96%
Leasing Companies	1	1,333,333	0.33%
Modarbas	2	17,653,333	4.41%
	40	400,133,316	100.00%

BRANCH NETWORK

Branch Code	Branch Name	Branch Address	Telephone Numbers
0001	Main Branch, Karachi	Trade Centre, I.I.Chundrigar Road, Karachi	021-2637174-75
0002	Shahrah-e-Faisal Branch, Karachi	3/A, Zubaida Garden, Near Awami Markaz, Main Shahrah-e-Faisal, Karachi	021-4543720, 021-4323711
0003	Gulshan-e-Iqbal Branch, Kaarchi	Ground Floor, Dawood Avenue, Plot No. ZC-5, Block-7, Gulshan-e-Iqbal, Karachi.	021-4833780-3
0004	Gulberg Branch, Lahore	57-B-III, Hussain Chowk, Gulberg III, Lahore	042-5772667-75
0005	Jodia Bazar Branch, Karachi	Daryalal Street, Napier Quarters Jodia Bazar, Karachi	021-2430291
0006	Kharadar Branch, Karachi	Ground Floor, Qasr-e-Yaseen, Survey No. 5 & 6, sheet no. B.R.1, Bunder Quarters, Near Police Chowki, Kharadar, Karachi	021-2315176
0007	Sir Syed Road Branch, Karachi	Shop No. G -07, Madina Arcade, Plot No. 154-S, Block 2, Sir Syed Road, PECHS, Karachi	021-4303084-8
0008	Dhorajee Branch, Karachi	Ground Floor, Chhotani Arcade C.P & Berar Co-operative Housing Societies Ltd., Block 7/8, Plot No. 35/130, Survey Sheet No.35-P/1, Karachi	021-4860781
0009	Small Industrial Estate Banch, Sialkot	Plot No. Bill-8S-202/, Mianapora Ogoki Road, Chowck Shahabpura, Sialkot	052-3557061
0010	Hasan Arcade Branch, Faisalabad	Hasan Arcade, Chen One Road, Faisalabad	041-8730017-18-19
0011	Iqbalabad Branch, Rahim Yar Khan	5, 6 Moza Dera Shams, Iqbalabad, Rahim Yar khan	068-5678002-6
0012	Blue Area Branch, Islamabad	Saleem Plaza, 19 Jinnah Avenue, Blue Area, F-6/G-6, Islamabad	051-2870013-6
0013	Muzaffar Gadh Road Branch, Khoshab	13 WALA MORE, CHUCK 13,6 KILOMETER, MUZAFFAR GADH ROAD	0454-720901-3
0014	Ghalla Mandi Branch, Multan	Shop No. 616, Inside Corporation Near Islam Nagar Vehari Road, Multan	061-4482941-42
0015	Zamzama Branch, Kaarchi	11-C, Zamzama Boulevard, Phase-V, DHA, Karachi	021-5302023

Sub Branch Code	Sub Branch Name	Sub Branch Address	Telephone Numbers
7001	Metropole Sub-Branch, Kaarchi	18-C, Mereweather Road, Near Metropole Hotel Saddar Town Karachi.	021-5651651-2
7102	Clifton Sub-Branch, Karachi	S-07, Ground Floor, Yousuf Grand Plaza, Plot No. G4, Block 8, KDA Scheme 5, Kehkashan, Clifton, Karachi	021-5876077
7131	Joharabad Sub Branch, Khoshab	Pioneer Cement Factory, Joharabad.	0454-206804
7141	Old Bahawalpur Road Sub-Branch, Multan	House No. 126, situated at Bahawalpur Road. Multan	061-4571733/061-4500411
7151	Khayaban-e-Sehar Sub-Branch, Karachi	Plot # 19-E, Khayaban-e-Sehar, Phase VI, D.H.A Karachi.	021-5342585/021-5342578
7401	Shahalam Market Sub-Branch, Lahore	14-A, situated at Main Road Shahalam Market, Lahore	042-7655208/042-7654948

FORM OF PROXY

Folio/CDC Account No.

I/We _____
of _____ being member(s) of
Dawood Islamic Bank Limited("the Bank") holding _____ ordinary
shares, hereby appoint _____
of _____ or failing
him/her _____
of _____

member of the Bank, as my/our proxy to vote for me/us, and on my/our behalf at the 3rd Annual
General Meeting of the Bank to be held on **Thursday, March 26, 2009**, and at any adjournment
thereof.

As witness my/our hand this _____ day of _____, 2009,

Witness:

Name: _____

CNIC No/Passport No: _____

Address: _____

**(Member's signature on
Rs.5/- Revenue Stamp)**

Name: _____

CNIC No/Passport No: _____

Address: _____
