



DUBAI ISLAMIC BANK PAKISTAN LIMITED  
BALANCE SHEET  
AS AT DECEMBER 31, 2008

	Note	December 31, 2008 ----- Rupees in '000 -----	December 31, 2007
<b>ASSETS</b>			
Cash and balances with treasury banks	6	2,691,572	1,992,425
Balances with other banks	7	3,273,878	1,410,884
Due from financial institutions	8	1,329,832	-
Investments	9	3,019,266	2,974,087
Financing	10	18,073,501	11,347,979
Operating fixed assets	11	2,010,889	1,459,578
Deferred tax assets	12	512,474	423,061
Other assets	13	1,138,661	1,700,233
		<b>32,050,073</b>	<b>21,308,247</b>
<b>LIABILITIES</b>			
Bills payable	14	283,188	347,521
Due to financial institutions		-	383
Deposits and other accounts	15	25,458,910	16,114,461
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	16	1,241,848	490,543
		<b>26,983,946</b>	<b>16,952,908</b>
<b>NET ASSETS</b>		<b>5,066,127</b>	<b>4,355,339</b>
<b>REPRESENTED BY</b>			
Share capital	17	6,017,780	5,126,230
Reserves		-	-
Accumulated loss		(962,520)	(780,698)
		<b>5,055,260</b>	<b>4,345,532</b>
Advance against future issue of share capital	18	18	18
Surplus on revaluation of assets – net of tax	19	10,849	9,789
		<b>5,066,127</b>	<b>4,355,339</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	20		

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

\_\_\_\_\_  
President / Chief Executive

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Director

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Director

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Director

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

	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
Profit / return on financing, investments and placements earned	21	2,723,796	1,119,716
Return on deposits and other dues expensed	22	1,377,542	469,302
Net spread earned		<u>1,346,254</u>	<u>650,414</u>
Provision against non-performing financing		<u>(156,077)</u>	<u>(100,766)</u>
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
Net spread after provisions		<u>1,190,177</u>	<u>549,648</u>
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		<u>142,308</u>	265,032
Dividend Income		-	-
Income from dealing in foreign currencies		133,573	38,026
Gain on sale of securities	23	7,499	25,785
Unrealized gain / (loss) on revaluation of investments classified as held for trading		-	-
Other income	24	<u>52,172</u>	7,567
Total other income		<u>335,552</u>	<u>336,410</u>
		<u>1,525,729</u>	<u>886,058</u>
<b>OTHER EXPENSES</b>			
Administrative expenses	25	<u>1,791,282</u>	1,453,732
Other provisions / write offs		-	-
Other charges	26	<u>6,253</u>	174
Total other expenses		<u>1,797,535</u>	<u>1,453,906</u>
		<u>(271,806)</u>	<u>(567,848)</u>
Extra ordinary / unusual items		-	-
<b>LOSS BEFORE TAXATION</b>		<u>(271,806)</u>	<u>(567,848)</u>
Taxation – Current		-	(7,151)
– Prior years		-	-
– Deferred		<u>89,984</u>	<u>205,803</u>
	27	<u>89,984</u>	<u>198,652</u>
<b>LOSS AFTER TAXATION</b>		<u>(181,822)</u>	<u>(369,196)</u>
<b>Accumulated loss brought forward</b>		<u>(780,698)</u>	<u>(411,502)</u>
<b>Accumulated loss carried forward</b>		<u>(962,520)</u>	<u>(780,698)</u>
<b>Basic loss per share – Rupees</b>	28	<u>(0.35)</u>	<u>(0.89)</u>
<b>Diluted loss per share – Rupees</b>	29	<u>(0.35)</u>	<u>(0.89)</u>

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

\_\_\_\_\_  
 President / Chief Executive

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 Director

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 Director

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 Director

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

	Share capital	Accumulated loss	Total
	----- Rupees in '000 -----		
<b>Balance as at January 01, 2007</b>	<b>3,917,480</b>	<b>(411,502)</b>	<b>3,505,978</b>
Issue of right shares during the year	1,208,750	-	1,208,750
Loss after taxation for the year ended December 31, 2007	-	(369,196)	(369,196)
<b>Balance as at December 31, 2007</b>	<b>5,126,230</b>	<b>(780,698)</b>	<b>4,345,532</b>
Issue of right shares during the year	891,550	-	891,550
Loss after taxation for the year ended December 31, 2008	-	(181,822)	(181,822)
<b>Balance as at December 31, 2008</b>	<b>6,017,780</b>	<b>(962,520)</b>	<b>5,055,260</b>

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

President / Chief Executive	Director	Director	Director
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DUBAI ISLAMIC BANK PAKISTAN LIMITED  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(271,806)	(567,848)
Adjustments:			
Depreciation	11.2	244,466	151,640
Amortization	25.2	54,892	47,117
Provision against non-performing financing		156,077	100,766
Gain on sale of fixed assets		(302)	(73)
		455,133	299,450
		183,327	(268,398)
(Increase) / decrease in operating assets			
Due from financial institutions		(1,329,832)	-
Financing		(6,881,599)	(8,174,788)
Others assets		529,990	(715,035)
		(7,681,441)	(8,889,823)
Increase / (decrease) in operating liabilities			
Bills payable		(64,333)	63,992
Due to financial institutions		(383)	383
Deposits and other accounts		9,344,449	11,791,840
Other liabilities		751,305	192,844
		10,031,038	12,049,059
		2,532,924	2,890,838
Income tax paid		(9,430)	(12,407)
Net cash flow from operating activities		2,523,494	2,878,431
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Net investments in available for sale securities		(43,548)	(2,150,538)
Investments in operating fixed assets		(874,048)	(955,509)
Sale proceeds of property and equipment disposed-off		64,693	982
Net cash used in investing activities		(852,903)	(3,105,065)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Amount received against issue of right shares		891,550	1,208,750
Net cash flow from financing activities		891,550	1,208,750
<b>Increase in cash and cash equivalents</b>		2,562,141	982,116
<b>Cash and cash equivalents at beginning of the year</b>	30	3,403,309	2,421,193
<b>Cash and cash equivalents at end of the year</b>	30	5,965,450	3,403,309

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

\_\_\_\_\_  
President / Chief Executive

\_\_\_\_\_  
Director

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Director

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Director

DUBAI ISLAMIC BANK PAKISTAN LIMITED  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED DECEMBER 31, 2008

**1. STATUS AND NATURE OF BUSINESS**

- 1.1 Dubai Islamic Bank Pakistan Limited (the Bank) was incorporated in Pakistan as an unlisted public limited company on May 27, 2005 under the Companies Ordinance, 1984 to carry out the business of an Islamic Commercial Bank in accordance with the principles of Sharia.
- 1.2 The State Bank of Pakistan (the SBP) granted a "Scheduled Islamic Commercial Bank" license to the Bank on November 26, 2005 and subsequently the Bank received the Certificate of Commencement of Business from the Securities and Exchange Commission of Pakistan (the SECP) on January 26, 2006 and commenced operations as a scheduled Islamic Commercial Bank with effect from March 28, 2006 on receiving certificate for commencement of business from the SBP.
- 1.3 The Bank was operating through 23 branches and 2 sub-branches as at December 31, 2008 (2007: 17 branches). The registered office of the Bank is situated at Hasan Chambers, DC-7, Block-7 Kehkashan, Clifton, Karachi.
- 1.4 During the year, the Bank has increased its Authorized share capital from Rs.6 billion (600,000,000 ordinary shares of Rs.10/- each) to Rs.8 billion (800,000,000 ordinary shares of Rs.10/- each) as approved by shareholders in their annual general meeting held on March 29, 2008. Moreover, the Bank also issued right shares representing 89.155 million ordinary shares to Dubai Islamic Bank PJSC, UAE (the Holding Company) at a price of Rs. 10 per share.

**2. BASIS OF PRESENTATION**

- 2.1 These financial statements have been prepared in accordance with the requirements of State Bank of Pakistan vide Circular No. 4 dated February 17, 2006.
- 2.2 The Bank provides financing through Sharia compliant financial products. The transactions of purchases, sales and leases executed arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of rental / profit thereon. However, Murabaha transactions are accounted for under the Islamic Financial Accounting Standard – 1. Income, if any, received which does not comply with the principles of Sharia is recognized as charity payable if so directed by the Sharia Advisory / Sharia Supervisory Board.

**3. STATEMENT OF COMPLIANCE**

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

These financial statements have been prepared under the historical cost convention except that certain investments have been marked to market and are carried at fair value as stated in note 5.2 below.

#### 5. SIGNIFICANT ACCOUNTING POLICIES

##### 5.1 Cash and cash equivalents

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

##### 5.2 Investments

In accordance with BSD Circular No.10 and 14 dated July 13, 2004 and September 24, 2004 respectively, issued by the SBP, the Bank classifies its investment portfolio into "Held for trading", "Held-to-maturity" and "Available-for-sale" securities as follows:

###### Held-for-trading

These represent securities, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists.

###### Held- to-maturity

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

###### Available-for-sale

These represent securities, which 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 are carried at market value. Investments classified as held to maturity are carried at amortised cost. Unquoted securities are valued at cost less impairment, if any.

Further, in accordance with the requirements of the SBP, surplus / (deficit) on revaluation of the Bank's held for trading investments is taken to the profit and loss account. The surplus / (deficit) on investments classified as available for sale is kept in a separate account shown in the balance sheet below equity.

Provision for diminution in the value of securities is made after considering impairment, if any, in their value and charged to profit and loss account.

##### 5.3 Trade date accounting

All 'regular way' purchases and sales of financial assets are recognized on the trade date i.e. the date on which commitment to purchase / sale is made by the Bank. Regular way purchases or sales of financial assets are those, the contract for which requires delivery of assets within the time frame generally established by the regulation or convention in the market place.

##### 5.4 Financing

Financing are financial products launched by the Bank and principally comprise Murabaha, Musharaka, Musharaka cum Ijara, Wakala, Wakala Istithmar, Istisna cum Wakala and Shirkatulmilk. These are stated at amortised cost (except for Murabaha which is accounted for at gross receivable) net of general and specific provisions.

Provision against non-performing financing is made in accordance with the requirements of the Prudential Regulations issued by the SBP and charged to profit and loss account. Specific provisions are made for identified doubtful financing in addition to general provisioning requirements.

Murabaha to the purchase orderer is a sale transaction wherein the first party (the Bank) sells to the client/customer a Sharia compliant asset/good 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 goods/assets 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 goods/assets on its behalf. Thereafter, it sells it to the client at cost plus the profit agreed upon in the Promise.

Import Murabaha is a product, used to finance a commercial transaction which consists of purchase by the bank (generally through an undisclosed agent) the goods from the foreign supplier and selling them to the customer after getting the title to and possession of the goods. Murabaha financing is extended to all types of trade transactions i.e. under Documentary Credits (LCs), Documentary Collections and Open Account.

Musharaka is a form of partnership in business with distribution of profit in agreed ratio and distribution of loss in the ratio of capital invested.

In Shirkat ul-Milk / Musharaka cum Ijara, the bank and the customer become co-owners in certain identified assets by acquiring the same from a third party or by selling of one to the other (the customer to the bank) an undivided share of an identified asset. Thereafter, the customer/co-owner leases the share of the bank from the bank. The active relationship between the bank and the customer is that of the lessor with the lessee.

Wakala Istithmar has been developed to facilitate exporters. This medium is used to cater to the export based customer's financial needs i.e. help the customer to bridge the gap between the commencement of the manufacturing process and the dispatch of goods to the ultimate buyer/buyers.

Istisna cum Wakala product has two legs: first the customer sells the described goods to be manufactured by it from raw material of its own to the bank and once the goods are delivered the customer through an independent contract, will sell the same to various customers as the agent of the Bank.

## **5.5 Operating fixed assets and depreciation**

### **5.5.1 Tangible**

These are stated at cost less accumulated depreciation and impairment, if any. Such costs include the cost of replacing parts of fixed assets when that cost is incurred. Maintenance and normal repairs are charged to income as and when incurred. Depreciation is charged to income over the useful life of the asset on a systematic basis applying the straight line method at the rates specified in note 11.2 to the financial statements.

Depreciation on additions is charged from the month in which the assets are put to use while no depreciation is charged in the month in which the assets are disposed off.

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed estimated recoverable amount, assets are written down to their estimated recoverable amount.

An item of fixed asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

The assets residual values, useful lives and methods are reviewed and adjusted, if appropriate, at each financial year end.

Gains and losses on disposals, if any, of assets are included in income currently.

## 5.5.2 Intangible

These are stated at cost less accumulated amortisation and impairment, if any. Amortisation is charged over the useful life of the asset on a systematic basis to income applying the straight line method at the rate specified in note 11.3 to the financial statements.

Amortisation on additions is charged from the month in which the assets are put to use while no amortisation is charged in the month in which the assets are deleted.

Software and other development costs are only capitalised to the extent that future economic benefits are expected to be derived by the Bank.

The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed estimated recoverable amount, assets are written down to their estimated recoverable amount.

## 5.5.3 Capital-work-in-progress

Capital work-in-progress is stated at cost.

## 5.6 Taxation

### 5.6.1 Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the prevailing laws for taxation on income. The charge for tax also includes adjustments, where considered necessary relating to prior years.

### 5.6.2 Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences arising between tax bases of assets and liabilities and their carrying amounts appearing in the financial statements. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax is calculated at the rates that are expected to apply to the year when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is charged or credited to the profit and loss account. Deferred tax, if any, on revaluation of investments is recognized as an adjustment to surplus / (deficit) arising on revaluation.

## 5.7 Staff retirement benefits

### 5.7.1 Defined benefit plan

The Bank operates an approved funded gratuity scheme for its management employees. The liability recognized in the balance sheet in respect of defined benefit gratuity scheme, is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated periodically by independent actuaries using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the fair value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.



### 5.7.2 Defined contribution plan

The Bank operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Bank and the employees at the rate of 10% per annum of basic salary. The Bank has no further payment obligations once the contributions have been paid. The contributions made by the Bank are recognized as employee benefit expense when they are due.

### 5.8 Revenue recognition

Profit on Murabaha is recognized on time apportioned basis. Profit on murabaha transactions for the period from the date of disbursement to the date of culmination of murabaha is recognized immediately upon the later date.

Profit on Musharaka cum Ijara, Ijara Muntahiya Bil Tamleek and Shirkatulmilk is recognized on the basis of the reducing balance on a time apportioned basis that reflects the effective return / profit on the asset.

Profit on Wakala is accounted for on a time apportioned basis that reflects the effective yield on the asset.

Provisional profit of Musharaka financing is recognized 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.

Gain and losses on sale of investments are included in income currently and profit on investment is accounted for on a time apportioned basis over the terms of the Sukuk.

Fee, commission and brokerage are recognized when earned.

All exchange differences are recognized in income.

### 5.9 Financial Instruments

#### 5.9.1 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. The particular recognition methods adopted for significant financial assets and liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

#### 5.9.2 Offsetting of financial instruments

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.

#### 5.9.3 Derivatives

Derivative financial instruments are recognized at fair value. In the case of equity futures, the fair value is calculated with reference to quoted market price. Derivatives with positive market values (unrealised gains) are included in other receivables and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet. The resultant gains and losses are taken to income currently.

**5.10 Fiduciary assets**

Assets held in a fiduciary capacity are not treated as assets of the Bank in these financial statements.

**5.11 Foreign currencies translations**

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. All other promises are revalued using forward exchange rates applicable to their respective remaining maturities.

**5.12 Provisions**

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

Provisions for guarantee claims and other off balance sheet obligations are recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. Charge to profit and loss account is stated net off expected recoveries.

**5.13 Allocation of profit**

Allocation of profits between depositors and shareholders is calculated according to the Bank's standard procedures and is approved by the Bank's Fatwa & Shari'a Supervisory Board.

**5.14 Related party transactions**

Transactions with related parties are at arm's length prices except for transactions with executives that are undertaken in accordance with their terms of employment.

**5.15 Impairment**

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

**5.16 Segment reporting**

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing product or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The segment reporting format have been determined and prepared in conformity with the format of financial statements and guidelines, prescribed by the SBP vide BSD Circular No. 04 of 2006 dated February 17, 2006.

**5.17 Accounting judgments and estimates**

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

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

	<u>Note</u>
Classification of investments	5.2 & 9
Useful lives of assets and methods of depreciation	5.5 & 11
Deferred taxation	5.6 & 12
Provision against non-performing financing	5.4 & 10.4
Defined benefit plan	5.7 & 33

#### 5.18 Accounting standards 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.

<b>Standard or interpretation</b>	<b>Effective date (accounting periods beginning on or after)</b>
IAS 1 Presentation of Financial Statements (Revised)	01 January 2009
IAS 23 Borrowings Costs (Revised)	01 January 2009
IAS 27 Consolidated and Separate Financial Statements (Revised)	01 January 2009
IFRS 3 Business Combinations (Revised)	01 July 2009
IFRS 4 Insurance Contracts	01 January 2009
IFRS 8 Operating segments	01 January 2009
IFRIC 13 Customer Loyalty Programs	01 July 2008
IFRIC 15 Agreements for the Construction of Real Estate	01 January 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	01 October 2008
IFRIC 17 Distributions of Non-cash Assets to owners	01 July 2009
IFRIC 18 Transfers of Assets from Customers	01 July 2009
IFAS 2 Ijarah	01 January 2009

The Bank consider that the above standards and interpretations except for IFAS – 2, are either not relevant or will have no material impact on its financial statements in the period of initial application other than to the extent of certain changes or enhancements in the presentations and disclosures in the financial statements to the extent that such presentation and disclosure requirements do not conflict with the format of financial statements prescribed by the SBP for Banks.

IFAS - 2 would affect the accounting for ijarah financing contract undertaken by the Bank. The Standard would be applicable prospectively to such contracts entered into on or after January 01, 2009 and requires that the assets financed under the ijarah arrangements be recorded as fixed assets separate from the assets in the Bank's own use. The said assets will be carried at cost less depreciation and impairment if any. The rentals from ijarah are to be recognized in the profit and loss account on a straight line basis over the term of the contract. Currently ijarah arrangements are accounted for by the Bank in accordance with the accounting policy disclosed in note 5.4.

In addition to the above, amendments to various accounting standards have also been issued by IASB which are generally effective for accounting periods beginning on or after 1 January 2009. The management is in the process of evaluating the impact of such amendments on the Bank's financial statements for the ensuing periods.

	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>6. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
- local currency		302,192	244,562
- foreign currency		248,407	120,169
		<u>550,599</u>	<u>364,731</u>
With the State Bank of Pakistan in			
- local currency current account	6.1	1,804,409	1,469,126
- foreign currency current account	6.2	9,372	5,202
- foreign currency deposit accounts - Cash Reserves		127,507	62,744
- Special Cash Reserve		153,008	75,516
	6.1	280,515	138,260
With National Bank of Pakistan in			
- local currency current account		46,677	15,106
		<u>2,691,572</u>	<u>1,992,425</u>

6.1 These balances are maintained to comply with the requirements of the SBP issued from time to time.

6.2 This represents US Dollar clearing account maintained with the SBP.

	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>7. BALANCES WITH OTHER BANKS</b>			
In Pakistan			
- on current accounts		5,250	47,265
- on deposit accounts	7.1	1,100,010	1,000,000
		<u>1,105,260</u>	<u>1,047,265</u>
Outside Pakistan			
- on current accounts	7.2	2,168,618	41,219
- on deposit accounts		-	322,400
		<u>2,168,618</u>	<u>363,619</u>
		<u>3,273,878</u>	<u>1,410,884</u>

7.1 Represents deposits with various Islamic commercial banks under Modaraba arrangements. Expected return on these arrangements ranges from 7.34% to 9.50% per annum (2007: 3.96% to 8.35% per annum).

7.2 Includes Rs. 495.609 million (2007: 9.033 million) deposited with the holding company.

	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>8. DUE FROM FINANCIAL INSTITUTIONS</b>			
Wakala placement	8.1	200,000	-
Commodity Murabaha	8.2 & 8.3	1,129,832	-
		<u>1,329,832</u>	<u>-</u>

8.1 This carries profit at the rate of 17.5% per annum (2007: Nil) and is due to mature by 26 February 2009.

8.2 The Bank has entered into Commodity Murabaha agreements under which the Bank purchases an underlying commodity from open market through an agent and sells it to a financial institution on credit with profit. The rate on the Commodity Murabaha ranges from 12.5% to 16% per annum (2007: Nil). These placements are due to mature latest by January 2009.

	December 31, 2008	December 31, 2007
	----- Rupees in '000 -----	
<b>8.3 Murabaha sale price</b>	<b>1,635,030</b>	-
Purchase price	<b>(1,600,000)</b>	-
	<b>35,030</b>	-
<b>Deferred Murabaha income</b>		
Opening balance	-	-
Deferred during the year	<b>35,030</b>	-
Recognized during the year	<b>(27,649)</b>	-
	<b>7,381</b>	-
<b>Murabaha</b>		
Opening balance	-	-
Sales during the year	<b>1,635,030</b>	-
Received during the year	<b>(505,198)</b>	-
	<b>1,129,832</b>	-

## 9. INVESTMENTS

Note	2008			2007		
	Held by the Bank	Given as collateral	Total	Held by the Bank	Given as collateral	Total
----- (Rupees in '000) -----						
<b>9.1 Investments by types</b>						
<b>Available for sale securities</b>						
Sukuk Certificates	9.3	<b>3,002,575</b>	-	3,002,575	2,959,027	-
<b>Total investment at cost</b>		<b>3,002,575</b>	-	3,002,575	2,959,027	-
Surplus on revaluation of available for sale securities	19	<b>16,691</b>	-	16,691	15,060	-
<b>Total investments at market value</b>		<b>3,019,266</b>	-	3,019,266	2,974,087	-

Note	December 31, 2008	December 31, 2007
	----- Rupees in '000 -----	
<b>9.2 Investments by segments</b>		
Sukuk Certificates	<b>3,002,575</b>	2,959,027
<b>Total investment at cost</b>	<b>3,002,575</b>	2,959,027
Surplus on revaluation of available for sale securities	<b>16,691</b>	15,060
<b>Total investments at market value</b>	<b>3,019,266</b>	2,974,087

### 9.3 Available for sale securities

Name of the investee company	Note	2008		2007				
		Number of Certificates	Face value	Cost (Rupees in '000)	Entity rating long term / short term	Cost (Rupees in '000)	Entity rating long term/ short term	
<b>Sukuk Certificates</b>								
WAPDA First Sukuk Certificates	9.3.1	<b>67,000</b>	67,000	5,000	<b>335,675</b>	Unrated	335,852	Unrated
WAPDA Second Sukuk Certificates	9.3.2	<b>96,075</b>	86,075	5,000	<b>480,375</b>	Unrated	430,375	Unrated
Sitara Chemical Industries Limited		-	21,820	5,000	-	-	109,100	Unrated
Sitara Chemical Industries Limited	9.3.3	<b>22,305</b>	29,740	5,000	<b>111,525</b>	Unrated	148,700	Unrated
Engro Chemicals Pakistan Limited	9.3.4	<b>60,000</b>	100,000	5,000	<b>300,000</b>	Unrated	500,000	Unrated
Sui Southern Gas Company Limited	9.3.5	<b>165,000</b>	165,000	3,333	<b>550,000</b>	Unrated	550,000	Unrated
Karachi Shipyard and Engineering Works	9.3.6	<b>185,000</b>	177,000	5,000	<b>925,000</b>	Unrated	885,000	Unrated
K.S. Sulemanji & Sons (Private) Limited	9.3.7	<b>20,000</b>	-	5,000	<b>100,000</b>	Unrated	-	-
Quetta Textile Mills Limited	9.3.8	<b>40,000</b>	-	5,000	<b>200,000</b>	Unrated	-	-
					<b>3,002,575</b>		<b>2,959,027</b>	

- 9.3.1** These carry profit at the rate of six months KIBOR plus 35 basis points (2007: six months KIBOR plus 35 basis points) receivable semi-annually on provisional basis with maturity in October 2012. These are backed by the Government of Pakistan's Sovereign guarantee.
- 9.3.2** These carry profit at the rate of six months KIBOR minus 25 basis points (2007: six months KIBOR minus 25 basis points) receivable semi-annually on provisional basis with maturity in July 2017. These are backed by the Government of Pakistan's Sovereign guarantee.
- 9.3.3** These carry profit at the rate of three months KIBOR plus 170 basis points (2007: KIBOR plus 170 basis points) receivable quarterly starting from June 2007. The principal will be redeemed in sixteen quarterly installments starting from March 2008.
- 9.3.4** These carry profit at the rate of six months KIBOR plus 150 basis points (2007: KIBOR plus 150 basis points) receivable semi-annually starting from March 2008. The principal will be redeemed in two semi-annual installments starting from March 2015.
- 9.3.5** These carry profit at the rate of three months KIBOR plus 40 basis points (2007: KIBOR plus 120 basis points) receivable quarterly. The principal will be redeemed in twelve quarterly installments starting from July 2009. In addition, incremental rental is receivable based on actual project output. In case of loss, the same will be shared as per terms of agreement.
- 9.3.6** These carry profit at the rate of six months KIBOR plus 40 basis points (2007: KIBOR plus 40 basis points) receivable semi-annually. The principal will be redeemed in eight equal semi-annual installments starting from May 2012. These are backed by the Government of Pakistan's Sovereign guarantee.
- 9.3.7** These carry profit at the rate of three months KIBOR plus 130 basis points (2007: Nil) receivable quarterly. The principal will be redeemed in fifteen quarterly installments starting from December 2008.
- 9.3.8** These carry profit at the rate of six months KIBOR plus 150 basis points (2007: Nil) receivable semi-annually. The principal will be redeemed in twelve equal semi-annual installments starting from March 2010.

	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>10. FINANCING</b>			
Financing in Pakistan			
- Murabaha	10.1	2,559,791	2,205,258
- Musharaka cum Ijara – Housing		5,148,476	3,358,443
- Musharaka cum Ijara – Autos		4,653,991	3,107,271
- Ijara Muntahiya Bil Tamleek– Autos	10.2	221,479	114,334
- Musharaka cum Ijara – Other		1,835,915	1,468,178
- Wakala Istithmar		232,023	157,200
- Shirkatulmilk		376,389	433,061
- Musharaka		1,183,750	61,250
- Istisna cum Wakala		1,996,850	543,750
- Financing against bills - Wakala Istithmar		121,680	-
<b>Financing – gross</b>		<b>18,330,344</b>	11,448,745
Less: Provision against non-performing financing		<b>(256,843)</b>	(100,766)
<b>Financing – net of provisions</b>		<b>18,073,501</b>	11,347,979

	December 31, 2008	December 31, 2007
10.1 Murabaha sale price	8,664,720	4,552,448
Purchase price	<u>(8,286,289)</u>	<u>(4,377,188)</u>
	<u>378,431</u>	<u>175,260</u>

**Deferred Murabaha income**

Opening balance	48,410	24,017
Deferred during the year	378,431	175,260
Recognized during the year	<u>(362,334)</u>	<u>(150,867)</u>
	<u>64,507</u>	<u>48,410</u>

**Murabaha receivable**

Opening balance	2,205,258	673,733
Sales during the year	8,664,720	4,552,448
Received during the year	<u>(8,310,187)</u>	<u>(3,020,923)</u>
	<u>2,559,791</u>	<u>2,205,258</u>

- 10.2 Musharaka cum Ijara – Autos amounting to Rs. 221.479 million (December 31, 2007: Rs. 114.334 million) has been reclassified as Ijara Muntahiya Bil Tamleek.

	December 31, 2008	December 31, 2007
<b>10.3 Particulars of financing</b>		
10.3.1 In local currency	17,880,928	11,075,986
In foreign currencies	<u>449,416</u>	<u>372,759</u>
	<u>18,330,344</u>	<u>11,448,745</u>
10.3.2 Short-term (for upto one year)	4,986,492	2,962,369
Long-term (for over one year)	<u>13,343,852</u>	<u>8,486,376</u>
	<u>18,330,344</u>	<u>11,448,745</u>

- 10.4 Financing include Rs. 286.024 million (2007: Rs. 25.665 million) which have been placed under non-performing status as detailed below:

Category of classification	2008								
	Classified Financing			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Other Assets Especially Mentioned	-	-	-	-	-	-	-	-	-
Substandard	194,918	-	194,918	48,729	-	48,729	48,729	-	48,729
Doubtful	27,252	-	27,252	13,626	-	13,626	13,626	-	13,626
Loss	63,854	-	63,854	63,854	-	63,854	63,854	-	63,854
	<u>286,024</u>	<u>-</u>	<u>286,024</u>	<u>126,209</u>	<u>-</u>	<u>126,209</u>	<u>126,209</u>	<u>-</u>	<u>126,209</u>
	(Rupees '000)								
Category of classification	2007								
	Classified Financing			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Other Assets Especially Mentioned	-	-	-	-	-	-	-	-	-
Substandard	14,412	-	14,412	3,603	-	3,603	3,603	-	3,603
Doubtful	-	-	-	-	-	-	-	-	-
Loss	11,253	-	11,253	11,253	-	11,253	11,253	-	11,253
	<u>25,665</u>	<u>-</u>	<u>25,665</u>	<u>14,856</u>	<u>-</u>	<u>14,856</u>	<u>14,856</u>	<u>-</u>	<u>14,856</u>
	(Rupees '000)								

**10.4.1** The SBP vide BSD Circular No. 02 dated January 02, 2009 amended Prudential Regulations in respect of provisioning against non-performing financing. The revised regulations that are effective from December 31, 2008, allow the benefit of 30 percent of Forced Sale Value (FSV) of pledged stocks and mortgaged commercial and residential property held as collateral by the Bank in determining the amount of provision against non-performing financing. However, the management has not yet taken the benefit offered by the said circular.

**10.5** Particulars of provision against non-performing financing:

	2008			2007		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
Opening balance	14,856	85,910	100,766	-	-	-
Charge for the year	159,529	44,724	204,253	14,856	85,910	100,766
Reversals	(48,176)	-	(48,176)	-	-	-
	111,353	44,724	156,077	-	-	-
Closing balance	126,209	130,634	256,843	14,856	85,910	100,766

**10.5.1** The Bank has maintained a general reserve (provision) in accordance with the applicable requirements of the prudential regulations for consumer financing issued by the SBP and for potential losses on financing.

**10.5.2** Particulars of provision against non-performing financing:

	2008			2007		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
In local currency	126,209	130,634	256,843	14,856	85,910	100,766
In foreign currency	-	-	-	-	-	-
	126,209	130,634	256,843	14,856	85,910	100,766

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

**10.6 Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other person**

Balance at beginning of year	848,934	417,962
Financing granted during the year	565,654	582,458
Repayments	(308,518)	(151,486)
Balance at end of year	1,106,070	848,934

The maximum total amount of financing outstanding including temporary financing granted during the year was Rs. 1,106.070 million (2007: 848.934 million). The maximum amount has been calculated by reference to the month end balance.



	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>11. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	11.1	19,549	298,608
Property and equipment	11.2	1,473,338	1,153,295
Intangible assets	11.3	518,002	7,675
		<u>2,010,889</u>	<u>1,459,578</u>
<b>11.1 Capital work-in-progress</b>			
Civil works		2,200	105,275
Equipment		2,559	59,094
Advances to suppliers and contractors		14,790	134,239
		<u>19,549</u>	<u>298,608</u>

**11.2 Property and equipment**

2008								
	COST			DEPRECIATION				
	As at January 01, 2008	Additions/ (disposals)	As at December 31, 2008	As at January 01, 2008	Charge for the year / (disposals)	As at December 31, 2008	Net book value as at December 31, 2008	Rate of depreciat- ion %
-----Rupees in '000 -----								
Furniture and fixture	112,032	44,469	156,501	13,546	14,356	27,902	128,599	10
Electrical, office and computer equipment	724,014	351,638 (83)	1,075,569	107,322	162,236 (35)	269,523	806,046	10 – 20
Vehicles	144,776	1,641 (108,720)	37,697	46,801	16,593 (44,377)	19,017	18,680	25
Leasehold Improvements	390,610	231,152	621,762	50,468	51,281	101,749	520,013	10 – 20
	<u>1,371,432</u>	<u>628,900</u> <u>(108,803)</u>	<u>1,891,529</u>	<u>218,137</u>	<u>244,466</u> <u>(44,412)</u>	<u>418,191</u>	<u>1,473,338</u>	
2007								
	COST			DEPRECIATION				
	As at January 01, 2007	Additions/ (disposals)	As at December 31, 2007	As at January 01, 2007	Charge for the year / (disposals)	As at December 31, 2007	Net book value as at December 31, 2007	Rate of depreciat- ion %
-----Rupees in '000 -----								
Furniture and fixture	51,309	60,723	112,032	2,458	11,088	13,546	98,486	10
Electrical, office and computer equipment	200,391	523,827 (204)	724,014	27,706	79,691 (75)	107,322	616,692	10 – 20
Vehicles	125,254	20,458 (936)	144,776	20,122	26,835 (156)	46,801	97,975	25
Leasehold Improvements	138,397	252,213	390,610	16,442	34,026	50,468	340,142	10 – 20
	<u>515,351</u>	<u>857,221</u> <u>(1,140)</u>	<u>1,371,432</u>	<u>66,728</u>	<u>151,640</u> <u>(231)</u>	<u>218,137</u>	<u>1,153,295</u>	

**11.2.1** The fair value of property and equipment as per the management estimate is not materially different from the carrying amount.

## 11.2.2 Disposal of operating fixed assets

	Cost	Accumulated depreciation	Written down value	Sale price	Gain	Mode of disposal	Particulars of buyer
	(Rs. in '000)						
<b>Vehicles</b>							
Honda Accord	2,410	1,244	1,166	1,166	-	Bank Policy	Asma Sheikh (Ex-employee)
Honda Accord	2,410	1,285	1,125	1,125	-	Bank Policy	Syed Liaquat Ali (Ex-employee)
Honda Accord	2,410	1,164	1,246	1,246	-	Bank Policy	Zahid Ahmed (Ex-employee)
Honda Accord	2,410	1,405	1,005	1,005	-	Bank Policy	Ehtisham Hamid Ali (Employee)
Honda Accord	2,410	1,284	1,126	1,126	-	Bank Policy	Muhammad Qaseem (Employee)
Honda Accord	2,410	1,125	1,285	1,285	-	Bank Policy	M Aamir Banatwala (Employee)
Honda City	886	487	399	399	-	Bank Policy	Irfan Qamar (Employee)
Honda City	886	487	399	399	-	Bank Policy	Nadeem Yousuf (Employee)
Honda City	886	472	414	414	-	Bank Policy	Um -i- Laila (Employee)
Honda City	886	472	414	414	-	Bank Policy	Usman Bin Habib (Employee)
Honda City	936	358	578	578	-	Bank Policy	Faisal Rashid (Ex-employee)
Honda City	936	327	609	609	-	Bank Policy	Syed Imran Hissam (Ex-employee)
Honda City	936	451	485	485	-	Bank Policy	Gavin Gonsalves (Employee)
Honda City	936	451	485	485	-	Bank Policy	Momin Khursheed (Ex-employee)
Honda City	936	451	485	485	-	Bank Policy	Imran Hassan Khan (Employee)
Honda City	936	451	485	485	-	Bank Policy	Sheikh Mashood ur Rehman (Employee)
Honda City	936	451	485	485	-	Bank Policy	Shahzad Ahmed (Ex-employee)
Honda City	936	437	499	499	-	Bank Policy	Idrees Uddin Khawaja (Employee)
Honda City	936	437	499	499	-	Bank Policy	Syed Fahim Hassan (Employee)
Honda City	936	437	499	499	-	Bank Policy	Jawad Tahir Butt (Ex-employee)
Honda City	936	421	515	515	-	Bank Policy	Waseem Nabi Khan (Employee)
Honda City	936	421	515	515	-	Bank Policy	Muhammad Aslam (Employee)
Honda City	936	421	515	515	-	Bank Policy	Abdul Malik Haryani (Employee)
Honda City	931	387	544	544	-	Bank Policy	Jahangir Afsar (Employee)
Honda City	931	387	544	544	-	Bank Policy	Naeem Rashid (Employee)
Honda City	931	372	559	559	-	Bank Policy	Syed Talib Imam Zaidi (Ex-employee)
Honda City	931	372	559	559	-	Bank Policy	Usman Ali Alvi (Employee)
Honda City	1,036	414	622	622	-	Bank Policy	Hassan Ashfaq (Employee)
Honda City	936	374	562	562	-	Bank Policy	M Riazuddin (Employee)
Honda City	936	374	562	562	-	Bank Policy	Shahid Farooq Dar (Employee)
Honda City	1,030	395	635	635	-	Bank Policy	Irtiza Kazmi (Employee)
Honda City	936	359	577	577	-	Bank Policy	Aftab Amin Ali (Employee)
Honda City	936	343	593	593	-	Bank Policy	Waqar Muhammad Khan (Employee)
Honda City	1,036	362	674	674	-	Bank Policy	Kamran Parekh (Employee)
Honda City	930	372	558	558	-	Bank Policy	Ahmed Bilal Rashid (Employee)
Honda City	930	325	605	605	-	Bank Policy	Khalid Manzoor (Employee)
Honda City	930	309	621	621	-	Bank Policy	Ahmed Nasir (Employee)
Honda City	999	316	683	683	-	Bank Policy	Syed Mohsin Ali (Employee)
Honda City	936	280	656	656	-	Bank Policy	Sarocsh Ahmed (Employee)
Honda City	936	250	686	686	-	Bank Policy	Mehreen Muaab Siddiqui (Employee)
Honda City	936	469	467	680	213	Negotiation	New Karwan Motors
Honda Civic	1,042	486	556	556	-	Bank Policy	Syed Hassan (Ex-employee)
Honda Civic	1,043	538	505	505	-	Bank Policy	Sohail Hussain (Ex-employee)
Honda Civic	1,238	660	578	578	-	Bank Policy	Kazim Ali (Ex-employee)
Honda Civic	1,043	573	470	470	-	Bank Policy	Ammar Ali Zaidi (Employee)
Honda Civic	1,043	573	470	470	-	Bank Policy	Dilair Ahmed Khan (Employee)
Honda Civic	1,043	573	470	470	-	Bank Policy	Obaida Iqbal Rizvi (Employee)
Honda Civic	1,238	680	558	558	-	Bank Policy	Asila Khandwala (Employee)
Honda Civic	1,238	680	558	558	-	Bank Policy	Ammar Bin Mujeeb (Employee)
Honda Civic	1,238	639	599	599	-	Bank Policy	Jawad Majid Khan (Employee)
Honda Civic	1,043	435	608	608	-	Bank Policy	Adeel Rafi (Ex-employee)
<b>Carried Forward</b>	<b>58,548</b>	<b>27,236</b>	<b>31,312</b>	<b>31,525</b>	<b>213</b>		

**DUBAI ISLAMIC BANK PAKISTAN LIMITED**

	Cost	Accumulated depreciation	Written down value	Sale price	Gain	Mode of disposal	Particulars of buyer
	----- (Rs. in'000) -----						
<b>Brought forward</b>	<b>58,548</b>	<b>27,236</b>	<b>31,312</b>	<b>31,525</b>	<b>213</b>		
Honda Civic	1,238	578	660	660	-	Bank Policy	Shahid Rehman Siddiqui (Employee)
Honda Civic	1,043	487	556	556	-	Bank Policy	Kashif Jamal Shirazi (Employee)
Honda Civic	1,238	578	660	660	-	Bank Policy	Zahid Mansoor (Employee)
Honda Civic	1,037	432	605	605	-	Bank Policy	Salman Mian (Employee)
Honda Civic	1,037	432	605	605	-	Bank Policy	Farhan Baig (Employee)
Honda Civic	1,506	551	955	955	-	Bank Policy	Najib Salahuddin (Employee)
Honda Civic	1,506	451	1,055	1,055	-	Bank Policy	Syed Iftikhar ul Haq (Employee)
Honda Civic	1,506	402	1,104	1,104	-	Bank Policy	Sohail Iqbal Sheikh (Employee)
Honda Civic	1,042	590	452	452	-	Bank Policy	Naveed Malik (Employee)
Honda Civic	1,238	680	558	558	-	Bank Policy	Salman Hassan (Employee)
Honda Civic	1,043	487	556	556	-	Bank Policy	Junaid Riaz Chaudhary (Employee)
Honda Civic	1,043	487	556	556	-	Bank Policy	Mohsin Abbas (Employee)
Mercedes Benz	4,775	1,753	3,022	3,022	-	Bank Policy	Zafar Masood (Ex-employee)
Mercedes Benz	4,775	1,991	2,784	2,784	-	Bank Policy	Haseeb Babar (Ex-employee)
Mitsubishi Lancer	1,099	164	935	935	-	Bank Policy	Uzman Naveed Chaudhary (Employee)
Mitsubishi Lancer	899	360	539	539	-	Bank Policy	Rehan Effendi (Employee)
Mitsubishi Lancer	1,039	416	623	623	-	Bank Policy	Shehzad Kazmi (Employee)
Mitsubishi Lancer	899	329	570	570	-	Bank Policy	Umer Farooq Khan (Employee)
Mitsubishi Lancer	899	329	570	570	-	Bank Policy	Faisal Mamsa (Employee)
Mitsubishi Lancer	899	314	585	585	-	Bank Policy	M Tariq Abbasi (Employee)
Mitsubishi Lancer	899	299	600	600	-	Bank Policy	Asif Siddiqui (Employee)
Mitsubishi Lancer	839	279	560	560	-	Bank Policy	Ahsan Rehman (Employee)
Mitsubishi Lancer	899	269	630	630	-	Bank Policy	Nadeem Altaf Nasir (Employee)
Mitsubishi Lancer	899	284	615	700	85	Insurance claim	Adamjee Insurance
Suzuki Cultus	560	168	392	392	-	Bank Policy	Asif Ali Khan Durrani (Ex-employee)
Suzuki Cultus	560	168	392	392	-	Bank Policy	Muhammad Ali Shah (Employee)
Suzuki Cultus	560	168	392	392	-	Bank Policy	Syed Amir Hussain (Employee)
Suzuki Cultus	560	131	429	429	-	Bank Policy	Mazhar Ali Sohail (Employee)
Suzuki Cultus	560	131	429	429	-	Bank Policy	Ghulam Talha Dawood (Employee)
Suzuki Cultus	560	112	448	448	-	Bank Policy	Agha Muhammad Ali Qazibash (Employee)
Suzuki Cultus	590	78	512	512	-	Bank Policy	M Ashfaq (Employee)
Suzuki Cultus	576	76	500	500	-	Bank Policy	Usman Ameen (Employee)
Suzuki Cultus	560	168	392	392	-	Bank Policy	M Saghir Ahmed Khan (Employee)
Suzuki Cultus	576	47	529	529	-	Bank Policy	Muhammad Bilal Mustafa (Employee)
Suzuki Cultus	576	38	538	538	-	Bank Policy	Mudasser Lateef Qureshi (Employee)
Suzuki Cultus	571	38	533	533	-	Bank Policy	Kashif Husain (Ex-employee)
Toyota Camry	2,750	1,053	1,697	1,697	-	Bank Policy	Tahir Nazir Chaudhary (Employee)
Toyota Corolla	879	307	572	572	-	Bank Policy	Saad Bin Saeed (Employee)
Toyota Corolla	879	248	631	631	-	Bank Policy	Hamid Ali Khan Hami (Employee)
Toyota Corolla	879	235	644	644	-	Bank Policy	Kaikaus Mir (Employee)
Toyota Corolla	969	242	727	727	-	Bank Policy	Faisal Sultan (Employee)
Toyota Corolla	969	226	743	743	-	Bank Policy	Ali Raza Syed (Employee)
Toyota Corolla	969	226	743	743	-	Bank Policy	Ali Jaffer (Employee)
Toyota Corolla	879	235	644	644	-	Bank Policy	Kashif Sohail Sheikh (Employee)
Toyota Corolla	893	104	789	789	-	Bank Policy	Syed Raza Ali (Employee)
	<b>108,720</b>	<b>44,377</b>	<b>64,343</b>	<b>64,641</b>	<b>298</b>		
<b>Electrical, office and computer equipment</b>							
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	83	35	48	52	4	Insurance Claim	Adamjee Insurance Company Limited
	<b>108,803</b>	<b>44,412</b>	<b>64,391</b>	<b>64,693</b>	<b>302</b>		

- 11.2.3** During the year the Bank has introduced a policy where vehicle allowance would be provided in lieu of bank's maintained vehicles. Option was provided to employees to buy the vehicles in their respective use at the written down value.

### 11.3 Intangible asset

	2008							
	COST			AMORTISATION			Net book value as at December 31, 2008	Rate of amortization %
	As at January 01, 2008	Additions	As at December 31, 2008	As at January 01, 2008	Amortisation	As at December 31, 2008		
	----- Rupees in '000 -----							
Computer softwares	<u>12,952</u>	<u>524,207</u>	<u>537,159</u>	<u>5,277</u>	<u>13,880</u>	<u>19,157</u>	<u>518,002</u>	11-33
	2007							
	COST			AMORTISATION			Net book value as at December 31, 2007	Rate of amortization %
	As at January 01, 2007	Additions	As at December 31, 2007	As at January 01, 2007	Amortisation	As at December 31, 2007		
	----- Rupees in '000 -----							
Computer softwares	<u>4,541</u>	<u>8,411</u>	<u>12,952</u>	<u>366</u>	<u>4,911</u>	<u>5,277</u>	<u>7,675</u>	33.33
							<b>December 31, 2008</b>	<b>December 31, 2007</b>
	----- Rupees in '000 -----							

### 12. DEFERRED TAX ASSETS

#### Deferred tax debits arising in respect of:

Available tax losses	<b>606,951</b>	519,222
Minimum tax credit carried forward	<b>8,100</b>	8,100
Provision against non-performing financing	<b>72,366</b>	31,330

#### Deferred tax credits arising due to:

Accelerated depreciation allowance	<b>(159,341)</b>	(120,003)
Surplus on revaluation of available for sale securities	<b>(5,842)</b>	(5,271)
Preliminary expenses	<b>(9,760)</b>	(10,317)
	<u><b>512,474</b></u>	<u>423,061</u>

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.

	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>13. OTHER ASSETS</b>			
Profit / return accrued in local currency		370,294	204,451
Profit / return accrued in foreign currency		1,170	285
Advances, deposits, advance rent and other prepayments	13.1	406,549	358,468
Advance taxation (payments less provisions)		20,341	10,911
Unrealized gain on forward foreign exchange promises		-	4,453
Deferred costs	13.2	92,425	133,437
Advance for assets to be acquired for Musharaka cum Ijara		-	21,279
Advance for assets to be acquired for Musharaka		100,174	74,821
Advance for assets to be acquired for Murabaha		104,242	830,238
Receivables from group companies		12,688	12,760
Commission receivable		23,880	41,860
Others		6,898	7,270
		<u>1,138,661</u>	<u>1,700,233</u>
<b>13.1</b>	Includes Rs. 219.288 million (2007: Rs. 215.855 million) for advance rent and Rs. 147.433 million (2007: Rs. 95.102) against prepaid commission to staff and dealers in respect of auto and housing musharaka which is charged to the profit and loss account over the period of musharaka agreements.		
		December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>13.2 Deferred costs</b>			
Balance at the beginning of the year		133,437	175,643
Amortisation during the year		(41,012)	(42,206)
Balance at the end of the year		<u>92,425</u>	<u>133,437</u>
<b>14. BILLS PAYABLE</b>			
In Pakistan		282,793	346,093
Outside Pakistan		395	1,428
		<u>283,188</u>	<u>347,521</u>
<b>15. DEPOSITS AND OTHER ACCOUNTS</b>			
<b>Customers</b>			
Fixed deposits		12,859,402	7,224,913
Savings deposits		5,741,548	5,023,020
Current accounts - non-remunerative		4,110,266	3,861,784
Margin accounts - non-remunerative		69,795	3,927
		<u>22,781,011</u>	<u>16,113,644</u>
<b>Financial Institutions</b>			
Remunerative deposits		2,651,164	-
Non-remunerative deposits		26,735	817
		<u>2,677,899</u>	<u>817</u>
		<u>25,458,910</u>	<u>16,114,461</u>
<b>15.1 Particulars of deposits</b>			
In local currency		23,048,992	14,884,526
In foreign currencies		2,409,918	1,229,935
		<u>25,458,910</u>	<u>16,114,461</u>

	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>16. OTHER LIABILITIES</b>			
Profit / return payable in local currency		<b>379,054</b>	132,989
Profit / return payable in foreign currency		<b>741</b>	404
Deferred income - Murabaha Financing	10.1	<b>64,507</b>	48,410
Deferred income - Commodity Murabaha	8.3	<b>7,381</b>	-
Accrued expenses		<b>73,823</b>	82,642
Advance from customers		<b>163,914</b>	113,989
Unrealized loss on forward foreign exchange contracts		<b>2,337</b>	-
Unremitted head office expenses		<b>447,936</b>	36,165
Security deposits against musharaka cum ijara		<b>6,211</b>	19,801
Retention money		<b>8,220</b>	27,219
Charity payable	16.1	<b>11,816</b>	1,093
Others		<b>75,908</b>	27,831
		<b><u>1,241,848</u></b>	<u>490,543</u>
<b>16.1</b> Opening balance		<b>1,093</b>	-
Additions during the year		<b>14,709</b>	1,093
Payments during the year		<b>(3,986)</b>	-
Closing balance		<b><u>11,816</u></b>	<u>1,093</u>

**17. SHARE CAPITAL****17.1 Authorised capital**

December 31, 2008	December 31, 2007		December 31, 2008	December 31, 2007
Number of shares			----- Rupees in '000 -----	
<b><u>800,000,000</u></b>	<u>600,000,000</u>	Ordinary shares of Rs.10/- each	<b><u>8,000,000</u></b>	<u>6,000,000</u>

**17.2 Issued, subscribed and paid up capital**

December 31, 2008	December 31, 2007		December 31, 2008	December 31, 2007
Number of shares			----- Rupees in '000 -----	
<b>Ordinary shares of Rs. 10/- each</b>				
<b>Fully paid in cash</b>				
<b>512,623,000</b>	391,748,000	Balance as at January 01	<b>5,126,230</b>	3,917,480
<b>89,155,000</b>	120,875,000	Right shares issued during the year	<b>891,550</b>	1,208,750
<b><u>601,778,000</u></b>	<u>512,623,000</u>	Balance as at December 31	<b><u>6,017,780</u></b>	<u>5,126,230</u>

**17.3** The Bank's shares are held 100 percent by Dubai Islamic Bank PJSC, UAE – the holding company and its nominee directors.

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

**18. ADVANCE AGAINST FUTURE ISSUE OF SHARE CAPITAL**

Opening Balance	18	18
Received during the year	891,550	1,208,750
Share capital issued during the year	<u>(891,550)</u>	<u>(1,208,750)</u>
	<u>18</u>	<u>18</u>

**19. SURPLUS ON REVALUATION OF ASSETS – NET OF TAX****Surplus on revaluation of available for sale securities**

Sukuk certificates	16,691	15,060
Less : Deferred tax liability	<u>(5,842)</u>	<u>(5,271)</u>
	<u>10,849</u>	<u>9,789</u>

**20. CONTINGENCIES AND COMMITMENTS****20.1 Transaction-related contingent liabilities**

Contingent liabilities in respect of performance bonds, bid bonds, warranties given favoring

- Government	100,053	107,735
- Banking companies and other financial institutions	40,312	44,165
- Others	<u>1,295,520</u>	<u>797,050</u>
	<u>1,435,885</u>	<u>948,950</u>

**20.2 Trade-related contingent liabilities**

Import Letters of Credit

	<u>5,974,907</u>	<u>6,675,874</u>
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**20.3 Commitments in respect of forward exchange promises to**

Purchase

	<u>3,304,298</u>	<u>1,460,493</u>
--	------------------	------------------

Sale

	<u>3,306,309</u>	<u>1,455,813</u>
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**20.4 Commitments for the acquisition of operating fixed assets**

	<u>2,063</u>	<u>89,690</u>
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**20.5 Commitments in respect of financing facilities**

	<u>842,000</u>	<u>381,296</u>
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**21. PROFIT / RETURN ON FINANCING, INVESTMENTS AND PLACEMENTS EARNED**

On financing to:

- Customers	2,244,058	852,139
On investments in available for sale securities	346,072	176,023
On deposits / placements with financial institutions	<u>133,666</u>	<u>91,554</u>
	<u>2,723,796</u>	<u>1,119,716</u>

**22. RETURN ON DEPOSITS AND OTHER DUES EXPENSED**

Deposits and other accounts

	<u>1,377,542</u>	<u>469,302</u>
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**23. GAIN ON SALE OF SECURITIES**

Sukuk certificates

	<u>7,499</u>	<u>25,785</u>
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	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>24. OTHER INCOME</b>			
Gain on sale of property and equipment	11.2.2	302	73
Liability no longer required written back		51,870	7,494
		<u>52,172</u>	<u>7,567</u>
<b>25. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances and other staff benefits		814,663	674,858
Charge for defined benefit plan		15,594	16,121
Contribution to defined contribution plan		31,936	28,521
Brokerage and commission		3,045	2,857
Rent, taxes, insurance, electricity, etc.		332,274	252,700
Legal and professional charges		6,940	3,623
Communications		80,584	59,677
Repairs and maintenance		86,498	51,654
Traveling		33,956	43,933
Stationery and printing		25,613	21,215
Subscription fees		2,898	2,451
Advertisement and publicity		40,449	80,384
Auditors' remuneration	25.1	2,990	1,850
Depreciation	11.2	244,466	151,640
Amortization	25.2	54,892	47,117
Others		14,484	15,131
		<u>1,791,282</u>	<u>1,453,732</u>
<b>25.1 Auditors' remuneration</b>			
Audit fee		575	475
Review of half yearly financial statements		250	225
Special certifications and sundry advisory services		1,385	825
Tax services		520	157
Out-of-pocket expenses		260	168
		<u>2,990</u>	<u>1,850</u>
<b>25.2 Amortization</b>			
Intangible assets	11.3	13,880	4,911
Deferred costs	13.2	41,012	42,206
		<u>54,892</u>	<u>47,117</u>
<b>25.3 Remuneration of Sharia Advisor / Sharia Board</b>			
No remuneration is being paid to the Sharia Advisor or the Sharia Board of the Bank.			
		December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>26. OTHER CHARGES</b>			
Penalties imposed by the State Bank of Pakistan		6,253	174
<b>27. TAXATION</b>			
For the year			
- Current		-	(7,151)
- Deferred		89,984	205,803
		<u>89,984</u>	<u>198,652</u>



The numerical reconciliation between the average tax rate and the applicable tax rate has not been presented in these financial statements due to taxable loss during the year.

Under Section 114 of the Income Tax Ordinance, 2001 (Ordinance), the Bank has filed the return of income for the tax year 2006, 2007 and 2008 on due date. The said returns were deemed completed under the provisions of the prevailing income tax law as applicable in Pakistan during the relevant accounting years.

		December 31, 2008	December 31, 2007
		----- Rupees in '000 -----	
<b>28. BASIC LOSS PER SHARE</b>			
Loss after taxation for the year		<u>(181,822)</u>	<u>(369,196)</u>
Weighted average number of ordinary shares in issue	(Number)	<u>516,531,164</u>	<u>414,088,753</u>
Loss per share	(Rupee)	<u>(0.35)</u>	<u>(0.89)</u>

### 29. DILUTED LOSS PER SHARE

There is no diluted effect on the basic loss per share as the Bank has no outstanding commitments for issue of shares. Accordingly, diluted loss per share is equal to the basic loss per share as reported above in note 28.

	Note	December 31, 2008	December 31, 2007
		----- Rupees in '000 -----	
<b>30. CASH AND CASH EQUIVALENTS</b>			
Cash and balance with treasury banks	6	<u>2,691,572</u>	1,992,425
Balance with other banks	7	<u>3,273,878</u>	<u>1,410,884</u>
		<u>5,965,450</u>	<u>3,403,309</u>

### 31. STAFF STRENGTH

		----- Number -----	
Permanent – including probationary staff		<u>588</u>	553
Outsourced	31.1	<u>238</u>	<u>439</u>
Total staff strength		<u>826</u>	<u>992</u>

31.1 Outsourced include employees hired by an outside contractor / agency and posted in the Bank to perform various tasks / activities of the Bank.

### 32. DEFINED BENEFIT PLAN (GRATUITY SCHEME)

#### 32.1 Staff retirement benefits

##### 32.1.1 Defined benefit plan

As mentioned in note 5.7.1, the Bank operates an approved funded gratuity scheme for all its permanent employees. Actuarial valuation of the scheme is carried out every year and the latest actuarial valuation was carried out as at December 31, 2008.

The fair value of scheme's assets and the present value of obligation under the scheme at the balance sheet date were as follows:

	December 31, 2008	December 31, 2007
	----- Rupees '000 -----	
Present value of defined benefit obligation	<u>45,921</u>	28,342
Fair value of plan assets	<u>(41,867)</u>	(25,244)
Net Actuarial losses not recognized	<u>(4,054)</u>	(3,022)
Unrecognized past service cost	<u>-</u>	<u>(76)</u>
Liability recognized in the balance sheet	<u>-</u>	<u>-</u>

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

Amounts charged to profit and loss account:

Current service cost	13,930	14,818
Cost of fund	2,834	1,113
Return on plan assets	(1,262)	-
Actuarial loss recognized	16	114
Unrecognized past service cost	76	76
	15,594	16,121

Movement in the liability recognized in the balance sheet:

Opening balance	-	8,386
Expense for the year	15,594	16,121
Contribution to the fund	(15,594)	(24,507)
Closing balance	-	-

Movement in the present value of defined benefit obligation:

Opening balance	28,342	11,133
Current service cost	13,930	14,818
Cost of fund	2,834	1,113
Actuarial loss	815	1,278
Closing balance	45,921	28,342

Movement in the fair value of plan assets:

Opening balance	25,244	-
Contributions	15,594	24,507
Return on plan assets	1,262	-
Actuarial (loss) / gain	(233)	737
Closing balance	41,867	25,244

#### Actuarial loss to be recognized

Corridor limit

The limits of the corridor at the beginning of the  
year / period

10% of obligations	2,834	1,113
10% of plan assets	2,524	-
Which works out to	2,834	1,113
Unrecognized actuarial losses as at the beginning of the year	(3,022)	(2,595)
Excess	(188)	(1,482)

-----Years----

Average expected remaining working lives in years	12	13
Actuarial loss to be recognized	(16)	(114)

**December 31, 2008**      **December 31, 2007**  
 ----- Rupees '000 -----

**Unrecognized actuarial losses**

Unrecognized actuarial losses at the beginning of the year	<b>(3,022)</b>	(2,595)
Actuarial loss on obligation	<b>(815)</b>	(1,278)
Actuarial (loss) / gain on plan assets	<b>(233)</b>	737
Subtotal	<b>(4,070)</b>	(3,136)
Actuarial loss recognized	<b>16</b>	114
Unrecognized actuarial losses at the end of the year	<b>(4,054)</b>	(3,022)

**Principal actuarial assumptions used are as follows:****Percentage per annum**

Expected rate of increase in salary level	<b>15%</b>	10%
Valuation discount rate	<b>15%</b>	10%
Rate of return on plan assets	<b>10%</b>	10%

**Historical information:**

	<b>2008</b>	<b>2007</b>	<b>2006</b>
	----- Rupees '000 -----		
As at December 31			
Present value of defined benefit obligation	<b>45,921</b>	28,342	11,133
Fair value of plan assets	<b>(41,867)</b>	(25,244)	-
Deficit	<b>4,054</b>	3,098	11,133
Experience adjustment on plan liabilities	<b>(815)</b>	(1,278)	(2,595)
Experience adjustment on plan assets	<b>(233)</b>	737	-

**December 31, 2008**      **December 31, 2007**  
 ----- Rupees '000 -----

**Major categories / composition of plan assets are as follows:**

Term Deposit Receipts	<b>20,663</b>	20,334
Balance with Bank in deposit account	<b>21,204</b>	4,910
	<b>41,867</b>	25,244

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on investments are based on gross redemption yields as at the balance sheet date.

The return on plan assets was assumed to equal the discount rate. Actual return on plan assets during 2008 was Rs. 1.029 million (2007: Rs. 0.404 million).

**Expected gratuity expense for the next year**

The expected gratuity expense for the year ending December 31, 2009 works out to Rs. 22.284 million.

**33. DEFINED CONTRIBUTION PLAN (PROVIDENT FUND)**

The Bank operates a contributory provident fund scheme for permanent employees. The employer and employee both contribute 10% of the basic salaries to the funded scheme every month. Equal monthly contribution by employer and employees during the year is amounting to Rs. 31.936 million (2007: Rs. 28.521 million) each.

**34. COMPENSATION OF DIRECTORS AND EXECUTIVES**

	President / Chief Executive		Directors		Executives	
	2008	2007	2008	2007	2008	2007
	-----Rupees in '000-----					
Managerial remuneration	13,992	3,029	-	-	200,202	265,932
Charge for defined benefit plan	1,166	61	-	-	16,684	16,788
Contribution to defined contribution plan	1,399	72	-	-	19,887	20,105
Rent and house maintenance	8,314	1,121	-	-	84,602	77,114
Utilities	1,399	280	-	-	20,020	20,013
Medical	40	2	-	-	5,717	5,157
Leave fare assistance	1,060	61	-	-	16,822	19,802
	<u>27,370</u>	<u>4,626</u>	<u>-</u>	<u>-</u>	<u>363,934</u>	<u>424,911</u>
Number of persons	<u>1</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>200</u>	<u>183</u>

The Chief Executive and certain Executives are provided with Bank's maintained cars, club membership and mobile telephone facilities in accordance with the Bank's service rules.

No fee has been paid to the non-executive directors during the year.

**35. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of the investments other than those classified as held-to-maturity is based on quoted market price except for unquoted investment which is carried at cost.

Fair value of fixed-term financing, other assets, other liabilities and fixed-term deposits can not be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provisions for impairment of financing have been calculated in accordance with the Bank's accounting policy as stated in note 5.4 to the financial statements.

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

The repricing and maturity profile and effective rates are stated in note 39.2.4 and 39.3.1.

**36. 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	Others
	-----Rupees in '000-----				
<b>December 31, 2008</b>					
Total income	54,803	350,040	1,309,058	1,267,546	77,901
Total expenses	(32,214)	(117,275)	(2,634,796)	(546,869)	-
Net income (loss)	<u>22,589</u>	<u>232,765</u>	<u>(1,325,738)</u>	<u>720,677</u>	<u>77,901</u>
Segment assets (gross)	<u>-</u>	<u>8,036,012</u>	<u>9,839,266</u>	<u>9,985,356</u>	<u>4,446,282</u>
Segment non performing Financing	<u>-</u>	<u>-</u>	<u>243,899</u>	<u>42,125</u>	<u>-</u>
Segment provision required	<u>-</u>	<u>-</u>	<u>115,678</u>	<u>10,531</u>	<u>-</u>
Segment liabilities	<u>-</u>	<u>-</u>	<u>23,500,220</u>	<u>2,241,878</u>	<u>1,241,848</u>
Segment return on net assets (ROA) (%)	<u>-</u>	<u>9.44%</u>	<u>16.46%</u>	<u>12.45%</u>	<u>2.79%</u>
Segment cost of funds (%)	<u>-</u>	<u>6.54%</u>	<u>6.27%</u>	<u>8.78%</u>	<u>-</u>

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Others
	-----Rupees in '000 -----				
<b>December 31, 2007</b>					
Total income	207,586	213,835	439,325	570,016	25,364
Total expenses	(41,910)	(67,342)	(1,639,062)	(275,660)	-
Net income (loss)	<u>165,676</u>	<u>146,493</u>	<u>(1,199,737)</u>	<u>294,356</u>	<u>25,364</u>
Segment assets (gross)	-	3,023,472	6,120,874	7,842,784	4,421,883
Segment non performing Financing	-	-	25,665	-	-
Segment provision required	-	-	14,856	-	-
Segment liabilities	-	-	15,732,550	863,207	357,151
Segment return on net assets (ROA) (%)	-	8.9%	15.27%	11.53%	2.87%
Segment cost of funds (%)	-	4.83%	4.83%	-	-

### 37. RELATED PARTY TRANSACTIONS

Related parties comprise of Dubai Islamic Bank PJSC, UAE, the holding company, related group companies, directors and key management personnel including Chief Executive Officer and staff retirement funds.

Transactions with related parties other than remuneration and benefits to key management personnel including Chief Executive Officer under the terms of the employment as disclosed in note 34 are as follows:

	December 31, 2008	December 31, 2007
	----- (Rupees '000) -----	
<b><u>Key management personnel</u></b>		
<b>Financing</b>		
At beginning of the year	7,938	-
Disbursements	10,775	8,000
Repayments	(8,226)	(62)
At the end of the year	<u>10,487</u>	<u>7,938</u>
Profit earned on financing	<u>1,405</u>	<u>897</u>
<b>Deposits</b>		
At beginning of the year	18,816	14,181
Deposits	186,359	148,259
Withdrawals	(185,889)	(143,624)
At the end of the year	<u>19,286</u>	<u>18,816</u>
Return on deposits	<u>515</u>	<u>672</u>
<b><u>Directors</u></b>		
<b>Financing</b>		
At beginning of the year	16,124	-
Transferred from staff financing	-	14,183
Disbursement	-	3,150
Repayments	(2,295)	(1,209)
At the end of the year	<u>13,829</u>	<u>16,124</u>
Profit earned on financing	<u>1,570</u>	<u>48</u>

	December 31, 2008	December 31, 2007
	----- (Rupees '000) -----	
<b>Deposits</b>		
At beginning of the year	1,262	-
Deposits	22,304	3,403
Withdrawals	(22,942)	(2,141)
At the end of the year	<u>624</u>	<u>1,262</u>
<b><u>Holding company</u></b>		
<b>Placements</b>		
At beginning of the year	322,400	-
Placements	26,224,751	29,074,933
Repayments	(26,547,151)	(28,752,533)
At the end of the year	<u>-</u>	<u>322,400</u>
Profit earned on financing	<u>16,166</u>	<u>34,533</u>
<b>Deposits</b>		
At beginning of the year	817	3,798
Deposits	468,162	340,607
Withdrawals	(442,244)	(343,588)
At the end of the year	<u>26,735</u>	<u>817</u>
<b>Balance held abroad</b>		
At beginning of the year	9,033	7,389
Deposits	70,453,831	50,564,070
Withdrawals	(69,967,255)	(50,562,426)
At the end of the year	<u>495,609</u>	<u>9,033</u>
Other payables	<u>447,936</u>	<u>36,165</u>
Issue of right shares	<u>891,550</u>	<u>1,208,750</u>
<b><u>Employee benefit plans</u></b>		
Contribution to Employees Gratuity Fund	<u>15,594</u>	<u>16,121</u>
Contribution to Employees Provident Fund	<u>31,936</u>	<u>28,521</u>
<b><u>Group Companies</u></b>		
Other receivables	<u>12,688</u>	<u>12,760</u>
Income earned during the year	<u>780</u>	<u>86,164</u>

### 38. CAPITAL-ASSESSMENT AND ADEQUACY

#### 38.1 Scope Of Applications

Basel II applies to the Bank's accounts on a standalone basis. The Bank does not currently have a subsidiary(s) or a significant minority interest on which Basel II can be applied to.

### 38.2 Capital Structure

Banks regulatory capital is divided into three tiers as follows:

#### Tier I Capital

Tier I capital includes fully paid up capital, general reserves as per the financial statements and accumulated loss.

#### Tier II Capital

Tier II capital, includes general provisions for loan losses (up to a maximum of 1.25 % of risk weighted assets), reserves on the revaluation of fixed 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.

	December 31, 2008	December 31, 2007
	----- Rupees in '000 -----	
<b>Tier I Capital</b>		
Shareholders equity	6,017,780	5,126,230
Reserves	18	18
Accumulated loss	(962,520)	(780,698)
Less: Book value of Intangibles	(518,002)	(7,675)
<b>Total Tier I Capital</b>	<b>4,537,276</b>	<b>4,337,875</b>
<b>Tier II Capital</b>		
General Provisions subject to 1.25% of Total Risk Weighted Assets	130,634	85,910
Revaluation Reserve (upto 50%)	-	-
<b>Total Tier II Capital</b>	<b>130,634</b>	<b>85,910</b>
<b>Eligible Tier III Capital</b>		
<b>Total Regulatory Capital Base</b>	<b>4,667,910</b>	<b>4,423,785</b>

### 38.3 Capital Adequacy

The capital requirements for the bank as per the major risk categories is indicated in the manner given below:

	Capital Requirements		Risk Weighted Assets	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	----- Rupees in '000 -----			
<b>Credit Risk</b>				
<b>Portfolios subject to standardized approach (Simple)</b>				
Corporate Portfolio	792,595	594,761	8,806,611	7,434,517
Retail Portfolio	329,473	193,296	3,660,811	2,416,204
Mortgage Portfolio	157,963	94,036	1,755,141	1,175,455
Claims on Banks	167,920	42,935	1,865,773	536,686
Operating Fixed Assets	180,980	116,766	2,010,889	1,459,578
Others	236,915	378,643	2,632,386	4,733,034
<b>Market Risk</b>				
<b>Capital Requirement for portfolios subject to Standardized Approach</b>				
Interest rate risk	63,222	2,407	702,462	30,088
Foreign exchange risk	2,600	1,173	28,884	14,665
<b>Operational Risk</b>				
<b>Capital Requirement for operational risks</b>				
Operational Risk	97,507	82,882	1,083,415	1,036,031
<b>TOTAL</b>	<b>2,029,175</b>	<b>1,506,899</b>	<b>22,546,372</b>	<b>18,836,258</b>

	Note	December 31, 2008	December 31, 2007
----- Rupees in '000 -----			
<b>Capital Adequacy Ratio</b>			
Total eligible regulatory capital held	38.2	<u>4,667,910</u>	<u>4,423,785</u>
Total Risk Weighted Assets	38.3	<u>22,546,372</u>	<u>18,836,258</u>
Capital Adequacy Ratio (a) / (b)		<u>20.70%</u>	<u>23.49%</u>

### 38.4 Capital Management

The objectives of the Bank's capital management are to ensure that the Bank complies with the regulatory capital requirement and maintain strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Bank is required to maintain the minimum paid up capital (net of losses) of Rs. 5,000 million as of December 31, 2008 as prescribed by the SBP.

In addition the Bank is also required to maintain regulatory capital structure based on risk weighted exposures as per the requirements laid down by the SBP.

### 39. RISK MANAGEMENT

The Bank was granted a certificate to commence business in March 2006. The Bank is progressively implementing the guidelines issued by the SBP on risk management while keeping in sight the current and future scale and scope of its activities. Today, for the Bank, Risk Management is a structured approach to managing uncertainty related to an outcome. It is a sequence of activities including: risk assessment, policies, procedures & strategies development which are put in place to identify, measure, monitor and control the risk faced and mitigation of risk using adequate and relevant resources.

In the currently competitive banking market; the Bank's rate of return is greatly influenced by its risk management capabilities as "Banking is about managing risk and return". Success in the banking business is thus dependent on how well an institution manages its risks. It is not to eliminate or avoid risk altogether but to proactively assess and manage risks for organization's strategic advantage.

#### RISK FRAMEWORK

The Bank's Risk management framework is based on three pillars; (a) Risk Principles & strategies, (b) Organizational Structures & Procedures and (c) Prudent Risk Measurement & Monitoring Processes which are closely aligned with the activities of the bank so as to give maximum value to the share holders while ensuring that risks are kept within an acceptable level/ Risk Appetite.

The Board sets the overall risk appetite and philosophy for the Bank. The overall risk is monitored by the Risk Monitoring Committee of the Board (RMC). The terms of reference of the said committee have been approved by the Board. Various Management Committees such as Management Committee, Asset and Liability Management Committee and Credit Approval Committee support these goals.

Chief Executive Officer (CEO) and Head Risk Management Group (Head RMG) in close coordination with all business / support functions ensure that the Risk Management Framework approved by the Board is implemented in true spirit and risk limits are communicated & adhered for quantifiable risks by those who accept risks on behalf of organization. Further, they also ensure that the non-quantifiable risks are communicated as guidelines and adhered to in management business decisions.

#### RISK APPETITE

Risk management across the Bank is based on the risk appetite and philosophy set by the Board and the associated risk committees. The Board establishes the parameters for risk appetite for the Bank through:

- Setting strategic direction;
- Contributing to, and ultimately approving plans for each division; and
- Regularly reviewing and monitoring the Bank's performance in relation to risk through related reports.

It is to be ensured that the risk remains within the acceptable level and sufficient capital is available as a buffer to absorb all the risks. It forms the basis of strategies & policies for managing risks and establishing adequate systems & controls to ensure that overall risk remain within acceptable level.



## RISK ORGANISATION

The nature of the bank's businesses requires it to identify, measure and manage risks effectively. The Bank manages these risks through a framework of risk vision, mission, strategy, policies, principles, organizational structures, infrastructures and risk measurement & monitoring processes that are closely aligned with the activities of the bank. The bank Risk Management function is independent of the business areas.

In line with best practices, the Bank exercises adequate oversight through the Risk Monitoring Committee and the Bank's Risk Management Group and has developed an elaborate risk identification measurement and management framework.

Along with the above, business heads are also specifically responsible for the management of risk within their respective businesses. As such, they are responsible for ensuring that they are in compliance with appropriate risk management frameworks in line with the standards set by the Bank.

Business heads are supported by the Credit and Risk Management Department and the Finance Department. An important element that underpins the Bank's approach to the management of all risk is independence, where the risk monitoring function is independent of the risk taking function.

The Bank also has credit risk, market risk, liquidity risk, operational risk, and investment policies in place.

### 39.1 Credit Risk

Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the bank.

The objective of credit risk management framework / policies for the Bank is to achieve sustainable and superior risk versus reward performance whilst maintaining credit risk exposure in line with the approved risk appetite.

The Bank has its own credit rating system in place which takes into account both quantitative and qualitative aspects. In addition, pro-active credit risk management is undertaken through identifying target markets, defining minimum risk acceptance criteria for each industry, annual industry reports on key industries etc. Periodic review process and risk asset review coupled with policies on internal watch listing are capable of identifying problem financings at an early stage. In addition a full fledged collection unit has been set up for recovery of problem consumer financing.

The Bank also uses various MIS generated on regular basis to monitor and control past dues, irregularities, shortfalls etc, and also to view the composition of the portfolio and address any concentration issues in terms of segment, risk ratings, tenor, geography etc.

#### 39.1.1 Segments by class of business

	December 31, 2008					
	Financing (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees In '000	Percent	Rupees in '000	Percent
Agriculture	2,601	-	147,782	1	-	-
Textile	1,612,003	9	166,361	1	97,217	1
Chemical and pharmaceuticals	1,030,072	6	116,403	-	2,767,833	19
Cement	280,941	2	1,845	-	-	-
Sugar	-	-	234	-	-	-
Food	1,833,815	10	436,345	2	233,991	1
Footwear and leather garments	84,524	-	2,462	-	-	-
Automobile and transportation equipment	60,000	-	2,973	-	-	-
Electronics and electrical appliances	-	-	764	-	-	-
Construction	-	-	1,386,938	5	-	-
Power (electricity), gas, water, sanitary	37,833	-	100,580	-	65,876	-
Wholesale and retail trade	628,450	3	242,888	1	-	-
Exports / imports	360,944	2	149,474	1	8,907	-
Transport, storage and communication	1,398,416	8	1,186,418	5	4,745,469	32
Financial	-	-	2,677,899	11	6,845,424	46
Insurance	-	-	44,776	-	-	-
Services	533,494	3	2,183,490	8	15,730	-
Individuals	10,023,946	55	14,267,862	56	-	-
Others	443,305	2	2,343,416	9	85,015	1
	<b>18,330,344</b>	<b>100</b>	<b>25,458,910</b>	<b>100</b>	<b>14,865,462</b>	<b>100</b>

December 31, 2007

	Financing (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees In '000	Percent	Rupees in '000	Percent
Textile	696,300	6	66,214	-	159,899	1
Chemical and pharmaceuticals	336,126	3	177,598	1	3,394,498	31
Cement	209,478	2	14,242	-	127,197	1
Sugar	-	-	793	-	-	-
Food	1,178,284	10	29,344	-	198,967	2
Footwear and leather garments	21,040	-	3,084	-	-	-
Automobile and transportation equipment	-	-	137,185	1	-	-
Electronics and electrical appliances	97,888	1	1,327	-	51,879	-
Construction	255,000	2	1,783,513	11	85,229	1
Power (electricity), gas, water, sanitary	419,976	4	584,446	3	464,495	4
Wholesale and retail trade	148,639	1	118,622	1	-	-
Exports / imports	95,713	1	104,621	1	125,389	1
Transport, storage and communication	584,132	5	432,633	3	2,520,044	23
Financial	-	-	486,770	3	3,455,009	32
Insurance	-	-	21,129	-	-	-
Services	383,164	3	1,538,202	10	55,670	1
Individuals	6,580,048	58	9,700,692	60	-	-
Others	442,957	4	914,046	6	373,840	3
	<b>11,448,745</b>	<b>100</b>	<b>16,114,461</b>	<b>100</b>	<b>11,012,116</b>	<b>100</b>

## 39.1.2 Segment by sector

December 31, 2008

	Financing (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	3,539,408	14	60,266	-
Private	18,330,344	100	21,919,502	86	14,805,196	100
	<b>18,330,344</b>	<b>100</b>	<b>25,458,910</b>	<b>100</b>	<b>14,865,462</b>	<b>100</b>

December 31, 2007

	Financing (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	400,000	3	822,716	5	438,395	6
Private	11,048,745	97	15,291,745	95	10,573,721	94
	<b>11,448,745</b>	<b>100</b>	<b>16,114,461</b>	<b>100</b>	<b>11,012,116</b>	<b>100</b>

## 39.1.3 Details of non-performing advances and specific provisions by class of business segment:

	2008		2007	
	Classified financing	Specific provisions held	Classified financing	Specific provisions held
	----- Rs. In '000 -----		----- Rs. In '000 -----	
Textile	13,000	3,250	-	-
Wholesale and retail trade	19,638	4,909	-	-
Exports / imports	9,487	2,372	-	-
Individuals	243,899	115,678	25,665	14,856
	<b>286,024</b>	<b>126,209</b>	<b>25,665</b>	<b>14,856</b>

**39.1.4** Details of non-performing financing and specific provisions by sector:

	2008		2007	
	Classified financing	Specific provisions held	Classified financing	Specific provisions held
	----- Rs. In '000 -----		----- Rs. In '000 -----	
Public / Government	-	-	-	-
Private	286,204	126,209	25,665	14,856
	<u>286,204</u>	<u>126,209</u>	<u>25,665</u>	<u>14,856</u>

**39.1.5 Geographical segment analysis**

	2008			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000-----			
Pakistan	<u>(271,806)</u>	<u>32,050,073</u>	<u>5,066,127</u>	<u>14,865,462</u>
	2007			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	----- Rupees in '000-----			
Pakistan	<u>(567,848)</u>	<u>21,308,247</u>	<u>4,355,339</u>	<u>11,012,116</u>

Total assets employed include intra group items of Rs. 33.626 million (2007: Rs. 307.211 million).

**39.1.6 Credit risk - General disclosures**

The Bank uses the 'Standardised Approach' in calculation of credit risk and capital requirements throughout its balance sheet.

**Credit Risk: Disclosures for portfolio subject to the Standardised Approach & supervisory risk weights in the IRB Approach**

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures. These are applied consistently across the Bank credit portfolio for both on - balance sheet and off - balance sheet exposures. Details of rating agencies used for different types of bank's exposures are given below:

**Types of Exposures and ECAI's used**

Exposures	2008		
	JCR - VIS	PACRA	S & P
Corporate	✓	✓	N/A
Banks	✓	✓	✓
Sovereigns	N/A	N/A	N/A
SME's	✓	✓	N/A

## Credit Exposures subject to Standardised approach

Exposures	Rating Category	2008			2007		
		Amount Outstanding	Deduction CRM	Net amount	Amount Outstanding	Deduction CRM	Net amount
----- Rs. In '000 -----							
<b>Funded</b>							
Corporate	1	25,000	-	25,000	234,522	-	234,522
	2	1,089,254	-	1,089,254	133,333	-	133,333
	3,4	84,187	-	84,187	-	-	-
		1,198,441	-	1,198,441	367,855	-	367,855
Banks	1	948,672	-	948,672	1,004,346	-	1,004,346
	2,3	2,325,201	-	2,325,201	334,108	-	334,108
		3,273,873	-	3,273,873	1,338,454	-	1,338,454
Mortgages		5,014,689	3,278	5,011,411	3,358,442	-	3,358,442
PSEs		46,682	-	46,682	15,106	-	15,106
Retail		4,878,645	-	4,878,645	3,221,605	-	3,221,605
Unrated		6,952,545	682,195	6,270,350	5,481,070	276,040	5,205,030
		<u>21,364,875</u>	<u>685,473</u>	<u>20,679,402</u>	<u>13,782,532</u>	<u>276,040</u>	<u>13,506,492</u>
<b>Non Funded</b>							
Corporate	1	2,776,852	-	2,776,852	3,100,000	-	3,100,000
	2	321,527	7,176	314,351	278,039	-	278,039
		3,098,379	7,176	3,091,203	3,378,039	-	3,378,039
Banks	1	453	-	453	355	-	355
	2,3	989,707	-	989,707	530,050	-	530,050
		990,160	-	990,160	530,405	-	530,405
PSEs	1	-	-	-	435,841	-	435,841
Retail		25,200	6,886	18,314	-	-	-
Unrated		3,297,055	137,464	3,159,591	3,280,537	26,576	3,253,961
		<u>7,410,794</u>	<u>151,526</u>	<u>7,259,268</u>	<u>7,624,822</u>	<u>26,576</u>	<u>7,598,246</u>

CRM= Credit Risk Mitigation

**Credit Risk: Disclosures with respect to Credit Risk Mitigation - Standardized Approach**

For Credit Risk Mitigation purposes the Bank uses only the eligible collaterals under Simple Approach of Credit Risk Mitigation under Standardized Approach as prescribed by SBP under BSD Circular No. 8 of 2007.

**39.2 Market Risk**

Market risk is the risk that the value of the on and off balance sheet positions of the Bank will be adversely affected by movements in market rates or other underlying risk factors.

The Bank manages the market risk in its portfolios through its market risk management framework and methodologies set out in its board-approved market risk policy as per the SBP guidelines. A separate market risk monitoring function has also been set up.

Market Risk at the Bank is controlled by:

- Identifying the relevant market risk factors for a particular product, portfolio or business proposition;
- Applying an appropriate limit structure; and
- Setting and monitoring appropriate levels of limits.

These are adequately supported by stringent operational controls and standards and compliance with internal and regulatory policies.

Standard risk management techniques and tools are adopted by the Group, including the SBP mandated stress testing methodology to monitor and manage market risk.

### 39.2.1 Foreign Exchange Risk

Currency risk is the risk of loss arising from the fluctuations of exchange rates.

In the normal course of conducting commercial banking business, which ranges from intermediation only to taking on principal risk as dealer or as counterparty, the Bank purchase or sell currencies in today / ready and in forwards resulting in a long or short position in different currency pairs. These positions expose the Bank to foreign exchange risk. To control this risk, the Bank primarily uses notional principal limits at various levels to control the open position, and ultimately the residual foreign exchange risk of the Bank. The Bank also strictly adheres to all associated regulatory limits.

Following is the summary of the assets of the Bank subject to foreign exchange risk.

<b>December 31, 2008</b>				
	<b>Assets</b>	<b>Liabilities</b>	<b>Off- balance Sheet items</b>	<b>Net foreign Currency exposure</b>
	----- Rupees in '000 -----			
Pakistan rupee	28,892,574	24,566,456	712,052	5,038,170
United States dollar	2,875,762	1,807,280	(1,048,894)	19,588
Great Britain pound	86,984	273,415	186,425	(6)
Japanese yen	5	-	-	5
Euro	103,710	251,762	150,417	2,365
Swiss franc	899	-	-	899
U.A.E Dirham	90,139	85,033	-	5,106
	<b><u>32,050,073</u></b>	<b><u>26,983,946</u></b>	<b><u>-</u></b>	<b><u>5,066,127</u></b>
<b>December 31, 2007</b>				
	<b>Assets</b>	<b>Liabilities</b>	<b>Off- balance Sheet items</b>	<b>Net foreign Currency exposure</b>
	----- Rupees in '000 -----			
Pakistan rupee	20,303,499	15,718,689	(251,824)	4,332,986
United States dollar	902,899	753,346	(138,057)	11,496
Great Britain pound	42,467	366,238	326,754	2,983
Japanese yen	106	-	-	106
Euro	52,248	114,635	63,127	740
Swiss franc	628	-	-	628
U.A.E Dirham	6,400	-	-	6,400
	<b><u>21,308,247</u></b>	<b><u>16,952,908</u></b>	<b><u>-</u></b>	<b><u>4,355,339</u></b>

### 39.2.2 Equity Position Risk

The Bank had no exposure to equities as at the balance sheet date

### 39.2.3 Yield / Profit Rate Risk

All products dealt in by the Bank are duly approved by the Bank's Sharia and the Bank does not conduct any business in interest related products.

The objective of yield / profit rate risk monitoring is to manage the resultant impact on the Bank's balance sheet due to change in profit / return on investment and financing products. Yield / profit rate risk review of the balance sheet is also done monthly in ALCO meetings. Various ratios as prescribed by the SBP are also monitored. The Bank also uses Gap Analysis and Notional Principal Limits to monitor the risk.

### 39.2.4 MISMATCH OF YIELD / PROFIT RATE SENSITIVE ASSETS AND LIABILITIES

Effective Yield / Profit rate	Total	2008									Non-profit bearing financial instruments	
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Exposed to Over 6 Months to 1 Year	Yield / Profit risk 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 -----												
<b>On-balance sheet financial instruments</b>												
<i>Assets</i>												
Cash and balances with treasury banks	2,691,572	-	-	-	-	-	-	-	-	-	2,691,572	
Balances with other banks	3.36%	3,273,878	1,100,010	-	-	-	-	-	-	-	2,173,868	
Due from financial institutions	14.69%	1,329,832	1,129,832	200,000	-	-	-	-	-	-	-	
Investments	12.12%	3,019,266	485,179	1,261,525	1,272,562	-	-	-	-	-	-	
Financing	13.78%	18,073,501	3,289,133	5,011,080	4,000,771	4,398,614	-	1,963	106,998	146,024	826,769	
Other assets		1,138,661	-	-	-	-	-	-	-	-	1,138,661	
		29,526,710	6,004,154	6,472,605	5,273,333	4,398,614	-	1,963	106,998	146,024	826,769	
<i>Liabilities</i>												
Bills payable		283,188	-	-	-	-	-	-	-	-	283,188	
Due from financial institutions	13.66%	-	-	-	-	-	-	-	-	-	-	
Deposits and other accounts	6.49%	25,458,910	17,311,524	1,831,458	1,397,132	712,000	-	-	-	-	4,206,796	
Other liabilities		1,241,848	-	-	-	-	-	-	-	-	1,241,848	
		26,983,946	17,311,524	1,831,458	1,397,132	712,000	-	-	-	-	5,731,832	
<b>On-balance sheet gap</b>		<b>2,542,764</b>	<b>(11,307,370)</b>	<b>4,641,147</b>	<b>3,876,201</b>	<b>3,686,614</b>	<b>-</b>	<b>1,963</b>	<b>106,998</b>	<b>146,024</b>	<b>826,769</b>	<b>564,418</b>
<b>Off-balance sheet financial instruments</b>												
Foreign currency forward purchases		-	-	-	-	-	-	-	-	-	-	
Foreign currency forward sales		-	-	-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	-	-	
<b>Off-balance sheet gap</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Yield / Profit Risk Sensitivity Gap</b>			<b>(11,307,370)</b>	<b>4,641,147</b>	<b>3,876,201</b>	<b>3,686,614</b>	<b>-</b>	<b>1,963</b>	<b>106,998</b>	<b>146,024</b>	<b>826,769</b>	<b>564,418</b>
<b>Cumulative Yield/Profit Risk Sensitivity Gap</b>			<b>(11,307,370)</b>	<b>(6,666,223)</b>	<b>(2,790,022)</b>	<b>896,592</b>	<b>896,592</b>	<b>898,555</b>	<b>1,005,553</b>	<b>1,151,577</b>	<b>1,978,346</b>	<b>2,542,764</b>
----- Rupees in '000 -----												
<b>2007</b>												
Effective Yield / Profit rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Exposed to Over 6 Months to 1 Year	Yield / Profit risk 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 -----												
<b>On-balance sheet financial instruments</b>												
<i>Assets</i>												
Cash and balances with treasury banks	1,992,425	-	-	-	-	-	-	-	-	-	1,992,425	
Balances with other banks	0-7.73%	1,410,884	1,410,884	-	-	-	-	-	-	-	-	
Investments	11.06%	2,974,087	1,307,800	1,666,287	-	-	-	-	-	-	-	
Financings	12.14%	11,347,979	1,632,306	2,921,024	2,583,691	3,267,468	104,480	8,498	830,512	-	-	
Other assets		1,700,233	-	-	-	-	-	-	-	-	1,700,233	
		19,425,608	1,632,306	5,639,708	4,249,978	3,267,468	104,480	8,498	830,512	-	3,692,658	
<i>Liabilities</i>												
Bills payable		347,521	-	-	-	-	-	-	-	-	347,521	
Due to financial institutions	9.51%	383	-	-	-	-	-	-	-	-	383	
Deposits and other accounts	4.83%	16,114,461	12,227,133	20,800	-	-	-	-	-	-	3,866,528	
Other liabilities		490,543	-	-	-	-	-	-	-	-	490,543	
		16,952,908	12,227,133	20,800	-	-	-	-	-	-	4,704,975	
		2,472,700	1,632,306	(6,587,425)	4,229,178	3,267,468	104,480	8,498	830,512	-	(1,012,317)	
<b>On-balance sheet gap</b>		<b>2,472,700</b>	<b>1,632,306</b>	<b>(6,587,425)</b>	<b>4,229,178</b>	<b>3,267,468</b>	<b>104,480</b>	<b>8,498</b>	<b>830,512</b>	<b>-</b>	<b>(1,012,317)</b>	
<b>Off-balance sheet financial instruments</b>												
Foreign currency forward purchases		-	-	-	-	-	-	-	-	-	-	
Foreign currency forward sales		-	-	-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	-	-	
<b>Off-balance sheet gap</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Yield / Profit Risk Sensitivity Gap</b>			<b>1,632,306</b>	<b>(6,587,425)</b>	<b>4,229,178</b>	<b>3,267,468</b>	<b>104,480</b>	<b>8,498</b>	<b>830,512</b>	<b>-</b>	<b>(1,012,317)</b>	
<b>Cumulative Yield/Profit Risk Sensitivity Gap</b>			<b>1,632,306</b>	<b>(4,955,119)</b>	<b>(725,941)</b>	<b>2,541,527</b>	<b>2,646,007</b>	<b>2,646,007</b>	<b>2,654,505</b>	<b>3,485,017</b>	<b>3,485,017</b>	<b>2,472,700</b>

### 39.3 Liquidity Risk

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet in orderly way its contractual obligations when due. Liquidity risk arises in the general funding of the Bank's activities and in the management of its assets. The Bank maintains sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new financings, participate in new investments when opportunities arise, and to meet any other commitment. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs.

Liquidity risk is managed within a framework of Liquidity policies, controls and limits. These policies, controls and limits ensure that the Bank maintains well diversified sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. The management of liquidity is carried out using a prudent strategic approach to manage the Bank's funding requirements.

It is the policy of the Bank to maintain adequate liquidity at all times and for all currencies and hence to be in a position, in the normal course of business, to meet all its obligations, to repay depositors, to fulfill commitments, to lend and to meet any other commitments made

The management of liquidity risk within the Bank is undertaken within limits and other policy parameters set by ALCO, which meets monthly and reviews compliance with policy parameters. Day to day monitoring is done by the treasury while overall compliance is monitored and coordinated by the ALCO and includes reviewing the actual and planned strategic growth of the business and its impact on the balance sheet from a balance sheet integrity and sustainability perspective and monitoring the Bank's liquidity profile and associated activities.

#### 39.3.1 MATURITIES OF ASSETS AND LIABILITIES

Total	December 31, 2008									
	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									
<b>Assets</b>										
Cash and balances with treasury banks	2,691,572	2,691,572	-	-	-	-	-	-	-	-
Balances with other banks	3,273,878	3,273,878	-	-	-	-	-	-	-	-
Due from financial institutions	1,329,832	1,129,832	200,000	-	-	-	-	-	-	-
Investments	3,019,266	5,000	11,794	11,794	122,754	252,175	266,342	995,062	1,354,345	-
Financing	18,073,501	2,044,308	1,711,392	1,159,344	59,942	595,094	1,199,441	3,751,773	3,692,556	3,859,651
Operating fixed assets	2,010,889	26,900	53,799	80,701	143,831	283,262	278,228	544,214	599,954	-
Deferred tax assets	512,474	-	-	-	-	-	-	512,474	-	-
Other assets	1,138,661	216,901	341,576	109,916	102,846	148,119	47,146	85,525	70,623	16,009
	32,050,073	9,388,391	2,318,561	1,361,755	429,373	1,278,650	1,791,157	5,889,048	5,717,478	3,875,660
<b>Liabilities</b>										
Bills payable	283,188	283,188	-	-	-	-	-	-	-	-
Deposits and other accounts	25,458,910	6,710,516	2,791,916	7,583,875	5,624,818	606,256	354,259	1,654,461	132,809	-
Other liabilities	1,241,848	264,637	551,672	22,397	44,794	89,587	89,587	179,174	-	-
	26,983,946	7,258,341	3,343,588	7,606,272	5,669,612	695,843	443,846	1,833,635	132,809	-
<b>Net assets</b>	<b>5,066,127</b>	<b>2,130,050</b>	<b>(1,025,027)</b>	<b>(6,244,517)</b>	<b>(5,240,239)</b>	<b>582,807</b>	<b>1,347,311</b>	<b>4,055,413</b>	<b>5,584,669</b>	<b>3,875,660</b>
Share capital	6,017,780									
Accumulated loss	(962,520)									
Advance against future issue of share capital	18									
Surplus on revaluation of assets	10,849									
	<u>5,066,127</u>									

Total	December 31, 2007									
	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	

**Assets**

Cash and balances with treasury banks	1,992,425	1,992,425	-	-	-	-	-	-	-	-
Balances with other banks	1,410,884	1,410,884	-	-	-	-	-	-	-	-
Investments	2,974,087	-	9,375	9,375	26,542	165,533	257,200	891,104	1,614,958	-
Financings	11,347,979	844,719	1,177,538	913,171	26,941	148,499	963,114	3,288,242	1,446,693	2,539,062
Operating fixed assets	1,459,578	21,057	46,957	77,704	155,408	309,857	280,146	391,381	177,068	-
Deferred tax assets	423,061	-	-	-	-	-	-	423,061	-	-
Other assets	1,700,233	160,877	480,834	599,761	135,540	113,823	162,846	36,166	9,480	906
	21,308,247	4,429,962	1,714,704	1,600,011	344,431	737,712	1,663,306	5,029,954	3,248,199	2,539,968

**Liabilities**

Bills payable	347,521	-	347,521	-	-	-	-	-	-	-
Due to financial institutions	383	-	383	-	-	-	-	-	-	-
Deposits and other accounts	16,114,461	6,506,565	847,862	3,868,620	2,965,629	234,767	571,980	1,119,038	-	-
Other liabilities	490,543	-	490,543	-	-	-	-	-	-	-
	16,952,908	6,506,565	1,686,309	3,868,620	2,965,629	234,767	571,980	1,119,038	-	-
<b>Net assets</b>	<b>4,355,339</b>	<b>(2,076,603)</b>	<b>28,395</b>	<b>(2,268,609)</b>	<b>(2,621,198)</b>	<b>502,945</b>	<b>1,091,326</b>	<b>3,910,916</b>	<b>3,248,199</b>	<b>2,539,968</b>

Share capital	5,126,230
Accumulated loss	(780,698)
Advance against future issue of share capital	18
Surplus on revaluation of assets	9,789
	<u>4,355,339</u>

### 39.4 Operational Risk

The management understands the importance of sound operational risk management and has drafted an operational risk management policy, in line with best practices, calling for clearly documented strategies and oversight by the Board and senior management, a strong operational risk culture, reporting and formation of an operational risk management department overlooking the coordinated operational risk management function across the Bank. Pertinent Service Level Agreements with departments bank-wide have been put in place while the Risk Control and Self Assessment Program has also been initiated.

In addition to the above, the Operational Risk Policy is supported by Operation Manuals, Anti Money Laundering and Know Your Customer policies (AML/KYC), technology controls and IT security policy.

### 40. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 05-Mar-2009 by the Board of Directors of the Bank.

### 41. GENERAL

**41.1** Captions, as prescribed by BSD Circular No. 04 of 2006 dated February 17, 2006 issued by the SBP, in respect of which there are no amounts, have not been reproduced in these financial statements, except for captions of the balance sheet and profit and loss account.

**41.2** The figures in the financial statements are rounded off to the nearest thousand of rupees.

\_\_\_\_\_  
President / Chief Executive

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director