ALBARAKA ISLAMIC BANK B.S.C. (C)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2009

AUDITORS' REPORT TO THE DIRECTORS

We have audited the annexed balance sheet of ALBARAKA ISLAMIC BANK B.S.C.(E.C.) - Pakistan Branches as at 31 December 2009 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity, together with the notes forming part thereof (hereinafter referred to as the “financial statements”) for the year then ended, in which are incorporated the unaudited certified returns from the branches except for four 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 management to establish and maintain a system of internal control and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

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

a) in our opinion, proper books of account have been kept by the ALBARAKA ISLAMIC BANK B.S.C. (E.C.) - Pakistan Branches as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;

b) in our opinion:

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

   ii) the expenditure incurred during the year was for the purpose of the branches' business; and

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

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved International 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, in the manner so required and give a true and fair view of the state of the branches' affairs as at 31 December 2009 and its true balance of the loss, its comprehensive loss, 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 Branches and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Without qualifying our opinion we draw attention to Note 1.2 of the financial statements which explains the management’s plan to comply with the revised minimum capital requirement.

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Engagement Partner: Mohammed Junaid

Lahore: 26 February 2010

ALBARAKA ISLAMIC BANK B.S.C. (C)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
BALANCE SHEET AS AT 31 DECEMBER 2009

	Note	2009	2008
		Rupees in '000	
ASSETS			
Cash and balances with treasury banks	8	3,911,176	3,248,922
Balances with other banks	9	7,708,198	4,647,570
Due from financial institutions		-	-
Investments	10	1,702,599	1,124,428
Financing and investing assets	11	14,755,162	14,377,810
Operating fixed assets	12	302,611	167,785
Deferred tax assets	13	26,580	-
Other assets	14	898,634	631,311
		29,304,960	24,197,826
LIABILITIES			
Bills payable	15	194,771	219,170
Due to financial Institutions	16	2,263,689	1,969,849
Deposits and other accounts	17	22,636,323	18,336,159
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	13	-	132,467
Other liabilities	18	1,457,160	1,174,400
		26,551,943	21,832,045
NET ASSETS		2,753,017	2,365,781
REPRESENTED BY			
Head office capital account	19	3,041,775	2,420,129
Reserves		-	-
Accumulated loss		(301,460)	(19,912)
		2,740,315	2,400,217
Surplus / (deficit) on revaluation of assets - net of tax	20	12,702	(34,436)
		2,753,017	2,365,781
CONTINGENCIES AND COMMITMENTS	21	-	-

The annexed notes 1 to 41 form an integral part of these financial statements.

SHAFQAAT AHMED	**AYYAZ AHMAD**
Country Head	**Chief Financial Officer**

ALBARAKA ISLAMIC BANK B.S.C. (C)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
PRFFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009	2008
		Rupees in '000	
Profit / return on financings, investments and placements earned	22	2,555,597	1,764,924
Return on deposits and other dues expensed	23	2,040,969	1,333,752
Net spread earned		514,628	431,172
Provision against non-performing financings – net	24	(422,017)	(141,232)
Provision for diminution in the value of investments		(31,514)	-
Bad debts written off directly		-	-
		(453,531)	(141,232)
Net spread after provisions		61,097	289,940
Other income			
Fee, commission and brokerage income		130,691	130,074
Dividend income		6,549	12,214
Income from dealing in foreign currencies		76,930	127,897
Gain on sale of securities – net	25	51,847	5,603
Unrealized loss on revaluation of investments classified as held for trading		-	(72,370)
Other income	26	1,088	905
Total other income		267,105	204,323
		328,202	494,263
OTHER EXPENSES			
Administrative expenses	27	704,329	572,687
Other provisions / write offs		-	-
Other charges	28	4,507	121
Total other expenses		708,836	572,808
		(380,634)	(78,545)
Extra ordinary/unusual items		-	-
LOSS BEFORE TAXATION		(380,634)	(78,545)
Taxation – Current		65,200	3,303
- Prior years		-	-
- Deferred		(164,286)	(8,691)
	29	(99,086)	(5,388)
LOSS AFTER TAXATION		(281,548)	(73,157)
(Accumulated loss) / unremitted profit brought forward		(19,912)	400,348
(Accumulated loss) / unremitted profit		(301,460)	327,191
Basic Earnings per share	30	-	-
Diluted Earnings per share	30	-	-

The annexed notes 1 to 41 form an integral part of these financial statements.

SHAFQAAT AHMED
Country Head

AYYAZ AHMAD
Chief Financial Officer

ALBARAKA ISLAMIC BANK B.S.C. (C)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	Rupees in '000	
Loss for the year	(281,548)	(73,157)
Other comprehensive income	-	-
Total comprehensive loss for the year	(281,548)	(73,157)

The annexed notes 1 to 41 form an integral part of these financial statements.

SHAFQAAT AHMED
Country Head

AYYAZ AHMAD
Chief Financial Officer

ALBARAKA ISLAMIC BANK B.S.C. (C)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES		Rupees in '000	
Loss before taxation		(380,634)	(78,545)
Less: dividend income		(6,549)	(12,214)
		(387,183)	(90,759)
Adjustments:			
Depreciation		94,358	28,434
Amortization		1,970	1,847
Provision against non-performing financings		422,017	141,232
Provision for diminution in the value of investments - net		31,514	
Gain on sale of fixed assets		(1,088)	(905)
Gain on sale of "held for trading" securities		(51,847)	-
Unrealized loss / (gain) on revaluation of investments classified as held for trading		-	72,370
		496,926	242,978
		109,743	152,219
(Increase) / decrease in operating assets			
Held-for-trading securities		94,537	(28,497)
Financings and investing assets		(856,440)	(1,933,493)
Others assets (excluding advance taxation)		(258,195)	62,694
		(1,020,098)	(1,899,296)
Increase / (decrease) in operating liabilities			
Bills payable		(24,399)	(12,292)
Due to financial institutions		293,840	672,587
Deposits and other accounts		4,300,164	1,371,593
Other liabilities (excluding current taxation)		282,762	191,504
		4,852,367	2,223,392
		3,942,012	408,369
Income tax paid		(75,019)	(73,796)
Net cash inflow from operating activities		3,866,993	402,519
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(600,000)	-
Net investments in held-to-maturity securities		-	(50,000)
Dividend received		7,240	11,515
Investments in operating fixed assets		(174,251)	(95,676)
Sale proceeds of property and equipment disposed off		1,256	1,212
Net cash used in investing activities		(765,755)	(132,949)
CASH FLOW FROM FINANCING ACTIVITIES			
Remittances from head office		510,601	-
Remittances made to head office		-	(347,103)
Transfer to State Bank of Pakistan for capital deposit		(510,601)	-
Net cash used in financing activities		-	(347,103)
Increase / (decrease) in cash and cash equivalents		3,101,236	(77,533)
Cash and cash equivalents at beginning of the year		6,226,363	6,303,886
Cash and cash equivalents at end of the year	31.	9,327,599	6,226,363

The annexed notes 1 to 41 form an integral part of these financial statements.

SHAFQAAT AHMED	**AYYAZ AHMAD**
Country Head	**Chief Financial Officer**

ALBARAKA ISLAMIC BANK B.S.C. (C)
(Incorporated in Bahrain with limited liability)
PAKISTAN BRANCHES
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Head office capital account	Unremitted profit / (Accumulated loss)	Total
	-------------------------Rupees in '000	----------------------	
Balance as at January 01, 2008	2,046,185	400,348	2,446,533
Loss for the year	-	(73,157)	(73,157)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	-	(73,157)	(73,157)
Remittances made to head office	-	(347,103)	(347,103)
Exchange gain on revaluation of capital deposit	373,944	-	373,944
Balance as at December 31, 2008	2,420,129	(19,912)	2,400,217
Loss for the year	-	(281,548)	(281,548)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	-	(281,548)	(281,548)
Remittances from head office	510,601	-	510,601
Exchange gain on revaluation of capital deposit	111,045	-	111,045
Balance as at December 31, 2009	3,041,775	(301,460)	2,740,315

The annexed notes 1 to 41 form an integral part of these financial statements.

SHAFQAAT AHMED
Country Head

AYYAZ AHMAD
Chief Financial Officer

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. STATUS AND NATURE OF BUSINESS

1.1 Al-Baraka Islamic Bank B.S.C. (C) - Pakistan Branches (the Bank), operates as a branch of a foreign bank incorporated and domiciled in Bahrain on February 21, 1984 and is a member of Al-Baraka Banking Group. The Bank commenced its operations in Pakistan in December 1991. The Pakistan branches operate as scheduled Islamic Bank under a license issued by the State Bank of Pakistan (SBP) and are principally engaged in business of banking as defined in the Banking Companies Ordinance, 1962. The registered office of the Bank is situated at 95-B Hali Road, Lahore and presently it operates through twenty nine (29) branches (2008: 29 branches) in Pakistan.

1.2 The Bank is currently operating with Head Office capital (net of losses) of Rs. 2,740,315. However, as per the requirements of SBP BSD circular No. 07 of 2009 dated 15 April 2009, the Bank is required to raise its assigned capital to Rs. 6 billion latest by 31 December 2010. In order to comply with the above minimum capital requirement, the management is considering either to transfer its operations to locally incorporated bank or merge with another Islamic Bank for which negotiations are under process. The license for locally incorporated bank expired on 20 February 2010 for which the Bank has applied for extension to SBP for six months. The management expects to finalize either one of the option within six months.

2. BASIS OF PRESENTATION

2.1 These financial statements have been prepared in accordance with the requirements of State Bank of Pakistan (SBP) vide BSD Circular No. 4 dated February 17, 2006.

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

3. STATEMENT OF COMPLIANCE

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

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

4. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE:

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

Standard or interpretation		Effective date (accounting beginning on or after)
IAS 24	Related Party Disclosures (Revised)	January 01, 2011
IAS 27	Consolidated and Separate Financial Statements (Amendment)	July 01, 2009
IAS 32	Financial Instruments: Presentation – Classification of Rights Issues (Ammendment)	February 01, 2010
IFRS 2	Share-based Payments: Amendments relating to Group Cash- settled Share-Based Payment Transactions	January 01, 2010
IFRS 3	Business Combinations (Revised)	July 01, 2009
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding	January 01, 2011
IFRIC 17	Distributions of Non-cash Assets to owners	July 01, 2009
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	July 01, 2010

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

In addition to the above, amendments to various accounting standards have also been issued by the IASB as a result of its annual improvement project in April 2009. Such improvements are generally effective for accounting periods beginning on or after January 01, 2010. The Bank expects that such improvements to the standards will not have any material impact on the Bank's financial statements in the period of initial application.

5. BASIS OF MEASUREMENT

These financial statements are prepared on the historical cost convention except for quoted investments which are stated on a marked to market basis, commitments in respect of forward exchange contracts which are carried at fair value and certain staff retirement benefits being carried at present value.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards and statutory requirements require the use of critical accounting estimates. It also requires management to exercise its judgements in the process of applying accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

6.1 Investments

In accordance with BSD Circular No. 10, 11 and 14 dated July 13, 2004, August 04, 2004 and September 24, 2004 respectively, issued by SBP, the Bank classifies its investment portfolio into "held-to-maturity", "held-for-trading" and "available-for-sale" securities using the management's judgments. In making judgments regarding "held-to-maturity" the Bank evaluates its intention and ability to hold such investments to maturity. Investments made by the bank which it intends to hold for a period of less than 90 days is classified as "held-for-trading". Investments not classified in the above categories are classified as "available-for-sale".

6.2 Impairment of equity investments

The Bank determines that available-for-sale or held-for-trading equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in unit prices. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

6.3 Income taxes

In making the estimates for income taxes payable by the Bank, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past. There are various matters where Bank's view differs with the view taken by the income tax department and such amounts are shown as contingent liability. During the year, management has revised its estimates based on changes in statute as explained in note 13.2.

6.4 Defined benefit plan

The cost of the defined benefit gratuity plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, if any, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

6.5 Operating fixed assets

Estimates with respect to residual values, depreciable lives and pattern of flow of economic benefits are based on the analysis by the management. Further, the Bank reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective items of operating fixed assets, with a corresponding effect on the depreciation charge and impairment.

6.6 Provision against non-performing financings

Apart from the provision determined on the basis of time-based criteria given in Prudential Regulations, the management also applies the subjective criteria of classification and accordingly the classification of financings is downgraded on the basis of credit worthiness of the borrower, its cash flows, operations in account and adequacy of security in order to ensure accurate measurement of the provision. During the year, management has revised its estimates based on changes in prudential regulations, issued by SBP, as explained in note 11.5.1.

6.7 Provisions against off-balance sheet obligations

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

7. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

7.1 Change in accounting policy and disclosure

The accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of previous financial year except for the changes resulting from the adoption of the following accounting standards as described below:

IAS 1 - Presentation of Financial Statements (Revised)

The revised standard became effective for accounting period beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line item in the statement of changes in equity. In addition, the standard introduces the statement of comprehensive income which presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Bank has adopted two statement approach and, has accordingly, presented profit and loss account and statement of comprehensive income separately. However, in accordance with the requirements of the Companies Ordinance, 1984 and SBP directives, surplus / (deficit) on revaluation of available-for-sale investments is reported under separate account shown below equity and is not taken to the statement of comprehensive income and statement of changes in equity. However, revaluation gain/(loss) on capital deposit account is presented in statement of changes in equity due to statutory requirements.

IFAS 2 – Ijarah

The State Bank of Pakistan has notified for adoption of “Islamic Financial Accounting Standard – 2 Ijarah” (IFAS – 2), which is applicable for the accounting period on or after January 01, 2009. Consequent to the adoption of IFAS – 2, all ijarah assets booked on or after January 01, 2009 are recorded as fixed assets separate from the assets in the Bank’s own use. The said assets are carried at cost less depreciation and impairment, if any. The rentals from ijarah are recognised in the profit and loss account on a straight-line basis over the terms of the contract. The depreciation is charged from the date of recognition of Ijarah assets over the term of contract. However, in the event of an asset expected to be available for re-ijarah after its first term, depreciation is charged over the economic life of such asset. However transactions entered before January 01, 2009 has been recognised as per International Accounting Standard(IAS) 17-Leases

7.2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with treasury banks and balances with other banks.

7.3 Financings

Financings are financial products originated by the Bank and principally comprise of murabaha, ijarah, Islamic export refinance and musharaka financing. These are stated at gross receivable net of general and specific provisions.

Murabaha to the purchase orderer is a sale transaction wherein the first party (the Bank) sells to the client/customer a Sharia compliant assets / goods for cost plus a pre-agreed profit. In principle on the basis of an undertaking (Promise-to-Purchase) from the client (the purchase orderer), the Bank purchases the assets / goods subject of the Murabaha from a third party and takes the possession thereof, however the Bank can appoint the client as its agent to purchase the assets / goods on its behalf. Thereafter, it sells it to the client at cost plus the profit agreed upon in the promise.

Ijarah is a contract in which the Bank buys and rents a productive asset to a person short of funds and in need of that asset.

Diminishing Musharaka represents an asset in joint ownership whereby a partner promises to buy the equity share of the other partner until the title to the equity is totally transferred to him. The partner using the asset pays the proportionate rental of such asset to the other partner (the Bank).

Musharaka / Modaraba are different types of partnerships in business with distribution of profit in agreed ratio and distribution of loss in the ratio of capital invested.

Provision for non-performing financings is determined in line with the Prudential Regulations issued by the SBP and where such provision is considered necessary, the same is charged to profit and loss account.

Financings are written off, when there are no realistic prospects of recoveries.

The Bank has created a general provision on consumer finance in order to comply with the requirements of the Prudential Regulations for Consumer Finance issued by SBP. These require that the Bank should maintain a general provision at an amount equal to 1.5% of the fully secured portfolio and 5% of the unsecured portfolio to protect the Bank from any risks associated with the cyclic nature of this business.

In line with the requirements of Circular No. 10 dated 20 October 2009, issued by the State Bank of Pakistan, has applied the enhanced limit of 40% of forced sale value of pledged stocks, industrial properties and mortgaged commercial and residential properties held as collateral in determining the provision as against the limit of 30% applicable till December 31, 2008 and accordingly, the bank has revised its provisions against financing.

7.4 Investments

The management determines the appropriate classification of its investments at the time of purchase and classifies these investments as held for trading, available for sale or held to maturity. These are initially measured at fair value.

Held for trading

These are securities which are either acquired for generating profit from short term fluctuations in market prices or dealer's margin or are securities included in a portfolio in which a pattern of short term profit taking exists.

Held to maturity

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

Available for sale

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

In accordance with the requirements of the SBP, quoted securities other than those classified as held to maturity and investments in subsidiaries and associates, if any, are stated at market value. Whereas investments in unlisted securities are stated at breakup value (if available) and sukuks classified as available for sale are stated at market value available at PKRV. Investments held to maturity are measured at amortized cost. Provision is made for any impairment in value.

Surplus / (deficit) arising on revaluation of the Bank's held for trading investment portfolio is taken to the profit and loss account. The surplus / (deficit) arising on revaluation of quoted securities classified as available for sale is kept in "Surplus / (Deficit) on Revaluation of Securities account" and is 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.

Provision for diminution in the value of securities (except debentures, sukuks, participation term certificates and term finance certificates) is made after considering impairment, if any, in their value.

Profit and loss on sale of investments is recognized in the period of sale.

Trade date accounting

All "regular way" purchases of financial assets are recognized on the trade date i.e. the date the bank commits to purchase the assets. All regular way sales of financial assets are recognized on the trade date i.e. the date the bank commits to sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

7.5 Operating fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged over the estimated useful lives of the assets at the rates stated in note 12.2 using the straight-line method.

Normal repairs and maintenance are charged to the profit and loss account as and when incurred. Major renewals and improvements are capitalized.

Gains or losses on disposal of property and equipment are included in profit and loss account.

Residual value, useful life and depreciation method are reviewed and adjusted, if appropriate, at each financial year end.

Capital work in progress

Capital work in progress is stated at cost.

Intangible assets

Intangible assets are carried at cost less accumulated amortization and impairment losses, if any. The cost of the intangible assets is amortized over the useful lives of the related assets at the rate stated in note 12.3 using the straight-line method.

7.6 Impairment of assets

The Bank assesses at each balance sheet date, whether there is any indication that an asset may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess, whether they are recorded in excess of their recoverable amounts. Where carrying values exceed the estimated recoverable amounts, assets are written down to their recoverable amounts.

7.7 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any.

Deferred

Deferred tax is provided, using the balance sheet liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences. A deferred tax asset is recognized for all deductible temporary differences and unused tax losses to the extent that where it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that related tax benefits will be realized.

Deferred tax liabilities / assets are measured at the tax rates that are expected to apply to the period when the liability / asset is settled, based on the tax rates and tax laws that have been enacted or subsequently enacted at the balance sheet date.

7.8 Staff retirement benefits

Defined Contribution Plan

The Bank operates an approved provident fund scheme for all employees eligible under the scheme. Both, the Bank and the employees, make equal monthly contributions at the rate of 10 percent of basic salary to the fund.

Defined Benefit Plan

The Bank operates an approved funded gratuity scheme for the employees eligible under the scheme. Contribution to the fund is made based on actuarial recommendations. Benefits under the gratuity scheme are payable upon attainment of normal retirement age, which is 60 years or earlier cessation of services due to death or resignation. The benefit is equal to one month last drawn gross salary for each completed year of service up to ten years and 1.5 times of one month last drawn gross salary for each completed year of service over ten years of service. Maximum benefits under the scheme are payable for twenty years.

Actuarial gains or losses in excess of 10 percent of the present value of the defined benefit obligation or 10 percent of the fair value of the plan assets, whichever is higher, at the end of the previous reporting year are recognized over the average expected remaining working lives of the employees participating in the scheme.

Compensated absences

The Bank provides compensated absence benefit to all its regular employees as per service rules whereby, regular employees are entitled to 26 days privileged leaves for each completed year of service. Unutilized privileged leaves are accumulated up to the maximum of 60 days. These are encashed at the time of retirement/resignation by the employee on the basis of last drawn gross salary.

7.9 Revenue recognition

Income on murabaha is accounted for on culmination of murabaha transaction. However, profit not due for payment in the current year is deferred by accounting for unearned murabaha income with a corresponding credit to deferred murabaha income which is recorded as a liability. The same is then recognised as revenue on a time proportionate basis.

Provisional profit of Musharaka / Modaraba financing is recognised on accrual basis. Actual profit/loss on Musharaka and Modaraba financing is adjusted for declaration of profit/loss by musharaka partner / modarib or at liquidation of Musharaka/Modaraba.

The Bank follows the finance method in recognizing income on ijarah contracts. Under this method the unearned income i.e. the excess of aggregate ijarah rentals over the cost of the assets under ijarah facility is deferred and then amortized over the term of ijarah, so as to produce a constant rate of return on net investment in the ijarah. Ijarah processing fee is recognized on receipt basis.

The rentals from ijarah (recognized under IFAS – 2) are recognised in the profit and loss account on a straight-line basis over the terms of the contract.

Mark-up/return on other financings and investments is recognized on an accrual basis except in case of non-performing financings, which warrant carry forward in compliance with prudential regulations issued by SBP.

Gain or loss on sale of investments is recognised in profit and loss account in the year in which they arise.

Commission and fees are recognized as income at the time of affecting the transaction to which they relate, except for commission on letters of guarantee, which is accounted for on time proportionate basis if the amount exceeds equivalent to Pak Rs. 100,000.

Dividend income is recognized when the right to receive is established.

7.10 Foreign currency transactions

Functional and presentation currency

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

Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date. Forward foreign exchange promise / options are valued at forward rates applicable to their respective maturities.

Translation gains and losses

Translation gains and losses are included in the profit and loss account.

Commitments

Commitments for outstanding forward foreign exchange promise / options disclosed in these financial statements are translated at given rates. Contingent liabilities/commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange prevailing on the balance sheet date.

7.11 Head Office Expenses

The Bank has a policy to recognise head office expenses in the financial statements. Such expenses have been charged on the basis of advice of its head office.

7.12 Financial instruments

All the financial asset and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. Any gain or loss on derecognition of the financial asset and financial liabilities is taken to income currently.

- **Financial assets and financial liabilities**

  Financial instruments carried on the balance sheet mainly includes cash and bank balances, balances with other banks, investments, financing, bills payable, deposits and other payables.

- **Offsetting of financial assets and liabilities**

  Financial assets and liabilities are set off and the net amount is reported in the financial statements when there exists a legally enforceable right to set off and the Bank intends either to settle the assets and liabilities on a net basis or to realize the assets and to settle the liabilities simultaneously.

7.13 Provision

Provisions are recognised when the Bank has a legal or constructive obligation as a result of past events, it is probable that an out flow of resources will be required to settle the obligation and reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect current best estimate.

7.14 Inventories

Murabaha transaction are entered into on customer order basis, therefore, in normal circumstances there is no inventory However, if any, inventory remains unsold by the Bank at period end will be measured at lower of cost and net realisable value. Cost is determined on first in first out basis.

7.15 Related party transactions

The Bank enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at prices and rates of return determined using approved methods.

7.16 Segment reporting

Business segment

Gross income on corporate finance consists of Sukuks. Expenses related to segment are based on weighted average cost of funds.

Gross income from trading and sales consists of profits / losses on investments held for trading purposes measured on mark-to market basis, profit / loss earned on realisation of investments classified as available for sale, net of funding cost, plus dividend income.

Gross income from retail banking consists of net return on financings to retail customers plus fees related to traditional retail services. Net return on retail banking is based on the profit earned on its financings to retail customers less the weighted average cost of funds including profit distributed against deposits and the balance due to financial institutions.

Gross income from commercial banking consists of net return on financings to corporate, interbank and sovereign customers, plus fees related to traditional commercial banking services including commitments, guarantees, bills of exchange, net income (e.g. from coupons and dividends) on securities held in the banking book. The calculation of net return is based on profit earned on financing to corporate, interbank and sovereign customers less the weighted average cost of funds.

Payment and settlement consists of fees to cover provision of payment / settlement facilities for counterparties.

Geographical Segment

The Bank has 29 branches as at 31 December 2009 (2008: 29 branches) and operates only in Pakistan.

7.18 Allocation of profit

Allocation of profits between depositors and shareholders is calculated according to the Bank’s Profit Distribution Policy and is approved by the Shari’a Advisor / Shari’a Supervisory Board.

8. CASH AND BALANCES WITH TREASURY BANKS

	Note	2009	2008
		Rupees in '000	
In hand			
Local currency		290,531	198,147
Foreign currency		148,936	151,577
		439,467	349,724
With State Bank of Pakistan in			
Local currency current account	(8.1)	851,904	694,092
Foreign currency cash reserve account - non-remunerative	(8.2)	199,231	436,228
Foreign currency capital deposit account - non remunerative	(8.3)	2,291,775	1,670,129
Foreign currency deposit account – remunerative	(8.4)	41,559	40,780
		2,532,565	2,147,137
With National Bank of Pakistan in			
Local currency current account		87,240	57,969
		3,911,176	3,248,922

8.1 This represents current account maintained with SBP under the requirements of section 22 of the Banking Companies Ordinance, 1962.

8.2 This represents mandatory reserves maintained with the State Bank of Pakistan against FE-25 deposits as per the requirements of SBP's BSD circular No. 18 dated March 31, 2001.

8.3 These represent deposit with the State Bank of Pakistan under section 13(3) of Banking Companies Ordinance, 1962.

8.4 The profit on this account is Nil (2008: 2 % to 2.5 %) per annum.

9. BALANCES WITH OTHER BANKS

	Note	2009	2008
In Pakistan			
On current accounts		10,462	4,549
On deposit accounts	(9.1)	6,690,694	4,415,714
		6,701,156	4,420,263
Outside Pakistan			
On current accounts		34,514	38,341
On deposit accounts	(9.2)	972,528	188,966
		1,007,042	227,307
		7,708,198	4,647,570

9.1 This represents balances with local banks on profit and loss sharing basis. The expected profit on these accounts ranges from 6% to 14.5% (2008: 4% to14.40%) per annum, while maturity of these ranges from one day to less than three months.

9.2 This represents nostro accounts maintained with foreign banks outside Pakistan. Profit on these ranges from 0.1% to 3.5% (2008: 0.3% to 3%) per annum. This includes placement amounting to Rs. 505.45 million (US $ 6 million) with a related party outside Pakistan.

		Note	2009 Held by bank	2009 Total	2008 Held by bank	2008 Total
			Rupees in '000			
10.	INVESTMENTS					
10.1	Investments by types :					
	Held-for-trading securities					
	Fully paid up ordinary shares – listed	(10.2.2)	-	-	120,285	120,285
	Available-for-sale securities					
	Fully paid ordinary shares – unlisted	(10.2.3)	4,447	4,447	4,447	4,447
	Investment in mutual funds - open ended	(10.2.4)	70,000	70,000	70,000	70,000
	Government of Pakistan Sukuk		600,000	600,000	-	-
			674,447	674,447	74,447	74,447
	Held-to-maturity securities					
	Sukuk bonds	(10.3)	1,050,000	1,050,000	1,050,000	1,050,000
	Investment- at cost		1,724,447	1,724,447	1,244,732	1,244,732
	Less: Provision for diminution in value of investments	(10.4)	35,961	35,961	4,447	4,447
	Investments (net of provisions)		1,688,486	1,688,486	1,240,285	1,240,285
	Deficit on revaluation of Held-for-trading securities		-	-	(77,595)	(77,595)
	Surplus / (Deficit) on revaluation of Available for sale securities		14,113	14,113	(38,262)	(38,262)
		(21)	14,113	14,113	(115,857)	(115,857)
	Total investments after revvaluation		1,702,599	1,702,599	1,124,428	1,124,428

		Note	2009	2008
			Rupees in '000	
10.2	Investments by segments :			
	Federal Government Securities:			
	Sukuk certificates		1,500,000	900,000
	Fully paid up ordinary shares			
	-Listed	(10.2.2)	-	120,285
	-Unlisted	(10.2.3)	4,447	4,447
			4,447	124,732
	Investment in Mutual Funds	(10.2.4)	70,000	70,000
	Others			
	Sukuk certificates-Sitara Chemical Industries Limited	(10.2.1)	150,000	150,000
	Total investment at cost		1,724,447	1,244,732
	Less: Provision for diminution in value of investment	(10.4)	35,961	4,447
	Investments (Net of Provisions)		1,688,486	1,240,285
	Deficit on revaluation of Held-for-trading securities		-	(77,595)
	Surplus / (Deficit) on revaluation of Available-for-sale securities		14,113	(38,262)
			14,113	(115,857)
	Total investments after revaluation		1,702,599	1,124,428

10.2.1 Details of investment in sukuk bonds:

	Maturity	Expected return	Certificates	Value per certificate	Face Value
		(%)	No.	Rs.	Rs. in '000'
Federal Government Securities:					
Government of Pakistan Sukuk	2012	Six months market Treasury Bills minus 5 basis points	6,000	100,000	600,000
WAPDA First Sukuk Company Limited (10.2.1.1)	2012	Six months Kibor plus 35 basis points	150,000	5,000	750,000
Karachi Shipyard and Engineering Works	2015	Six months Kibor plus 40 basis points	20,000	5,000	100,000
Government of Pakistan Sukuk	2011	Six months market Treasury Bills plus 45 basis points	500	100,000	50,000
					1,500,000

10.2.1.1 These certificates have been pledged with SBP on account of capital in pursuance of its letter No. BSD/SU-16/607/3350/2006 dated July 06, 2006.

	Maturity	Expected return	Certificates	Value per certificate	Face Value
Others					
Sitara Chemical Industries Limited	2012	Three months Kibor plus 100 basis points	30,000	5,000	150,000
					150,000

10.2.2 Details of investment in listed companies:

Ordinary shares of Rs. 10 each 2009	2008	Name of Company	2009 Cost	2009 Market Value	2008 Cost	2008 Market Value
			----------Rupees in '000----------			
-	175,000	Pakistan Telecommunication Company Ltd	-	-	8,276	2,956
-	75,000	Lucky Cement Company Ltd	-	-	8,801	2,345
-	123,500	Pakistan Petroleum Ltd	-	-	27,784	12,452
-	168,000	Attock Refinery Ltd	-	-	35,880	10,061
-	100,000	Oil and Gas Development Company Ltd	-	-	12,918	4,999
-	80,000	Engro Chemical Pakistan Ltd	-	-	21,248	7,717
-	300,000	Bank Islami Pakistan	-	-	5,378	2,160
			-	-	120,285	42,690

10.2.3 Details of investment in unlisted companies:

Shareholding less than 10% - unlisted:	No. of Shares	Cost as on Dec. 31, 09 Rs. in '000'	No. of Shares	Cost as on Dec. 31, 09 Rs. in '000'
Crown Textile Mills Limited	444,656	4,447	444,656	4,447

This investment has breakup value NIIL (2008:NIL)

10.2.4 Details of investment in mutual funds - open ended:

	No. of Units	Cost as on Dec. 31, 09 Rs. in '000'	No. of Units	Cost as on Dec. 31, 08 Rs. in '000'
National Investment Trust Units	941,698	60,000	941,698	60,000
Meezan Islamic Income Funds (MIIF) Units	208,795	10,000	208,795	10,000
		70,000		70,000

10.3 Details of sukuk bonds

	Note	2009 Held by bank	2009 Total	2008 Held by bank	2008 Total
		------------------------Rupees in '000------------------------			
WAPDA First Sukuk Company Limited		750,000	750,000	750,000	750,000
Sitara Chemical Industries Limited		150,000	150,000	150,000	150,000
Karachi Shipyard and Engineering Works		100,000	100,000	100,000	100,000
Government of Pakistan Sukuk		50,000	50,000	50,000	50,000
		1,050,000	1,050,000	1,050,000	1,050,000

		2009	2008
10.4 Particulars of provision		Rupees in '000	
Opening balance		4,447	4,447
Charge for the year		31,514	-
Closing balance		35,961	4,447
10.4.1 Particulars of provision in respect of type and segment			
Available-for-sale securities			
Crown Textiles Limited (Textile)		4,447	4,447
National Investment Trust Units (Open Ended Fund)	(10.4.1.1)	31,514	-
		35,961	4,447

10.4.1.1 In pursuant to the BSD Circular No. 4 dated February 13, 2009 of the SBP, the impairment loss amounting to Rs. 31.514 million resulting from the valuation of mutual funds held under 'Available-for-sale' category of investments as of December 31, 2009 has been recognized in the profit and loss account.

10.5 Quality of available-for-sale securities	2009 Amount	2009 Rating	2008 Amount	2008 Rating
National Investment Trust Units	28,486	4-Star	21,659	5-Star
Meezan Islamic Income Fund (MIIF) Units	10,571	A(f)	10,079	A(f)
	39,057		31,738	
Government of Pakistan Sukuk	613,500	Unrated	-	-
Crown Textiles Limited	4,447	Unrated	4,447	Unrated

	Note	2,009	2008
11 FINANCINGS AND INVESTING ASSETS		Rupees in '000	
In Pakistan			
Murabaha financing	(11.2)	9,667,814	8,562,432
Export refinance under Islamic scheme		2,577,874	2,070,018
Musharaka financing		1,327,475	1,669,473
Payment against guarantees		5,674	5,674
		13,578,837	12,307,597
Net investment in ijarah - In Pakistan			
Ijarah financing	(11.3)	1,323,577	2,061,452
Ijarah assets - net	(11.4)	319,322	-
		1,642,899	2,061,452
Financings against bills - payable outside Pakistan		294,457	347,775
Financings - gross		15,516,193	14,716,824
Specific provision for non-performing financing		752,925	328,641
General provision against consumer financing		8,106	10,373
	(11.6)	761,031	339,014
Financings - net of provision		14,755,162	14,377,810

		2009	2008
		Rupees in '000	
11.1	Particulars of Financings (Gross)		
11.1.1	In local currency	14,933,080	14,087,690
	In foreign currencies	583,113	629,134
		15,516,193	14,716,824
11.1.2	Short term (for up to one year)	12,945,240	12,187,358
	Long term (for over one year)	2,570,953	2,529,466
		15,516,193	14,716,824
11.2	Murabaha receivable		
	Opening balance	8,562,432	6,994,844
	Sales during the year	12,628,127	10,660,828
	Received during the year	(11,522,745)	(9,093,240)
		9,667,814	8,562,432

11.3 Net investment in Ijarah financing

	2009				2008			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	---Rupees in '000---							
Ijarah rentals receivable	636,392	570,526	-	1,206,918	870,216	1,232,064	-	2,102,280
Residual value	93,500	201,136	-	294,636	36,941	317,080	-	354,021
Minimum Ijarah payments	729,892	771,662	-	1,501,554	907,157	1,549,144	-	2,456,301
Profit for future periods	(116,289)	(61,688)	-	(177,977)	(214,939)	(179,910)	-	(394,849)
Present value of minimum ijarah rentals receivables	613,603	709,974	-	1,323,577	692,218	1,369,234	-	2,061,452

11.4 Ijarah assets - net

	COST			DEPRECIATION				
Particulars	Opening Balance as at January 01, 2009	Additions	Closing Balance as at December 31 2009	Opening Balance as at January 01, 2009	For the Year / (adjustment for deletion)	Closing Balance as at December 31, 2009	Book value closing as as at December 31, 2009	Rate %
	---Rupees in '000---							
Plant and Machinery	-	200,385	200,385	-	43,118	43,118	157,267	20 - 33.33
Vehicles	-	176,008	176,008	-	13,953	13,953	162,055	20 - 33.33
2009	-	376,393	376,393	-	57,071	57,071	319,322	
		-			-			

11.5 Financings include Rs.1,383,296 thousands(2008:Rs.861,669 thousands) which have been placed under non-performing status as detailed below:-

	2009								
	---Rupees in '000---								
	Classified Financings			Specific Provision Required			Specific Provision Held		
Category of Classification	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Substandard	278,278		278,278	8,421		8,421	8,421		8,421
Doubtful	332,884		332,884	125,548		125,548	125,548		125,548
Loss	772,134		772,134	618,956		618,956	618,956		618,956
	1,383,296	-	1,383,296	752,925	-	752,925	752,925	-	752,925

	2008								
	---Rupees in '000---								
	Classified Financings			Provision Required			Provision Held		
Category of Classification	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Substandard	507,951		507,951	99,517		99,517	99,517	-	99,517
Doubtful	116,900		116,900	8,719		8,719	8,719	-	8,719
Loss	236,818		236,818	220,405		220,405	220,405	-	220,405
	861,669	-	861,669	328,641	-	328,641	328,641	-	328,641

11.5.1 During the year, the Bank, in line with the requirements of Circular No. 10 dated 20 October 2009, issued by the State Bank of Pakistan, has applied the enhanced limit of 40% of forced sale value of pledged stocks, industrial properties and mortgaged commercial and residential properties held as collateral in determining the provision as against the limit of 30% applicable till December 31, 2008. Had there been no change, the provision against non performing financing would have been higher by Rs. 22.146 million and financing would have been lower by same amount.

11.6 Particulars of provisioning against non-performing financings

11.6.1

	2009			2008		
	Specific	General	Total	Specific	General	Total
	--------------Rupees in '000------------------					
Opening balance	328,641	10,373	339,014	188,173	9,609	197,782
Charge for the year	462,994	-	462,994	143,676	764	144,440
Reversals	(38,710)	(2,267)	(40,977)	(3,208)	-	(3,208)
Amounts written off	-		-	-	-	-
Closing balance	752,925	8,106	761,031	328,641	10,373	339,014

11.6.2

	2009			2008		
	Specific	General	Total	Specific	General	Total
	--------------Rupees in '000------------------					
In local currency	752,925	8,106	761,031	328,641	10,373	339,014
In foreign currency	-		-	-	-	-
	752,925	8,106	761,031	328,641	10,373	339,014

11.5.3 This represents general provision against consumer finance maintained at the amount of 1.5% against fully secured performing portfolio as required by the Prudential Regulations issued by SBP.

11.7 Details of loan write off of Rs. 500,000 and above

As no loan has been written off during the year, accordingly the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31st December 2009 is not attached.

11.8 Particulars of loans and Financings to directors, associated companies, etc.

	2009	2008
	Rupees in '000	
Debts due by key management personnel, executives or officers of the bank or any of them either severally or jointly with any other persons		
Balance at beginning of year	121,101	91,010
Financing granted during the year	60,118	75,061
Repayments	(48,847)	(44,970)
Balance at end of year	132,372	121,101

12. OPERATING FIXED ASSETS

		2009	2008
Capital work-in-progress	(12.1)	114,821	20,384
Property and equipment	(12.2)	184,975	142,614
Intangible assets	(12.3)	2,815	4,787
		302,611	167,785

12.1 This includes expenditure amounting to Rs. 109.118 million (2008: Rs. 14.943 million) for implementing of new core banking system of the bank.

12.2 Operating fixed assets

Particulars	COST: Opening Balance as at January 01, 2009	COST: Additions / (Deletions)	COST: Closing Balance as as at December 31, 2009	DEPRECIATION: Opening Balance as at January 01, 2009	DEPRECIATION: For the Year / (adjustment for deletion)	DEPRECIATION: Closing Balance as as at December 31, 2009	Book value closing as as at December 31, 2009	Rate %
	---Rupees in '000---							
Furniture and fixture	27,663	9,967	37,553	11,392	3,102	14,417	23,136	10
		(77)			(77)			
Computer and office equipments	101,107	32,697	133,268	63,465	16,925	79,903	53,365	20
		(536)			(487)			
Vehicles	34,481	10,642	40,993	18,588	6,215	20,673	20,320	20
		(4,130)			(4,130)			
Leasehold improvements	101,757	26,510	128,148	28,949	11,045	39,994	88,154	10
		(119)						
2009	265,008	79,816	339,962	122,394	37,287	154,987	184,975	
		(4,862)			(4,694)			
Furniture and fixture	19,401	8,367	27,663	9,976	1,510	11,392	16,271	10
		(105)			(94)			
Computer and office equipments	71,592	29,603	101,107	50,936	12,535	63,465	37,642	20
		(88)			(6)			
Vehicles	27,662	10,802	34,481	16,612	5,959	18,588	15,893	20
		(3,983)			(3,983)			
Leasehold improvements	52,275	52,099	101,757	22,922	8,430	28,949	72,808	10
		(2,617)			(2,403)			
2008	170,930	100,871	265,008	100,446	28,434	122,394	142,614	
		(6,793)	-		(6,486)			

12.2.1 Included in property and equipment are fully depreciated items still in use having cost of Rs. 48.629 million (2008: Rs. 63.358 million).

12.2.2 Detail of disposals of operating fixed assets

Particulars of assets	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Profit	Mode of Disposal	Particular of buyers
			---Rupees in '000---				
Vehicle							
Honda City	1,153	1,153	-	288	288	Bank policy	Mr. Anwar Jalal (Employee)
Honda Civic	1,173	1,173	-	293	293	Bank policy	Mr. Amjad Ali (Employee)
Cultus	684	684	-	171	171	Bank policy	Mr. Khawar Khurshid (Employee)
Cultus	560	560	-	336	336	Bank policy	Mr. Zahid Ibrahim (Employee)
Cultus	560	560	-	-	-	Bank policy	Mr. Tariq Pervaiz Khan (Employee)
Others (12.1.2.1)	732	564	168	168	-		
	4,862	4,694	168	1,256	1,088		

12.2.2.1 It includes asset or assets having cost or book value in aggregate below one million or two hundered fiftey thousands respectively (whichever is lower).

12.3 Intangible assets

Particulars	COST: Opening Balance as as at January 01, 2009	COST: Additions	COST: Closing Balance as as at December 31, 2009	AMORTIZATION: Opening Balance as as at January 01, 2009	AMORTIZATION: For the Year	AMORTIZATION: Closing Balance as as at December 31, 2009	Book value as at December 31, 2009	Rate %
			Rupees in '000					
Computer software	13,135	-	13,135	8,348	1,972	10,320	2,815	20
2009	13,135	-	13,135	8,348	1,972	10,320	2,815	
Computer software	10,076	3,059	13,135	6,501	1,847	8,348	4,787	20
2008	10,076	3,059	13,135	6,501	1,847	8,348	4,787	

12.4 Residual value of items of operating fixed assets are considered to be insignificant.

13. DEFERRED TAX ASSETS /LIABILITIES

	Note	2009	2008
		Rupees in '000	
Deferred credits arising due to			
Net investment in ijarah financing		(67,010)	(148,810)
Accelerated depreciation of operating fixed assets		(4,522)	(1,930)
Unrealised loss on revaluation of available for sale securities		(1,411)	3,826
Deferred debits arising in respect of			
Unrealised loss on revaluation of held for trading investments		-	6,053
Unused tax losses		-	8,394
Provisions against non performing financings		99,523	-
		26,580	(132,467)

13.1 The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which this deferred tax assets could be realised.

13.2 Owing to amendments in the Seventh Schedule to Income Tax Ordinance, 2001 introduced by the Finance Act, 2009, the deduction for provisions for doubtful and loss categories of advances and off balance sheet items is allowed upto a maximum of 1% of total advances. The provision for non performing financing classified as Substandard under Prudential Regulation issued by State Bank of Pakistan is no longer allowed as an expense. However, the provisioning in excess of 1% of total advances would be allowed to be carried over to succeeding years.

14. OTHER ASSETS

	Note	2,009	2008
		Rupees in '000	
Profit / return on financings, investment and placement accrued in local currency	(14.1.1)	202,563	147,915
Advances, deposits, advance rent and other prepayments		84,552	162,415
Advance against murabaha		399,257	108,782
Advance taxation (payments less provisions)		167,021	157,202
Unrealized gain on forward foreign exchange contracts		10,093	19,185
Stationery and stamps		1,813	1,797
Others		38,309	38,989
		903,606	636,285
Less: Provision held against other assets	(14.2)	(4,974)	(4,974)
Other Assets (Net of Provision)		898,634	631,311

14.1.1 Profit / return accrued is net of profit / return suspended amounting to Rs. 66.667 (2008: 47.3) million.

14.2 PROVISION AGAINST OTHER ASSETS

	Note	2009	2008
		Rupees in '000	
Provision against other assets		4,974	4,974

15. BILLS PAYABLE

In Pakistan		184,841	209,101
Outside Pakistan		9,930	10,069
		194,771	219,170

16. DUE TO FINANCIAL INSTITUTIONS

In Pakistan		2,263,689	1,969,849
Outside Pakistan		-	-
		2,263,689	1,969,849

16.1 Particulars of due to financial institutions

In local currency		2,263,689	1,969,849
In foreign currencies		-	-
		2,263,689	1,969,849
Short term (upto one year)		2,263,689	1,969,849
Long term (over one year)		-	-
		2,263,689	1,969,849

16.2 Details of due to financial institutions

Secured:			
Borrowings from State Bank of Pakistan under Islamic export refinance scheme	(16.2.1)	2,263,689	1,969,849

16.2.1 This represents musharaka contribution by State Bank of Pakistan against Islamic export refinance scheme. Expected profit rate ranges from 7.5% to 8.0% (2008: 6.5%) per annum. The maximum limit approved by SBP under Islamic Export Refinance is Rupees 2.8 billion.

17. DEPOSITS AND OTHER ACCOUNTS

Customers			
Fixed deposits		9,619,844	6,224,735
Saving deposits		5,933,130	4,373,574
Current accounts - non-remunerative		2,845,056	1,692,203
Margin accounts - non-remunerative		293,317	185,878
		18,691,347	12,476,390
Financial Institutions			
Remunerative deposits		3,920,910	5,859,306
Non-remunerative deposits		24,066	463
		3,944,976	5,859,769
		22,636,323	18,336,159

17.1 Particulars of deposits

In local currency		20,799,500	14,484,214
In foreign currencies		1,836,823	3,851,945
		22,636,323	18,336,159

18. OTHER LIABILITIES

	Note	2009	2008
		Rupees in '000	
Return on deposits and other dues payable in local currency		399,193	322,598
Return on deposits and other dues payable in foreign currency		1,012	4,774
Unearned commission and ijarah rental income		23,627	17,959
Accrued expenses		32,876	15,778
Advance payments from customers		1,363	4,574
Inter branch adjustment		31,275	2,107
Unremitted head office expenses		221,527	114,033
Payable to defined benefit plan	(18.1)	31,012	24,247
Security deposits against ijarah financing		356,659	354,021
Accounts payable		11,351	5,247
Excise duty/ income tax withheld		9,000	7,929
Deferred income on murabaha	(18.2)	297,043	278,842
Non sharia income payable to charity	(18.3)	16,542	8,127
Unrealized loss on forward foreign exchange contracts		15,550	10,680
Other payables		9,130	3,484
		1,457,160	1,174,400

18.1 Payable to defined benefit plan

	Note	2009	2008
Gratuity	(33.2)	15,384	11,629
Compensated absenses		15,628	12,618
		31,012	24,247

18.2 Deferred income on murabaha

	2009	2008
Opening balance	278,842	229,131
Income during the year	1,368,022	1,140,436
Recognized during the year	(1,349,821)	(1,090,725)
Closing balance	297,043	278,842

18.3 Non sharia income payable to charity

	2009	2008
Opening Balance	8,127	22,792
Additions during the year	8,415	8,127
Remittance to head office during the year	-	(22,792)
Closing Balance	16,542	8,127

Bank's charity maintained and operated in head office and accordingly all non sharia income is transferred to head office as permitted by State Bank of Pakistan vide its letter No. IBD-Sd/25/22/2007 dated January 18, 2007. During the year non sharia income amounting to Rs. Nil (2008: Rs. 22.792 million) was remitted to head office.

19. HEAD OFFICE CAPITAL ACCOUNT

	Capital held as:			
1.	Interest free deposit in cash in Pak Rupees		-	-
2.	Interest free deposit in approved foreign exchange :			
	i) Revalued remittance from head office	(19.1)	2,180,730	1,296,185
	ii) Revaluation surplus allowed by the State Bank		111,045	373,944
			2,291,775	1,670,129
3.	Deposit of unencumbered approved securities	(10.2.1.1)	750,000	750,000
		(19.2)	3,041,775	2,420,129

19.1 This represents an amount of US dollar 27.204 (2008: US dollar 21.108) million deposited with the State Bank of Pakistan in compliance with sub section (3) of section 13 of the Banking Companies Ordinance, 1962.

19.2 As per the requirements of SBP BSD circular No. 07 of 2009 dated 15 April 2009, the Bank is required to raise its assigned capital to Rs. 6 billion latest by 31 December 2010. In order to comply with the above minimum capital requirement, the management is considering either to transfer its operations to locally incorporated bank or merge with another Islamic Bank for which negotiations are under process. The license for locally incorporated bank expired on 20 February 2010 for which the Bank has applied for extension to SBP for six months. The management expects to finalize either one of the option within six months.

19.3 The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the Prudential Regulations issued by the SBP.

19.4 The primary objectives of the Bank's capital management are to ensure the Bank complies with externally imposed capital requirements and that the Bank maintains credit ratings and healthy capital ratios in order to support its business.

19.5 The Bank manages its capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of remittance of profit. No changes were made in the objectives, policies and processes from previous years.

20. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS

Surplus / (Deficit) on revaluation of available-for-sale securities

	Note	2009	2008
		Rupees in '000	
National Investment Trust Units	(20.1)	-	(38,341)
Meezan Islamic Income Fund		613	79
Government of Pakistan Sukuk		13,500	-
		14,113	(38,262)
Less : related deferred tax		(1,411)	3,826
Net Surplus/ (Deficit)		12,702	(34,436)

20.1 Pursuant to the BSD Circular No. 4 dated February 13, 2009 of the SBP, the impairment loss amounting to Rs. 31.514 million resulting from the valuation of mutual funds held under 'Available-for-sale' category of investments as of December 31, 2009 has been recognized in the profit and loss account.

21. CONTINGENCIES AND COMMITMENTS

21.1 Direct credit substitutes - Guarantees of indebtedness

		2009	2008
		Rupees in '000	
i)	Government	2,509,398	2,029,752
ii)	Financial institutions	-	-
iii)	Others	181,100	68,650
		2,690,498	2,098,402

		2009	2008
21.2	Transaction-related contingent liabilities	Rupees in '000	
i)	Letters of credit	1,856,629	1,283,141
ii)	Others - Shipping guarantees	21,308	28,645
		1,877,937	1,311,786

21.3 Trade-related contingent liabilities

	2009	2008
Acceptances	863,871	762,273

21.4 Other contingencies

This represent additional income tax amounting to Rs. 236.863 million which has not been acknowledged by the Bank. The Bank has filed appeals before CIT (Appeals) and Income Tax Tribunal against the orders in respect of tax years 2003 to 2008. Moreover, the Income Tax Department has also filed appeals before Income Tax Tribunal against the orders in respect of assessment years 2001-2002, 2002-2003 and tax year 2003 to 2006 issued by CIT (Appeals). Appeals filed by the Bank and the Income Tax Department are pending for decision. Management of the Bank has evaluated, after consulting their income tax advisor that the appeals are likely to be decided in favor of the Bank and, hence no provision has been made for the same in these financial statements.

21.5 Commitments in respect of forward exchange contracts

	2009	2008
Purchase	598,884	3,631,384
Sale	708,980	1,044,415

The bank utilizes foreign exchange instruments to meet the needs of its customers and generates trading revenues as part of its asset and liability management to hedge its own exposure to currency risk. At the year end, all foreign exchange contracts have a remaining maturity of less than one year.

21.6 Other Commitments

The bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

Commitment against capital expenditure amounts to Rs. 51.901 million (2008: Rs. 45.166 million).

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

		Note	2009	2008
			Rupees in '000	
a)	On Financings (other than murabaha) to customers	(22.1)	435,712	384,747
b)	On murabaha to:			
	i) Customers		1,252,071	1,005,097
	ii) Financial institutions		97,750	85,628
		(22.2)	1,349,821	1,090,725
c)	Income on sukuk		171,078	120,056
d)	On deposits with financial institutions		598,986	169,396
			2,555,597	1,764,924

22.1 This includes ijarah rental income of Rs. 11.286 million (2008: Nil) net of depreciation of Rs. 57.071 million (2008: Nil).

22.2		2009	2008
	Murabaha sale price	12,628,127	10,660,828
	Less: Purchase price	11,260,105	9,520,392
		1,368,022	1,140,436
	Add: Deferred murabaha income as on January 01	278,842	229,131
	Less: Deferred murabaha income as on December 31	(297,043)	(278,842)
		1,349,821	1,090,725

23. RETURN ON DEPOSITS AND OTHER DUES EXPENSED

	2009	2008
Deposits and other accounts	1,912,087	1,223,397
Other short term borrowings:		
Islamic export refinance	128,882	82,280
due to financial institutions	-	28,075
	128,882	110,355
	2,040,969	1,333,752

24. PROVISION AGAINST NON-PERFORMING FINANCINGS

	2009	2008
Charge for the year - specific	462,994	143,676
Reversal for the year – specific	(38,710)	(3,208)
Reversal/charge for the year – General	(2,267)	764
	422,017	141,232

25. GAIN ON SALE OF SECURITIES - NET

	2009	2008
Ordinary shares of listed companies	51,847	5,603

26. OTHER INCOME

This represents profit on disposal of operating fixed assets.

			2009	2008
27.	ADMINISTRATIVE EXPENSES		Rupees in '000	
	Salaries, allowances, etc.	(27.1)	207,953	180,310
	Staff medical		9,626	7,911
	Charge for defined benefit plan	(27.2)	20,052	21,064
	Charge for defined contribution plan	(34)	10,150	8,868
	Rent, taxes, insurance, electricity, etc.		118,649	88,980
	Legal and professional charges		6,027	4,066
	Fee and subscription		11,324	6,818
	Communications		23,830	22,727
	Repairs and maintenance		19,361	15,237
	Stationery and printing		9,586	8,732
	Advertisement and publicity		5,459	5,720
	Auditors' remuneration	(27.3)	2,764	2,185
	Depreciation	(12.2)	37,287	28,434
	Amortization	(12.3)	1,972	1,847
	Bank charges		8,352	7,132
	Travelling and conveyance		34,438	30,082
	Entertainment		6,913	6,339
	Security services		16,968	10,181
	Brokerage commission		1,221	997
	Head Office expenses		107,495	107,495
	Workers Welfare Fund		3,884	-
	Others	(27.4)	41,018	7,562
			704,329	572,687

27.1 This includes remuneration of sharia advisor desk amounting to Rs. 758 thousands (2008: Rs.883 thousands).

			2009	2008
27.2	Charge for defined benefit plan		Rupees in '000	
	Gratuity	(33.6)	15,384	15,786
	Compensated absenses		4,668	5,278
			20,052	21,064
27.3	Auditors' remuneration			
	Audit fee		925	786
	Special certifications including interim reviews		1,479	1,129
	Out of pocket expenses		360	270
			2,764	2,185

27.4 It includes rebranding expense amounting to Rs. 29.014 million (2008: Nil).

28. OTHER CHARGES

This represents penalties imposed by State Bank of Pakistan.

29.	TAXATION			
	For the year - current	(29.2)	65,200	3,303
	Deferred tax		(164,286)	(8,691)
			(99,086)	(5,388)
29.1	Relationship between tax expense and accounting profit			
	Accounting loss before taxation		(380,634)	-
	Tax at applicable tax rate of 35%		(133,222)	-
	Ijarah income on ijarah disbursed upto dec 07		92,025	-
	Income taxed at lower rate		(3,323)	
	Capital gain on property and equipment		84	
	Permanent differences		18,508	
	Other temporary differences		(73,156)	
	Tax charge for the year		(99,086)	-

29.2 Comparative statement of tax reconciliation has not been made because the bank sustained taxable losses in year 2008.

30. BASIC/DILUTED EARNINGS PER SHARE

Albaraka Islamic Bank B.S.C (C)- Pakistan branches, being branches of a foreign entity do not have share capital. Therefore, no figures of basic and diluted earnings per share have been reported in these financial statements.

31. CASH AND CASH EQUIVALENTS

	Note	2009	2008
		'Rupees in '000	
Cash and balance with treasury banks	(31.1)	1,619,401	1,578,793
Balance with other banks	(9)	7,708,198	4,647,570
		9,327,599	6,226,363

31.1 Cash and balance with treasury banks

	Note	2009	2008
Cash and balances with treasury banks	(8)	3,911,176	3,248,922
Foreign currency capital deposit account with SBP	(8)	(2,291,775)	(1,670,129)
		1,619,401	1,578,793

32. STAFF STRENGTH

	2009	2008
	Number	
Permanent	419	365
Temporary/on contractual basis	109	90
Daily wagers	-	-
Bank's own staff strength at the end of the	528	455
Outsourced	-	-
Total staff strength	528	455

33. DEFINED BENEFIT PLAN

33.1 Principal actuarial assumptions

The latest actuarial valuation had been carried out as at December 31, 2009 by using projected unit credit actuarial cost method. The significant assumptions used for actuarial valuation are as follows:

	2009	2008
Discount rate	14.00% p.a	15.00% p.a
Expected rate of salary increase	14.00% p.a	15.00% p.a
Expected return on plan assets	14.00% p.a	15.00% p.a

33.2 Reconciliation of payable to defined benefit plan

	Note	2009	2008
		Rupees in '000	
Present value of defined benefit obligations	(33.2.1)	71,896	62,732
Fair value of plan assets	(33.2.2)	(40,812)	(37,173)
Net actuarial (losses) not recognized		(15,700)	(13,930)
	(18.1)	15,384	11,629

33.2.1 Present value of defined benefit obligations

	2009	2008
As at January 1	62,732	50,618
Current service cost	10,854	13,043
Interest cost	9,410	5,062
Benefits paid	(6,518)	(6,655)
Past service cost-Vested	-	-
Actuarial (gain) / loss	(4,582)	664
As at December 31	71,896	62,732

33.2.2 Fair value of plan assets

	Note	2009	2008
		Rupees in '000	
As at January 1		37,173	30,039
Expected return on plan assets		5,576	3,004
Contributions		11,629	11,455
Benefits paid		(6,518)	(6,655)
Actuarial (loss)		(7,048)	(670)
As at December 31		40,812	37,173

33.3 Movement in payable to defined benefit plan

	2009	2008
Opening balance	11,629	7,298
Charge for the year	15,384	15,786
Contribution to fund made during the year	(11,629)	(11,455)
Closing balance	15,384	11,629

33.4 Composition of plan assets

		2009		2008	
		Rs. in '000	%	Rs. in '000	%
Bank deposit account	(33.4.1)	29,627	73%	29,507	78%
UTP Islamic Fund units		2,105	5%	1,709	5%
NIT units		2,232	6%	2,051	6%
Meezan Islamic Fund units		3,007	7%	1,441	4%
Pak Int'l Element Islamic Fund units		3,841	9%	2,465	7%
		40,812	100%	37,173	100%

33.4.1 This represent Khanzana Account maintained with the Bank.

33.5 Experience adjustments on obligations and plan assets

	2009	2008	2007	2006	2005
Present value of defined benefit obligations	71,896	62,732	50,618	35,966	31,563
Fair value of plan assets	(40,812)	(37,173)	(30,039)	(24,186)	(3,295)
Deficit	31,084	25,559	20,579	11,780	28,268
Actuarial (loss)/gain on Obligation	4,582	(664)	(874)	(1,064)	(7,218)
Actuarial (loss)/gain on Assets	(7,048)	(670)	(804)	(182)	(410)

33.6 Charge for defined benefit plan

	2009	2008
	Rupees in '000	
Current service cost	10,854	13,043
Interest cost	9,410	5,062
Expected return on plan assets	(5,576)	(3,004)
Actuarial gains and losses - recognized	696	685
	15,384	15,786

33.7 Actual return on plan assets

	2009	2008
Actual return on plan assets	5,576	2,334

34. DEFINED CONTRIBUTION PLAN

The Bank operates an approved provident fund scheme for all its permanent employees, which are administered by a board of trustees. Equal monthly contributions are made by the Bank and employees to the fund at the rate of 10 percent (2008: 10 percent) of basic salaries of employees. The contribution made by the bank during the year is Rs. 10,150 (2008: 8,868) thousands.

35. COMPENSATION OF COUNTRY HEAD AND EXECUTIVES

	Country Head		Executives	
	2009	2008	2009	2008
	Rupees in '000			
Managerial remuneration	5,484	5,078	44,306	31,092
Charge for defined benefit plan	627	581	4,909	3,570
Contribution to defined contribution plan	486	450	3,951	2,752
Rent and house maintenance	2,186	2,023	17,778	12,385
Utilities	789	581	4,732	3,397
Medical	60	60	1,270	1,034
Others	771	788	13,617	9,840
	10,403	9,561	90,563	64,070
Number of persons	1	1	45	33

The Country Head and some of the executives have been provided with free use of bank maintained cars.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2009		2008	
	Book value	Fair value	Book value	Fair value
Assets				
Cash balances with treasury banks	3,911,176	3,911,176	3,248,922	3,248,922
Balances with other banks	7,708,198	7,708,198	4,647,570	4,647,570
Investments	1,702,599	1,702,599	1,124,428	1,131,928
Financings	14,755,162	14,755,162	14,377,810	14,377,810
Other assets	611,913	611,913	275,883	275,883
	28,689,048	28,689,048	23,674,612	23,674,612
Liabilities				
Bills payable	194,771	194,771	219,170	219,170
Due to financial institutions	2,263,689	2,263,689	1,969,849	1,969,849
Deposits and other accounts	22,636,323	22,636,323	18,336,159	18,336,159
Other liabilities	797,194	797,194	664,005	664,005
	25,891,977	25,891,977	21,189,183	21,189,183
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	598,884	598,884	3,631,384	3,631,384
Forward sale of foreign exchange	708,980	708,980	1,044,415	1,044,415

The fair value of financings, other assets, other liabilities and deposits and other accounts cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of financings has been calculated in accordance with the Bank's accounting policy as stated in note 7.2. In the opinion of the management, the fair value of the remaining financial assets and liabilities are not significantly different from their carrying values as these assets and liabilities are either short term in nature or in the case of financings and deposits are frequently repriced.

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
	-----------	-----------	Rupees in '000	-----------	-----------
2009					
Total income	181,012	770,389	244,707	1,788,208	2,672
Total expenses	76,958	211,827	1,973,332	1,006,419	
Net income	104,054	558,562	(1,728,625)	781,788	2,672
Segment assets (gross)	2,043,212	9,281,249	1,858,688	16,874,736	-
Segment non-performing loans			12,559	1,370,736	
Segment provision required			6,008	746,918	
Segment liabilities			23,011,968	3,313,181	226,794
Segment return on net assets (ROA) (%)	14.35%	13.10%	13.88%	14.21%	-
Segment cost of funds (%)	9.79%	9.79%	9.79%	7.70%	-
2008					
Total income	120,788	318,419	189,717	1,422,683	3,182
Total expenses	29,926	207,697	1,280,559	609,750	13
Net income	90,862	110,722	(1,090,842)	812,933	3,169
Segment assets (gross)	1,274,018	5,761,220	2,433,535	15,057,694	-
Segment non-performing loans	-	-	22,038	839,631	-
Segment provision required	-	-	5,294	323,347	-
Segment liabilities	-	10,844	18,880,630	2,731,025	209,545
Segment return on net assets (ROA) (%)	11.64%	13.57%	10.50%	12.78%	-
Segment cost of funds (%)	8.01%	8.01%	8.01%	15.00%	-

38. 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 includes key management personnel, retirement benefit funds and head office. A number of banking transactions were entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on commercial terms and at market rates.

	2009		2008	
	Country Head & Executives	Other related parties	Country Head & Executives	Other Related Parties
	--------------------------------Rupees in '000--------------------------------			
Assets				
Cash and cash equivalents		505,450		-
Financing	16,866	46,142	18,165	33,370
Other receivables		17,074	-	16,967
Liabilities				
Deposits	40,181	91,762	58,337	2,451,973
Unremitted head office expenses		221,527	-	114,033
Mark-up/ Return payable	3,867	6,569	2,321	26,175

Other significant transactions with related parties during the year were as follows:	2009	2008
	Rupees in '000	
Deposits received during the year	260,459	4,906,245
Deposits withdrawn during the year	2,638,826	3,367,668
Profit remitted during the year	-	347,103
Mark-up/return expensed	40,892	56,165
Mark-up/return earned	3,489	2,017
Head office expenditure	107,495	107,495

39. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

39.1 Scope of applications

Al-Baraka Islamic Bank B.S.C. (C) - Pakistan Branches (the Bank), operates as a branch of a foreign bank incorporated and domiciled in Bahrain on February 21, 1984 and is a member of Al-Baraka Banking Group. The Bank commenced its operations in Pakistan in December 1991. The Pakistan branches operate as scheduled Islamic Bank under a license issued by the State Bank of Pakistan (SBP) and are principally engaged in business of banking as defined in the Banking Companies Ordinance, 1962.

Vide SBP's BSD circular 1 dated January 1, 2008, Basel II is applicable on the banks w.e.f. January 1, 2008 and accordingly, Basel II related disclosures as required by BSD 4 dated February 17, 2006 have been given in these financial statements.

39.2 Capital structure

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:
• To comply with the capital requirements set by State Bank of Pakistan;
• To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
• To maintain a strong capital base to support the development of its business.
Banks regulatory capital is divided into three tiers as follows:

Tier I Capital
This includes paid up capital (presented as Head Office Capital Account being branches of foreign bank), net un-appropriated / remitted profits, after deductions for deficit on revaluation of available for sale investments.

Tier II Capital
This includes general provisions for loan losses (up to a maximum of 1.25 % of risk weighted assets), and equity investments (up to a maximum of 45% of the balance in the related revaluation reserves).

Tier III Capital
'Tier III Capital has also been prescribed by the SBP for managing market risk; however the Bank does not have any Tier III capital as of December 31, 2009.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of (and reflecting an estimate of credit, market and other risks associated with) each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The required capital is achieved by the Bank through:

a) Adequate level of Paid up Capital (through head office)
b) Ensuring better recovery management; and
c) Maintain acceptable profit margins.

As discussed in Note 19, the bank has been granted specific exemption from increasing the capital base upto Rs. 6 billion.

The table below summarises the composition of regulatory capital and the ratio of the Bank for the year ended 31 December 2009:

		2009	2008
		Rupees in "000"	
1	Tier I Capital		
	Shareholder equity / Assigned capital	3,041,775	2,420,129
	Share premium		-
	Reserve		-
	Un-appropriated/Unremitted profits (net of accumulated losses, if any)	(301,460)	(19,912)
	Minority interest (for consolidated position reporting)		-
	Less: intangibles, investment in commercial entities (50%)		-
	Calculation difference (expected losses vs eligible	(2,815)	(39,294)
	Total Tier I Capital	2,737,500	2,360,923
	Tier II Capital		
	Subordinated Debt (upto 50% of total Tier 1 Capital)		-
	General Provisions subject to 1.25% of Total Risk Weighted Assets	8,106	10,373
	Revaluation Reserve (upto 45%)	5,716	32
	Less: Calculation difference (expected losses vs eligible provisions)		
	Investment in commercial entities (50%)		-
	Total Tier II Capital	13,822	10,405
	Eligible Tier III Capital	-	-
	Total Regulatory Capital Base	2,751,322	2,371,328

39.3 Capital adequacy

The primary objectives of the Bank’s capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders’ value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of profit remittance to Head Office. No changes were made in the objectives, policies and processes from the previous years.

Assessment of the capital requirement of the Bank is carried out through a comprehensive projection of future businesses that takes cognizance of the strategic intent of the Bank, profitability of particular businesses and opportunities for growth. The proper mapping of credit, operational and market risks to this projected business growth enables assignment of capital that not only adequately covers the minimum regulatory capital requirement but also provides headroom for growth. The calibration of risk to business is enabled by a strong risk culture in the Bank aided by effective, technology based risk management systems.

The Bank calculates capital adequacy ratio for its credit risk, market risk and operational risk based upon requirements under Basel II and as per guidelines issued by the State Bank of Pakistan from time to time in this regard.

Major credit risk in respect of on and off-balance sheet exposures are mainly claims on banks, corporates, retail customers, residential mortgages, and Sukuk (Held to Maturity). Market risk exposures are in equity and foreign exchange positions. The Bank's potential risk exposures shall remain in these exposure types.

Sensitivity and stress testing of the Bank under different risk factors namely yield rate, forced sale value of collateral, non-performing financings and foreign exchange rate depicts that the Bank's capital adequacy ratio is within the regulatory requirements.

The Bank's sponsors are well reputed in abroad. The Bank has never faced in the past any difficulty in raising capital whenever it required. The Bank's economic capital requirement assessment based on economic capital model is same as determined by the Bank's management as it has taken into account all factors which are required to be considered in an economic model.

A summary of the Bank's capital requirement for credit, market and operational risk and the capital adequacy ratio as on 31st December 2009 is presented below:

	Capital Requirements		Risk Weighted Assets	
	Current Year	Prior Year	Current Year	Prior Year
Credit Risk	-------------------------Rupees in "000"-------------------------			
Portfolios subject to standardised approach				
Portfolios subject to on-balance sheet exposure (Simple approach):				
Public sector entities in Pakistan	2,564	1,733	28,486	21,659
Banks	155,512	76,808	1,727,912	960,097
Corporates	986,173	935,732	10,957,475	11,696,648
Retail	60,206	62,523	668,950	781,535
Residential mortgage finance	8,179	19,445	90,874	243,059
Past due loans	49,565	41,986	550,721	524,822
All other assets	105,294	61,835	1,169,934	772,938
Portfolios subject to off-balance sheet exposure - non market related (Simple approach):				
Corporates	123,107	122,036	1,367,861	1,525,448
Retail	33,575	10,434	373,051	130,427
Banks	17,146	444	190,507	5,546
Portfolios subject to off-balance sheet exposures - market related (Current exposure method):				
Banks	66,447	176,108	738,296	2,201,356
Market Risk				
Capital Requirement for portfolios subject to Standardized				
Equity position risk	-	6,830		85,380
Foreign exchange risk	7,146	16,524	79,399	206,551
Operational Risk	96,525	87,251	1,072,499	1,090,642
	1,711,439	1,619,689	19,015,965	20,246,108

Capital adequacy ratio

		2009	2008
		Rupees in '000	
Total eligible regulatory capital held	(a)	2,751,322	2,371,328
Total risk weighted assets	(b)	19,015,965	20,246,108
Capital adequacy ratio	(a) / (b)	14.47%	11.71%

40. RISK MANAGEMENT

The due identification, measurement and mitigation of all risks inherent in the Bank's business processes is essential for the continuity and profitability of its operations. Cognizant of this fact, the management has taken comprehensive measures to establish a well-structured and meaningful risk management process within the organization. In compliance with State Bank of Pakistan guidelines, a comprehensive Risk Management Policy is in place duly approved by the Board of Directors. This document covers all facets of risks including credit, market, liquidity, operational and country risks, and outlines policies for their prudent management and mitigation.

In addition, a dedicated Risk Management Department is in place, independent of the business units, to perform all tasks necessary to identify, monitor and mitigate the risks arising from various activities, in line with the approved Policy. Periodic risk reviews are prepared to monitor portfolio concentrations, compliance with risk limits, and identification of any risk related issues which are subsequently discussed and resolved by the Risk Management Committee. Furthermore, quarterly stress tests are also conducted to assess the resilience of the portfolios under extreme market conditions.

40.1. Credit Risk

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions. The credit risk management process in the Bank encompasses the assessment of risk both at the portfolio as well as at the transaction level. Limits have been set relating to group and industry to monitor portfolio concentrations and to encourage diversification. New approvals and/or renewals are monitored on a transaction level to ensure compliance with risk management policies and procedures.

A well-defined Credit Policy, duly approved by the Board of Directors, explicitly spells out various components of the credit granting process, including appraisal, sanctioning and review procedures, in order to instill prudence in all financing activities. Past due accounts are treated in line with the State Bank of Pakistan rules and regulations. However, periodic Watch Lists are prepared by the Credit Administration Department to proactively monitor accounts with early warning indicators.

A key tool being used by the bank in its credit risk management process is the internal risk rating of all its exposures. The newly refurbished rating framework has been designed to conform to the requirements of advanced measurement approaches under the Basel II Capital Accord, and is in line with the State Bank of Pakistan's guidelines on internal rating systems. The framework has been bifurcated into Customer Rating and Facility Rating to separately capture the risks pertaining to borrowing entities and specific transactions. The internal rating exercise provides invaluable assistance in the decision-making process by evaluating the risk profile of exposures before approval. In addition, it also helps in gauging the overall risk profile of the entire portfolio.

In order to monitor the credit exposure taken by the Bank in various economic segments, sectoral limits are set and approved by the Board of Directors in accordance with the nature and performance of each sector and Bank's own risk appetite. Adherence to these limits is assessed on a regular basis to ensure that the credit portfolio remains well diversified. Further diversification is achieved with the initiation of Consumer Finance, which serves to spread the risks over a large number of customers.

Various credit mitigants are used to protect against potential credit losses. Great care is taken to ensure that all legal and operational requirements are in place to allow smooth liquidation/processing in case of a default. The impact of these collaterals is a substantial reduction in the overall credit risk exposure of the Bank.

40.1.1 SEGMENT INFORMATION

Segmental Information is presented in respect of the class of business and geographical distribution of Advances, Deposits, Contingencies and Commitments.

40.1.1.1 Segments by class of business

	2009					
Segments by class of business	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	29,633	0.19%	189,847	0.84%	-	0.00%
Mining and quarrying	536	0.00%	5,218	0.02%	-	0.00%
Textile	5,804,661	37.41%	1,162,767	5.14%	532,766	9.81%
Chemical and pharmaceuticals	884,064	5.70%	1,382,387	6.11%	877,516	16.15%
Cement	203,389	1.31%	12,164	0.05%	21,094	0.39%
Sugar	358,952	2.31%	113,276	0.50%	-	0.00%
Footwear and leather garments	693,502	4.47%	187,917	0.83%	155,156	2.86%
Automobile and transportation equipment	498,495	3.21%	253,316	1.12%	213,160	3.92%
Electronics and electrical appliances	407,957	2.63%	535,797	2.37%	279,630	5.15%
Construction	268,034	1.73%	152,072	0.67%	379,288	6.98%
Power (electricity), gas, water, sanitary	7,213	0.05%	73,273	0.32%	124,732	2.30%
Wholesale and retail trade	251,937	1.62%	116,374	0.51%	56,991	1.05%
Exports/imports	345,730	2.23%	193,734	0.86%	458,408	8.44%
Transport, storage and communication	61,863	0.40%	154,015	0.68%	95,148	1.75%
Financial	251,062	1.62%	3,944,976	17.43%	147,512	2.72%
Insurance	11,255	0.07%	142,957	0.63%	-	0.00%
Services	313,734	2.02%	9,111,005	40.25%	112,182	2.07%
Individuals	542,408	3.50%	727,666	3.21%	31,996	0.59%
Others	4,581,768	29.53%	4,177,562	18.46%	1,946,727	35.84%
	15,516,193	100.00%	22,636,323	100.00%	5,432,306	100.00%

	2008					
Segments by class of business	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	10,159	0.07%	98,405	0.54%	-	0.00%
Mining and quarrying	1,765	0.01%	21,137	0.12%	-	0.00%
Textile	5,861,419	39.83%	349,376	1.91%	594,941	14.26%
Chemical and pharmaceuticals	976,969	6.64%	865,411	4.72%	365,472	8.76%
Cement	210,720	1.43%	12,665	0.07%	17,848	0.43%
Sugar	284,144	1.93%	54,675	0.30%	-	0.00%
Footwear and leather garments	612,577	4.16%	64,110	0.35%	145,460	3.49%
Automobile and transportation equipment	630,253	4.28%	104,531	0.57%	137,811	3.30%
Electronics and electrical appliances	254,162	1.73%	91,488	0.50%	129,532	3.10%
Construction	404,965	2.75%	141,708	0.77%	278,118	6.67%
Power (electricity), gas, water, sanitary	1,671	0.01%	112,624	0.61%	100,917	2.42%
Wholesale and retail trade	242,831	1.65%	64,881	0.35%	35,159	0.84%
Exports/imports	292,983	1.99%	117,375	0.64%	434,859	10.42%
Transport, storage and communication	61,685	0.42%	152,586	0.83%	90,307	2.16%
Financial	400,684	2.72%	5,859,769	31.96%	60,794	1.46%
Insurance	16,310	0.11%	56,404	0.31%	-	0.00%
Services	377,637	2.57%	5,404,447	29.47%	128,942	3.09%
Individuals	637,693	4.33%	648,739	3.54%	37,592	0.90%
Others	3,438,197	23.36%	4,115,828	22.45%	1,614,709	38.70%
	14,716,824	100.00%	18,336,159	100.00%	4,172,461	100.00%

	2009					
	Financings (Gross)		Deposits		Contingencies and Commitments	
40.1.1.2 Segment by sector	Rupees in '000		Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	1,508,678	10%	361,859	2%	-	-
Private	14,007,515	90%	22,274,464	98%	5,432,306	0%
	15,516,193	100%	22,636,323	100%	5,432,306	0%

	2008					
	Financings (Gross)		Deposits		Contingencies and Commitments	
Segment by sector	Rupees in '000		Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	-	-	1,320,740	7%	-	-
Private	14,716,824	100%	17,015,419	93%	4,172,461	100%
	14,716,824	100%	18,336,159	100%	4,172,461	100%

	2009		2008	
40.1.1.3 Details of non-performing financings and provisions by class of business segment	Rupees in '000			
	Classified Financings	Specific provisions held	Classified Financings	Specific provisions held
Agriculture, Forestry, Hunting and Fishing	15,956	7,347	15,956	9,499
Mining and Quarrying				
Textile	694,650	516,820	402,744	158,281
Chemical and				
Cement			7,031	7,031
Sugar				
Footwear and Leather	5,027	5,027		
Automobile and transportation equipment	36,027	29,906	91,406	29,906
Electronics and electrical	1,763	1,763	1,763	1,763
Construction	226,541	-	210,998	24,269
Power (electricity), Gas, Water, Sanitary				
Wholesale and Retail Trade	14,928			
Exports/Imports	34,651	31,999	34,651	32,105
Transport, Storage and	2,000	2,000	2,000	2,000
Financial	1,898	1,097	1,898	1,133
Insurance				
Services			4,589	956
Individuals	3,384	1,360	3,267	1,429
Others	346,471	155,606	85,366	60,269
	1,383,296	752,925	861,669	328,641

40.1.1.4 Details of non-performing financings and provisions by sector				
Public/ Government	-	-	-	-
Private	1,383,296	752,925	861,669	328,641
	1,383,296	752,925	861,669	328,641

40.1.1.5 GEOGRAPHICAL SEGMENT ANALYSIS

	2009	2008
	Rupees in '000	
	Pakistan	
(Loss) / Profit before taxation	(380,634)	(78,545)
Total assets employed	29,304,960	24,197,826
Net asset employed	2,753,017	2,365,781
Contingencies and commitments	5,432,306	4,172,461

Total assets employed include intra group items of Rs. Nil (2008: Rs.Nil)

40.1.1.6 Credit Risk-General Disclosures Basel II Specific

The Bank is operating under standardised approach for credit risk under Basel II. As such risk weights for the credit risk related assets (on-balance sheet and off-balance sheet-market & non market related exposures) are assigned on the basis of standardised approach. The Bank is committed to further strengthen its risk management framework that shall enable the Bank to move ahead for adopting Foundation IRB approach of Basel II; meanwhile none of our assets class is subject to the foundation IRB or advanced IRB approaches.

40.1.1.7 Credit Risk: Disclosures for portfolio subject to the Standardised Approach & supervisory risk weights in the IRB Approach-Basel II Specific:

The Simplified Standardized Approach is used for calculating capital charge for credit risk. Under this Approach, risk weight to claims on sovereigns (denominated in FCY), public sector entities, and banks are assigned on the basis of country scores (assigned to the country of origin of these claims) of Export Credit Agencies (ECA) participating in the "Arrangement of Officially Supported Export Credits". These scores are available from the Oraganization for Economic Cooperation and Development (OECD).

Types of exposures and ECAI's used is as follows:

Exposures	JCR-VIS	PACRA	OTHER
Corporate	------fixed risk weight------		
Banks	X	X	ECA Scores
Sovereigns	X	X	ECA Scores
SMEs	------fixed risk weight------		
Securitizations	-----------N/A----------		

Credit exposure subject to standardised approach:

2009 (Rs. in thousands)

Exposures	Rating category	Amount outstanding	Deduction CRM	Net amount
Corporate	-	11,424,951	467,476	10,957,475
Retail	-	1,092,135	200,202	891,993
Residential mortgage	-	259,640	-	259,640
Banks	-	7,795,438	-	7,795,438

2008 (Rs. in thousands)

Exposures	Rating category	Amount outstanding	Deduction CRM	Net amount
Corporate	-	12,079,580	382,932	11,696,648
Retail	-	1,230,736	188,690	1,042,046
Residential mortgage	-	694,545	91	694,454
Banks	-	4,705,539	-	4,705,539

40.1.1.8 Credit Risk: Disclosures for portfolio subject to IRB Approach - Basel II Specific

Not applicable as the Bank has not yet adopted IRB approach.

40.1.1.9 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardised and IRB Approaches-Basel II Specific:

Bank obtains capital relief for its both on-balance and off-balance sheet- non-market related exposures by using simple approach for credit risk mitigation (CRM). Off-balance sheet items under the simplified standardised approach are converted into credit exposure equivalents through the use of credit conversion factors. The main type of collateral taken by the bank are:

- Cash and certificates of deposits
- Guarantees
- Pledge on imported good / title to goods
- Mortgage over property
- Hypothecation of current and fixed assets

However, under the standardised approach, the eligible collaterals used for credit risk mitigation under the simple approach for calculating credit risk capital charge are security deposits, cash margins, Government securities and saving accounts.

Valuation and management of eligible collaterals for CRM is being done in line with the conditions laid down by SBP. Since eligible collaterals for CRM purposes are all in the form of cash collaterals, they generally do not pose risk to the Bank in terms of change in their valuation due to changes in the market condition.

The credit equivalent amount of an off-balance sheet market related foreign exchange contracts are determined by using the current exposure (mark to market) method.

The benefit of CRM against its claims on corporate and retail portfolio under the standardised approach for on-balance sheet exposures is as follows:

	Original Exposure	CRM Benefit	Net Amount
	Rupees in thousands		
Claims on corporate portfolios	11,424,951	467,476	10,957,475
Claims on retail portfolios	1,092,135	200,202	891,933
	12,517,086	667,678	11,849,408

The benefit of CRM against its claims on corporate and retail portfolio under standardised approach for off-balance sheet, non-market related exposures is as follows:

	Original Exposure	CRM Benefit	Net Amount
	Rupees in thousands		
Claims on corporate portfolios	3,256,283	391,348	2,864,935
Claims on retail portfolios	2,073,173	114,215	1,958,958
	5,329,456	505,563	4,823,893

40.1.1.10 Credit Risk: Disclosures with respect to securitization - Basel II Specific
Not applicable

40.1.1.11 Equity position risk in the banking book-Basel II Specific

The Bank makes investment in various products/instruments for supporting business activities of the bank and generating revenue in short term or relatively short term tenure. No strategic Investments have been made with the intention to hold it for a longer term.

Classification of equity investments

Bank classifies its equity investment portfolio in accordance with the directives of SBP as follows:

- Held for trading Investments
- Available for sale Investments

Some of the above mentioned investments are listed and traded in public through stock exchanges, while other investments are unlisted.

Policies, valuation and accounting of equity investments

These are given in Note 6.1 & Note 7.3 and 20.1.

Composition of equity investments

	Held for trading (HFT)		Available for sale (AFS)	
	Cost / Fair value	Unrealized gain	Cost / Fair value	Unrealized gain /
	Rs. In thousands		Rs. In thousands	
Equity investment - listed			674,447 / 657,046	(17,401)
Equity investment - Unlisted	-	-	-	-

Gain on Investments

During the year, gain amounting of Rs. 51,847 (In thousands) have been realized on sale of equity investments which have been credited to profit and loss account. The unrealized loss on AFS investments is recognized in balance sheet.

40.2 Market risk

Market risk is the risk of losses in on- and off-balance sheet positions of the Bank due to movement in market prices, such as profit rates, equity prices and exchange rates.

The basic objective of effective market risk management is to minimize the risk of losses resulting from adverse movements in these prices. This is achieved by setting instrument-specific exposure limits, counterparty limits and stop loss limits etc. Furthermore, policies are in place to monitor transactions that result in excess over limits. All these activities are performed in line with the Risk Management Policies and Procedures Manual. The quarterly market risk review assesses the position of Bank portfolios with regard to various market risks, and identifies key risk areas and remedial measures.

40.2.1 Foreign exchange risk

Foreign exchange transactions carried out by the Bank as part of its overall banking activity exposes it to foreign exchange risk due to movement in exchange rates.

As a policy stance, all foreign currency exposures of the Bank are taken to execute customers' requirements and/or to square Bank's own position. No exposures are allowed purely for trading purposes. The policy also specifies permitted currencies in which the Bank can take exposure as well as the maximum tenure for foreign currency transactions. Limits have been set with regard to net open position, currency-wise holdings, transaction amounts and stop loss positions, to safeguard against adverse movements in exchange rates.

	2009			
Foreign exchange risk	Assets	Liabilities*	Off-balance sheet items	Net foreign currency exposure
	----------------------Rupees in '000----------------------			
United States dollar	3,945,386	3,619,227	(351,153)	(24,994)
Great Britain pound	73,199	226,438	165,421	12,182
Euro	216,026	293,613	103,314	25,727
Japanese yen	11,576			11,576
Deutsche mark	-	19		(19)
ACU Dollar	20,616			20,616
U.A.E. Dirham	28,843		(27,677)	1,166
Swiss Frank	8,132			8,132
Foreign Currency	4,303,778	4,139,297	(110,095)	54,386
Pakistan Rupees	25,001,182	25,165,663	110,095	(54,386)
	29,304,960	29,304,960	-	-

	2008			
	Assets	Liabilities*	Off-balance sheet items	Net foreign currency exposure
	----------------------Rupees in '000----------------------			
United States dollar	2,911,550	5,111,871	2,313,680	113,359
Great Britain pound	69,386	237,030	191,013	23,369
Euro	134,111	186,673	82,276	29,714
Japanese yen	12,871	-	-	12,871
Deutsche mark	-	19	-	(19)
ACU Dollar	22,696	-	-	22,696
U.A.E. Dirham	2,774	-	-	2,774
Swiss Frank	1,767	-	-	1,767
Foreign Currency	3,155,155	5,535,593	2,586,969	206,531
Pakistan Rupees	21,042,671	18,662,233	(2,586,969)	(206,531)
	24,197,826	24,197,826	-	-

Currency risk is the risk that the value of the financial instrument will fluctuate due to changes in foreign exchange rates. Hedging transactions are used to manage risk in other currencies.

Liabilities include head office capital account, (accumulated loss) / unremitted profit and deficit on revaluation of assets amounting to Rs. 2,291,775 thousands (2008: Rs. 2,365,782 thousands).

40.2.2 Equity position risk

The Bank has exposure in stock market equities in its trading book, which gives rise to this risk due to movement in share prices.

The equity position risk of the Bank in the trading book revolves around the investment in listed shares/securities, duly approved by the Shari'ah Advisor. Limit for the maximum stock market exposure has been set by the Head Office, in order to monitor and manage the size of the risk taken by the Bank. Even within the approved limit, all decisions with regard to taking or selling off an investment is made with the approval of the Country Credit Committee.

40.2.3 Yield / Profit Rate Risk in the Banking Book (IRRBB)-Basel II Specific

Return sensitive assets, liabilities and off-balance sheet items-repricing analysis is done by ALCO. ALCO also monitors and manages the yield rate risk and takes on exposure to the effects of fluctuations in the prevailing levels of profit rates on Bank's financial position and cash flows. Profit margin may increase as a result of such changes but may reduce or create losses in the event of unexpected movements.

40.2.3 Mismatch of profit rate sensitive assets and liabilities

	Effective Yield/ Profit rate	Total	2009 Exposed to Yield/ profit rate risk									Non-profit bearing financial instruments
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
			Rupees in '000									
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	3,911,176	-	-	-	-	-	-	-	-	-	3,911,176
Balances with other banks	11.28%	7,708,198	5,457,772	2,205,450	-	-	-	-	-	-	-	44,976
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	14.45%	1,702,599	-	150,000	1,500,000	-	-	-	-	-	-	52,599
Financings	14.40%	14,755,162	2,291,903	5,519,186	4,082,960	1,436,645	794,097	-	-	-	-	630,371
Other assets	-	611,913	-	-	-	-	-	-	-	-	-	611,913
		28,689,048	7,749,675	7,874,636	5,582,960	1,436,645	794,097	-	-	-	-	5,251,035
Liabilities												
Bills payable	-	194,771	-	-	-	-	-	-	-	-	-	194,771
Due to financial institutions	7.70%	2,263,689	338,421	1,084,494	840,774	-	-	-	-	-	-	-
Deposits and other accounts	9.79%	22,636,323	10,974,323	1,976,477	1,458,861	2,363,703	585,505	745,822	1,369,193	-	-	3,162,439
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	797,194	-	-	-	-	-	-	-	-	-	797,194
		25,891,977	11,312,744	3,060,971	2,299,635	2,363,703	585,505	745,822	1,369,193	-	-	4,154,404
On-balance sheet gap		2,797,071	(3,563,069)	4,813,665	3,283,325	(927,058)	208,592	(745,822)	(1,369,193)	-	-	1,096,631
Off-balance sheet financial instruments												
Forward Foreign exchange contracts- Purchase		598,884	-	-	-	-	-	-	-	-	-	598,884
Forward Foreign exchange contracts- Sale		708,980	-	-	-	-	-	-	-	-	-	708,980
Off-balance sheet gap		(110,096)	-	-	-	-	-	-	-	-	-	(110,096)
Total Yield/Profit Risk Sensitivity Gap			(3,563,069)	4,813,665	3,283,325	(927,058)	208,592	(745,822)	(1,369,193)	-	-	
Cumulative Yield/Profit Risk Sensitivity Gap			(3,563,069)	1,295,596	4,533,921	3,606,863	3,815,455	3,069,633	1,700,440	1,700,440	1,700,440	

Mismatch of profit rate sensitive assets and liabilities	Effective Yield/ Profit rate	Total	2008 Exposed to Yield/ profit rate risk Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-profit bearing financial instruments
		--Rupees in '000--										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	3,248,922	-	-	-	-	-	-	-	-	-	3,248,922
Balances with other banks	9.50%	4,647,570	4,604,680	-	-	-	-	-	-	-	-	42,890
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	-
Investments	11.86%	1,124,428	-	-	-	-	-	-	950,000	100,000	-	74,428
Financings	12.33%	14,377,810	2,510,156	3,889,154	3,931,849	1,856,199	799,744	-	-	-	-	533,028
Other assets	-	275,880	-	-	-	-	-	-	-	-	-	275,882
		23,674,610	7,114,836	3,889,154	3,931,849	1,856,199	799,744	-	950,000	100,000	-	4,175,150
Liabilities												
Bills payable	-	219,170	-	-	-	-	-	-	-	-	-	219,170
Due to financial institutions	6.50%	1,969,849	277,932	1,021,755	670,162	-	-	-	-	-	-	-
Deposits and other accounts	9.19%	18,336,159	11,098,257	1,219,732	481,550	2,067,825	444,764	586,686	558,801	-	-	1,878,544
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	664,005	-	-	-	-	-	-	-	-	-	664,005
		21,189,183	11,376,189	2,241,487	1,151,712	2,067,825	444,764	586,686	558,801	-	-	2,761,719
On-balance sheet gap		2,485,427	(4,261,353)	1,647,667	2,780,137	(211,626)	354,980	(586,686)	391,199	100,000	-	1,413,431
Off-balance sheet financial instruments												
Forward foreign exchange contract – purchase		3,631,384	-	-	-	-	-	-	-	-	-	3,631,384
Forward foreign exchange contracts - sales		1,044,415	-	-	-	-	-	-	-	-	-	1,044,415
Off-balance sheet gap		2,586,969										2,586,969
Total Yield/Profit Risk Sensitivity Gap			(4,261,353)	1,647,667	2,780,137	(211,626)	354,980	(586,686)	391,199	100,000	-	
Cumulative Yield/Profit Risk Sensitivity Gap			(4,261,353)	(2,613,686)	166,451	(45,175)	309,805	(276,881)	114,318	214,318	214,318	

Yield/Profit rate risk arises from the possibility that changes in profit rates will affect the value of financial instruments. Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. The bank is exposed to both profit rate risk and yield risk as result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in the given period. The bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The position of on-balance sheet financial instruments other than deposits and investments is based on the earlier of the contractual repricing or maturity date and for off- balance sheet instrument is based on settlement dates, while the position of deposits and investments is based on maturity date.

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

40.3.1 Maturities of assets and liabilities

	2009									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	---Rupees in '000---									
Assets										
Cash and balances with treasury banks	3,911,176	1,619,401	-	-	-	-	-	-	2,291,775	-
Balances with other banks	7,708,198	5,502,748	2,205,450	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	1,702,599	568,486	-	-	-	-	84,113	950,000	100,000	-
Financings	14,755,162	2,291,903	5,519,186	4,082,960	642,547	582,282	418,573	332,687	114,116	770,908
Other assets	898,634	401,496	168,883	107,752	10,596	175,623	6,167	5,223	2,215	20,679
Operating fixed assets	302,611	-	-	-	114,821	-	-	187,790	-	-
Deferred tax assets	26,580	-				26,580				
	29,304,960	10,384,034	7,893,519	4,190,712	767,964	784,485	508,853	1,475,700	2,508,106	791,587
Liabilities										
Bills payable	194,771	194,771	-	-	-	-	-	-	-	-
Due to financial institutions	2,263,689	338,421	1,084,494	840,774						
Deposits and other accounts	22,636,323	14,136,762	1,976,477	1,458,861	2,363,703	585,505	745,822	1,369,193	-	-
Sub-ordinated loans	-	-								
Liabilities against assets subject to finance lease	-	-								
Other liabilities	1,457,160	318,740	206,373	227,680	121,011	350,497	83,745	65,138	33,309	50,667
Deferred tax liabilities	-	-								
	26,551,943	14,988,694	3,267,344	2,527,315	2,484,714	936,002	829,567	1,434,331	33,309	50,667
Net assets	2,753,017	(4,604,660)	4,626,175	1,663,397	(1,716,750)	(151,517)	(320,714)	41,369	2,474,797	740,920
Head office capital account	3,041,775									
(Accumulated loss)/ unremitted profit	(301,460)									
(Deficit) on revaluation of assets	12,702									
	2,753,017									

Maturities of assets and liabilities	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
		2008								
		-----Rupees in '000-----								
Assets										
Cash and balances with treasury banks	3,248,922	1,578,793	-	-	-	-	-	-	1,670,129	-
Balances with other banks	4,647,570	4,647,570	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	1,124,428	42,690	-	-	-	-	31,738	950,000	100,000	-
Financings	14,377,810	2,510,156	3,889,154	3,931,849	1,056,455	834,556	587,921	495,463	214,576	857,680
Other assets	631,311	112,642	242,486	9,697	17,120	191,739	24,980	22,485	2,512	7,650
Operating fixed assets	167,785	-	-	-	-	-	-	167,785	-	-
	24,197,826	8,891,851	4,131,640	3,941,546	1,073,575	1,026,295	644,639	1,635,733	1,987,217	865,330
Liabilities										
Bills payable	219,170	219,170	-	-	-	-	-	-	-	-
Due to financial institutions	1,969,849	277,932	1,021,755	670,162	-	-	-	-	-	-
Deposits and other accounts	18,336,159	12,976,801	1,219,732	481,550	2,067,825	444,764	586,686	558,801	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	
Other liabilities	1,174,400	286,941	202,142	112,209	120,451	234,608	98,877	76,148	15,776	27,248
Deferred tax liabilities	132,467	4,042	-	-	-	51,370	77,055	-	-	-
	21,832,045	13,764,886	2,443,629	1,263,921	2,188,276	730,742	762,618	634,949	15,776	27,248
Net assets	2,365,781	(4,873,035)	1,688,011	2,677,625	(1,114,701)	295,553	(117,979)	1,000,784	1,971,441	838,082
Head office capital account	2,420,129									
Unremitted profit	(19,912)									
(Deficit) on revaluation of assets	(34,436)									
	2,365,781									

The above maturity profile has been prepared in accordance with IAS- 30: 'Disclosure in the financial statements of banks and similar financial institutions' based on contractual maturities. However, current and saving deposits do not have any contractual maturity.

40.4 Operational Risk

This is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events.

By its very nature, operational risk is inherent in all business activities of the Bank and hence its identification and management is not limited to a particular department/division. The operational manuals of each business activity identify key operational issues and define procedures to minimize the potential risks. Prudent and proactive operational risk management is achieved by adopting an integrated approach whereby all Bank personnel are responsible for identifying, evaluating, reporting and mitigating such risks inherent in their respective lines of activities, in accordance with their operational manuals. Furthermore, key oversight functions of the Bank such as Risk Management, Internal Audit and Compliance work in conjunction to ensure that operational policies and procedures are being observed in letter and spirit.

Like all modern-day institutions, the Bank relies heavily on computer systems to handle critical electronic data and to support its daily operations. The necessity of ensuring continuity in these IT-related operations is a source of considerable operational risk, which is mitigated through the development of a Disaster Recovery Plan (DRP). The DRP outlines standard operating procedures to be followed in case of an unforeseen disaster, interruption or breakdown in the IT systems of the bank, thereby ensuring continuity in Bank's business and in meeting customer needs. In addition, a Business Continuity Plan (BCP) is also in place to ensure rapid recovery and timely resumption of all critical business functions of the Bank following a wide-scale, regional disruption.

The Bank recognizes that the field of sophisticated and structured operational risk management is in a state of evolution. In line with the latest research and development in this area, the Bank has taken the initiative of adopting a more objective approach to operational risk management, based on actual loss events. This is envisaged to be accomplished through the identification of key risk indicators for all major business units of the Bank. Based on the actual incidents reported by the branches, an operational loss database is being maintained, which will ultimately assist in the quantification of operational risk.

40.4.1 Operational Risk-Disclosures Basel II Specific

Basic Indicator Approach (BIA) is used for Operational Risk under Basel II.

40.5 Shariah non-compliance risk

Shari'ah Non-compliance risk arises due to the lack of awareness amongst the staff while processing a particular transaction, which may result in reputational loss to the bank as well as reversal of income of the bank in respect of that transaction.

This risk is covered by ensuring that all Bank personnel have detailed and relevant knowledge of Shari'ah-related issues pertaining to their respective areas. This is accomplished through periodic training sessions and workshops conducted by the Shari'ah Advisor and his team. Furthermore, the Shari'ah Desk carries out frequent transaction and policy specific reviews to identify and rectify deviations, if any.

41. GENERAL

41.1 Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

41.2 In general captions in respect of which there are no amounts, have not been reproduced in these accounts except in case of balance sheet and profit and loss account.

41.3 Corresponding figures have been rearranged or reclassified where ever necessary. However, no material rearrangement or reclassification has been made.

41.4 These financial statements were authorized for issue on 26 February 2010.

SHAFQAAT AHMED	**AYYAZ AHMAD**
Country Head	**Chief Financial Officer**