DUBAI ISLAMIC BANK PAKISTAN LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

pwc

A. F. FERGUSON & CO.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of **Dubai Islamic Bank Pakistan Limited** as at December 31, 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the un-audited certified returns from the branches except for ten branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

  (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as stated in note 3.5 with which we concur;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2012, and its true balance of profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and

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A. F. FERGUSON & CO.

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

Emphasis of matter paragraph

We draw attention to note 1.5 to the accompanying financial statements which describes the matter relating to shortfall in minimum capital requirements of the bank as at December 31, 2012 and the State Bank of Pakistan's extension in timeline in this regard till April 30, 2013. Our opinion is not qualified in respect of this matter.

Chartered Accountants

Audit Engagement Partner: **Rashid A. Jafer**

Dated: March 6, 2013

Karachi

DUBAI ISLAMIC BANK PAKISTAN LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2012

	Note	2012	2011 (Restated)	2010 (Restated)
		Rupees in '000		
ASSETS				
Cash and balances with treasury banks	6	4,196,103	3,429,994	3,197,884
Balances with other banks	7	5,660,301	1,116,928	3,455,665
Due from financial institutions	8	3,206,945	3,826,084	1,020,725
Investments	9	21,334,833	12,937,179	5,945,370
Islamic Financing and related assets	10	26,314,667	23,889,043	22,979,634
Operating fixed assets	11	1,535,272	1,597,770	1,703,588
Deferred tax assets - net	12	221,619	377,691	447,788
Other assets	13	1,030,965	1,021,760	1,138,082
		63,500,705	48,196,449	39,888,736
LIABILITIES				
Bills payable	14	659,035	394,426	411,944
Due to financial institutions	15	1,600,000	1,898,500	950,000
Deposits and other accounts	16	53,110,048	38,491,607	31,414,908
Sub-ordinated loans		-	-	-
Liabilities against assets subject to finance lease		-	-	-
Deferred tax liabilities		-	-	-
Other liabilities	17	1,264,379	1,177,867	1,063,545
		56,633,462	41,962,400	33,840,397
NET ASSETS		6,867,243	6,234,049	6,048,339
REPRESENTED BY				
Share capital	18	6,976,030	6,776,030	6,776,030
Reserves	19	69,140	85,058	46,961
Accumulated losses		(260,665)	(622,281)	(774,670)
		6,784,505	6,238,807	6,048,321
Advance against future issue of share capital		18	18	18
Surplus / (Deficit) on revaluation of assets - net of tax	20	82,720	(4,776)	-
		6,867,243	6,234,049	6,048,339
CONTINGENCIES AND COMMITMENTS	21			

The annexed notes 1 to 42 and Annexure 1 form an integral part of these financial statements.

PRESIDENT / CHIEF EXECUTIVE   DIRECTOR   DIRECTOR   DIRECTOR

DUBAI ISLAMIC BANK PAKISTAN LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011 (Restated)
		------- Rupees in '000 -------	
Profit / return earned	22	5,682,122	4,632,785
Profit / return expensed	23	2,807,792	2,395,995
Net spread earned		2,874,330	2,236,790
Provision against non-performing Islamic financings and related assets - net	10.7	(192,853)	(17,205)
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(192,853)	(17,205)
Net spread earned after provisions		2,681,477	2,219,585
OTHER INCOME			
Fee, commission and brokerage income		436,736	400,539
Dividend Income		30,812	76,792
Income from dealing in foreign currencies		155,112	69,189
Gain on sale of securities	24	64,774	55,008
Unrealized gain on revaluation of investments classified as held for trading		-	-
Other income	25	7,910	14,952
Total other income		695,344	616,480
		3,376,821	2,836,065
OTHER EXPENSES			
Administrative expenses	26	2,846,195	2,496,656
Other provisions / write offs		16,918	14,250
Other charges	27	12,703	9,030
Total other expenses		2,875,816	2,519,936
		501,005	316,129
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		501,005	316,129
Taxation			
- Current	28	(39,436)	(50,899)
- Prior years	28	(6,911)	(2,076)
- Deferred	28	(108,960)	(72,668)
		(155,307)	(125,643)
PROFIT AFTER TAXATION		345,698	190,486
Accumulated Loss Brought forward		(622,281)	(774,670)
		(276,583)	(584,184)
Basic earnings per share – Rupees	29	0.51	0.28
Diluted earnings per share – Rupees	29	0.51	0.28

The annexed notes 1 to 42 and Annexure 1 form an integral part of these financial statements.

PRESIDENT / CHIEF EXECUTIVE   DIRECTOR   DIRECTOR   DIRECTOR

DUBAI ISLAMIC BANK PAKISTAN LIMITED
STATEMENT OF COMRPEHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
	------- Rupees in '000 -------	
Profit after taxation for the year	345,698	190,486
Comprehensive income transferred to equity	345,698	190,486
Components of comprehensive income not reflected in equity :		
Surplus / (Deficit) on revaluation of available for sale investments - net of tax	87,496	(4,776)
Total comprehensive income for the year	433,194	185,710

The annexed notes 1 to 42 and Annexure 1 form an integral part of these financial statements.

PRESIDENT / CHIEF EXECUTIVE | DIRECTOR | DIRECTOR | DIRECTOR

DUBAI ISLAMIC BANK PAKISTAN LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011 (Restated)
		------- Rupees in '000 -------	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		501,005	316,129
Less: Dividend Income		(30,812)	(76,792)
		470,193	239,337
Adjustments:			
Depreciation	26	225,450	219,096
Amortisation	26	82,766	90,626
Provision against non-performing Islamic financings and related assets - net	10.7	192,853	17,205
Other provisions / write offs		16,918	14,250
Gain on sale of securities	24	(64,774)	(55,008)
Liabilities no longer required written back		(4,093)	(8,741)
Gain on sale of operating fixed assets		(1,210)	(4,245)
		447,910	273,183
		918,103	512,520
(Increase) / decrease in operating assets			
Due from financial institutions		619,139	(2,805,359)
Islamic financings and related assets		(2,618,477)	(925,114)
Others assets (excluding advance taxation)		(45,964)	123,745
		(2,045,302)	(3,606,728)
Increase / (decrease) in operating liabilities			
Bills payable		264,609	(17,518)
Due to financial institutions		(298,500)	948,500
Deposits and other accounts		14,618,441	7,076,699
Other liabilities (excluding current taxation)		89,843	123,063
		14,674,393	8,130,744
		13,547,194	5,036,536
Income tax paid		(41,156)	(52,764)
Net cash generated from operating activities		13,506,038	4,983,772
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(8,198,272)	(6,944,148)
Dividend received		61,623	45,981
Investments in operating fixed assets		(265,880)	(201,981)
Sale proceeds of property and equipment disposed of		5,973	9,749
Net cash used in investing activities		(8,396,556)	(7,090,399)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares		200,000	-
Net cash generated from financing activities		200,000	-
Increase / (Decrease) in cash and cash equivalents		5,309,482	(2,106,627)
Cash and cash equivalents at beginning of the year		4,546,922	6,653,549
Cash and cash equivalents at end of the year	30	9,856,404	4,546,922

The annexed notes 1 to 42 and Annexure 1 form an integral part of these financial statements.

PRESIDENT / CHIEF EXECUTIVE **DIRECTOR** **DIRECTOR** **DIRECTOR**

DUBAI ISLAMIC BANK PAKISTAN LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Share capital	Advance against future issue of share capital	Statutory Reserves	Accumulated losses	Total
	Rupees in '000				
Balance as at January 01, 2011	6,776,030	18	46,961	(774,670)	6,048,339
Profit after taxation for the year transferred from Statement of Comprehensive Income	-	-	-	190,486	190,486
Transfer to Statutory reserve	-	-	38,097	(38,097)	-
Balance as at December 31, 2011	6,776,030	18	85,058	(622,281)	6,238,825
Transfer from Statutory reserve	-	-	(85,058)	85,058	-
Profit after taxation for the year transferred from Statement of Comprehensive Income	-	-	-	345,698	345,698
Transfer to Statutory reserve	-	-	69,140	(69,140)	-
Issuance of shares	200,000	-	-	-	200,000
Balance as at December 31, 2012	6,976,030	18	69,140	(260,665)	6,784,523

The annexed notes 1 to 42 and Annexure 1 form an integral part of these financial statements.

PRESIDENT / CHIEF EXECUTIVE DIRECTOR DIRECTOR DIRECTOR

DUBAI ISLAMIC BANK PAKISTAN LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 shari'a.

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. The Bank commenced its operations as a scheduled Islamic Commercial Bank with effect from March 28, 2006 on receiving certificate of commencement of business from the SBP. The Bank is principally engaged in Corporate, Commercial and Consumer banking activities and investing activities.

1.3 Based on the financial statements of the Bank for the year ended December 31, 2012, JCR-VIS Credit Rating Company Limited determined the Bank's medium to long-term rating as 'A' and the short term rating as 'A-1' while outlook has been improved from "Stable" to "Positive".

1.4 The Bank is operating through 100 branches as at December 31, 2012 (2011: 75 branches). The registered office of the Bank is situated at Hassan Chambers, DC-7, Block-7 Kehkashan, Clifton, Karachi. The Bank is a wholly owned subsidiary of Dubai Islamic Bank PJSC, UAE (the Holding Company).

1.5 The State Bank of Pakistan (SBP) vide circular no.7 dated April 15, 2009 has set the Minimum Capital Requirement (MCR) for banks upto Rs. 10 billion to be achieved in a phased manner by December 31, 2013. As per this circular, MCR (free of losses) and Capital Adequacy Ratio (CAR) requirements as of December 31, 2012 is Rs. 9 billion and 15% respectively.

In the year 2010, the Bank was granted exemption from meeting the MCR for a period of two years i.e. December 31, 2010 and December 31, 2011 subject to compliance of certain conditions as mentioned in SBP letter dated February 2, 2011. In addition, the Bank was also required to submit a capital enhancement plan to SBP which was duly submitted after the approval of the Board of Directors of the Bank. In response, SBP vide its letter dated May 31, 2011 stated that it may offer the Bank extension till December 31, 2012 subject to firm commitment from the sponsors to enhance capital as per the following schedule:

- The Bank will raise its paid up capital (free of losses) to Rs 6.4 billion by December 31, 2011;
- The paid up capital (free of losses) will be raised to Rs 7.5 billion by December 31, 2012; and
- The paid up capital (free of losses) will be raised to Rs 10 billion by December 31, 2013.

Further, as per this circular, Capital Adequacy Ratio (CAR) requirement as of December 31, 2011 was 15 percent and as of December 31, 2012 is also 15 percent. However, the paid-up capital of the Bank (free of losses) as of December 31, 2012 amounts to Rs 6.715 billion although its CAR stands at 19.06 percent.

The Bank was asked to submit its request for exemption from MCR till December 31, 2012 along with a modified capital enhancement plan so as to process the request for approval, if the Bank agrees with the above proposal. In this regard the Bank vide its letter dated February 1, 2012 had requested the SBP to allow extension to the Bank for meeting its MCR of Rs 6.4 billion (free of losses) upto April 30, 2012.

The SBP vide its letter dated February 17, 2012 had granted extension to the Bank for meeting the aforementioned MCR (free of losses) till April 30, 2012 subject to the above mentioned conditions as stipulated vide BSD letter dated February 2, 2011. The Bank had also been advised to submit a concrete time bound capital enhancement plan, duly approved by the Board of Directors along with a firm commitment from the sponsors for meeting the MCR (free of losses).

The sponsors of the Bank injected capital amounting to Rs 200 million in the month of August 2012 in order to meet the MCR (free of losses) of Rs 6.4 billion.

The management of the Bank, in consultation with the sponsors, had also discussed the option of placing foreign currency deposit by the sponsor with the State Bank of Pakistan (SBP) instead of injecting further equity into the Bank .In this regard, the SBP vide its letter dated July 31, 2012 has allowed the Bank to raise FCY (Foreign Currency) subordinated debt from the sponsors and place it in interest free deposits with SBP. This subordinated debt can then be treated as MCR compliant subject to certain terms and conditions.

The Bank was asked to approach BSD (Bank Surveillance Department) with a formal request for approval of the competent authority, if the Bank intends to avail the option of "Raising FCY subordinated debt from the sponsors and placing it in non-remunerative deposit with SBP".

The Board of Directors of the Bank in their meeting held in December 2012 have approved the option of "Raising FCY subordinated debt from the sponsors and placing it in non-remunerative deposit with SBP" and have authorised the Chairman to take up the matter with the sponsors. Once the concurrence of the sponsor shareholder is obtained, the plan can then be shared with SBP.

The management of the Bank vide its letter dated February 6, 2013 has requested the SBP for extension in time for submission of the plan for the purpose of meeting MCR upto June 30, 2013 as the matter of "Raising FCY subordinated debt from the sponsors and placing it in non-remunerative deposit with SBP" will be discussed with the sponsor shareholder and it would take some time. In response, the SBP vide its letter no. BPRD/BAID/623/2012/2013 dated February 20, 2013 has allowed Dubai Islamic Bank Pakistan Limited extension in submission of capital plan for meeting MCR till April 30, 2013.

2 BASIS OF PRESENTATION

2.1 The Bank provides financing mainly through Murabaha, Musharaka cum Ijara, Shirkatulmilk, Istisna cum Wakala and other Islamic modes as briefly explained in the notes to these financial statements. The transactions of purchases, sales and leases executed 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. The income on such Islamic financings and related assets is recognised in accordance with the principles of Shari"a. However, income if any, received which does not comply with the principles of Shari'a is recognised as charity payable if so directed by the Shari'a Advisor / Shari'a Executive Committee.

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 (IFRSs) issued by the International Accounting Standards Board and Islamic Financial Accounting Standard -1 "Murabaha", issued by the Institute of Chartered Accountants of Pakistan, as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the SECP and SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies in Pakistan through BSD Circular Letter 10 dated August 26, 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 ' Financial Instruments: Disclosures' through its notification S.R.O 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

3.3 SBP through its BSD Circular 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised) 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, the Surplus / (Deficit) on revaluation of Available-For-Sale Securities (AFS) only may be included in the 'Statement of Comprehensive Income' but will continue to be shown separately in the Statement of Financial Position. Accordingly, the above requirements have been adopted in the preparation of these financial statements.

3.4 IFRS 8 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by the SBP.

3.5 Change in accounting policies and disclosure

3.5.1 The SBP vide BSD Circular Letter No. 03 of 2013 dated January 22, 2013 has made certain changes to the 'Revised Forms of Annual Financial Statements' as applicable to the Bank, which have been made effective from December 31, 2012.

As required by the SBP, the Bank has changed its accounting policy in respect of presentation and disclosure of Islamic financings and related assets as under:

a) The head 'Financings' in the Balance Sheet has been renamed as 'Islamic financing and related assets'.

b) All financings, advances (against murabaha etc), inventories and related assets previously being reported under 'other assets' have now been made part of 'Islamic financing and related assets'.

The change in accounting policy has been accounted for retrospectively in accordance with the requirements of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' and accordingly the comparative figures have been restated. The effect of change in the accounting policy on the current and prior period financial statements have been summarised below:

	December 31, 2012	December 31, 2011	December 31, 2010
	(Rupees in '000)		
Impact on Statement of Financial Position			
Decrease in other assets	(331,793)	(548,441)	(214,680)
Increase in Islamic financing and related assets	331,793	548,441	214,680
Impact on Profit and Loss Account			
Decrease in Other provisions / write offs	(14,141)	(7,130)	-
Increase in provisioning against Islamic financing and related assets	14,141	7,130	-

3.6 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year.

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on the financial statements of the Bank.

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or to have any significant effect on the Bank's operations and are, therefore, not disclosed in these financial statements.

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

- IAS 19, 'Employee benefits' was amended in June 2011 and is applicable for periods beginning on or after January 1, 2013. The impact on the Bank will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognise all past service costs; and to replace cost and expected return on plan assets with a net amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The management is yet to assess the full impact of the amendments.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 1, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on the financial statements of the Bank.

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2013 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

3.8 Early adoption of standards

The Bank has not early adopted any new or amended standard in 2012.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except that certain investments, foreign currency balances and commitments in respect of foreign exchange contracts have been marked to market and are carried at fair value.

These financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to the nearest thousand.

4.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgment in application of its accounting policies. The estimates and associated assumptions are continually evaluated and are based on historical experience and various other factors including expectation of future events that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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

i) classification and provisioning against investments (notes 5.2 and 9)
ii) classification and provisioning against Islamic financings and related assets (notes 5.3 and 10)
iii) current and deferred taxation (notes 5.6, 12 and 28)
iv) determination of useful lives and depreciation / amortisation (notes 5.4 and 11)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise of cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.2 Investments

5.2.1 Classification

Investments of the Bank are classified as follows:

(a) Held-for-trading

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

(b) Held- to-maturity

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

(c) Available-for-sale

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

5.2.2 Regular way contracts

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised at settlement date, which is the date on which the Bank commits to purchase or sell the investments.

5.2.3 Initial recognition and measurement

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

5.2.4 Subsequent measurement

Subsequent to initial recognition investments are valued as follows:

(a) Held-for-trading

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

(b) Held-to-maturity

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

(c) Available for sale

Quoted / Government securities are measured at fair value. Surplus / (deficit) arising on remeasurement is taken to a separate account shown in the statement of financial position below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal.

Uptil last year the GOP Ijara sukuks and WAPDA sukuks (Government Securities) were carried at cost / amortised cost as the PKISRV (reuters page) were not regularly announced. Hence, the management was of the view that these rates did not represent fair value of the Sukuks on the balance sheet date. Therefore, the GOP Ijara Sukuks and WAPDA Sukuks were carried at cost / amortised cost. However, during the current year PKISRV (reuters page) are announced on a daily basis taking into account average rates quoted by six brokers. Hence, the management has used the PKISRV rates (reuters page) for revaluation of GOP Ijara Sukuks and WAPDA sukuks in the current year.

Unquoted equity securities, if any are valued at the lower of cost and break-up value. Break up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

5.2.5 Impairment

Impairment loss in respect of investments classified as available for sale and held to maturity (except sukuks) is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of sukuks is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus / (deficit) on revaluation of securities on the Statement of Financial Position below equity is removed there from and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

5.2.6 Gains or losses on sale of investments are included in the profit and loss account for the year.

5.3 Islamic financings and related assets

These are financial products originated by the Bank and principally comprise of Murabaha, Musharaka, Musharaka cum Ijara, Wakala, Wakala Istithmar, Istisna cum Wakala, Ijara Muntahiya Bil Tamleek, Export Refinance under Islamic Scheme, Service Ijarah and Shirkatulmilk. These are stated net of general and specific provisions.

Specific provision

The Bank maintains specific provision for doubtful debts based on the requirements specified in the Prudential Regulations issued by the SBP.

General provision

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

The net provision made / reversed during the year is charged to the profit and loss account and accumulated provision is netted off against Islamic financings and related assets. Islamic financings and related assets are written off when there are no realistic prospects of recovery.

Murabaha to the purchase orderer is a sale transaction wherein the first party (the Bank) sells to the client /customer a shari'a compliant asset / good for cost plus a pre-agreed profit after getting title and possession of the same. 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).

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) and Documentary Collections.

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 purchase of an undivided share of an asset from the customer by the Bank. Thereafter, the customer / co-owner undertakes to purchase the share of the Bank from the Bank in a manner that the Bank would recover its cost plus the desired profit till the maturity of the facility. At the end of the facility term the Bank at its own discretion may sell its share to the customer at a nominal price.

Wakala Istithmar has been developed to facilitate exporters through investment agency where the customer acts as the investment agent of the Bank. 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 Bank acquires the described goods by way of Istisna to be manufactured by the Customer from raw material of its own and once the goods are delivered to the Bank, the customer through an independent agency contract, sells the same to various end-users as the agent of the Bank.

Ijara Muntahiya Bil Tamleek is a lease contract in which the leased asset's title is transferred at the end of the lease term to the lessee through an independent sale agreement.

In Service Ijarah financing, the Bank provides financing by acquiring certain agreed services from the customer. After the purchase of services, the Bank appoints the customer to sell these services in the market over a period and provide a sale confirmation of such sale. The profit is only accrued from the date of receipt of such confirmation.

5.4 Operating fixed assets and depreciation

5.4.1 Property and equipment

These assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is charged to income by applying the straight line method over the estimated useful lives of the assets, using the rates specified in note 11.2 to the financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. Depreciation is charged from the month of acquisition and upto the month preceding the month of disposal.

The assets residual values, if significant, and their useful lives are reviewed and adjusted, if appropriate, at each reporting date.

Maintenance and normal repairs are charged to income as and when incurred. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

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

5.4.2 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. The useful lives and amortization method are reviewed and adjusted, if appropriate at each reporting date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment loss, if any. Amortization is charged from the month of acquisition and upto the month preceding the month of deletion.

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5.4.3 Impairment

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately in the financial statements except for impairment loss on revalued assets, which is adjusted against related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

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

5.5 Deferred costs

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

5.6 Taxation

Current

The provision for current taxation is based on taxable income for the year, if any, at current rates of taxation, after taking into consideration available tax credits, rebates and tax losses as required under the seventh schedule to the Income Tax Ordinance, 2001. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments made during the year.

Deferred

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

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

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

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities which is adjusted against the related deficit / surplus in accordance with the requirements of the International Accounting Standard 12 - Income Taxes.

5.7 Staff retirement benefits

5.7.1 Defined benefit plan

The Bank operates an approved funded gratuity scheme for its permanent employees. The liability recognised in the statement of financial position in respect of defined benefit gratuity scheme, is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. Contributions to the fund are made on the basis of actuarial recommendations. The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. Last valuation was conducted as on December 31, 2012.

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 recognised as employee benefit expense when they are due.

5.8 Revenue recognition

- Profit from Murabaha is accounted for on consummation of Murabaha transaction. However, profit on the portion of revenue not due for payment is deferred by accounting for unearned Murabaha income with a corresponding credit to deferred Murabaha income which is recorded as a liability. The same is then recognised as revenue on a time proportionate basis.
- Profit from Istisn'a is recorded on accrual basis commencing from the time of sale of goods till the realisation of proceeds by the bank.
- 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.
- Profit of Musharaka financing is recognized on an 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.
- Gains and losses on sale of investments are included in the profit and loss account.
- Profit on investments is accounted for on a time apportioned basis over the terms of the underlying investments.
- Commission on letters of credit, acceptances and guarantees is recognized on receipt basis.
- Dividend income is recognised when the right to receive dividend is established.
- Fee, commission and brokerage are recognized when earned.

5.9 Financial Instruments

5.9.1 Financial assets and financial liabilities

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

5.9.2 Offsetting of financial instruments

Financial assets and financial liabilities are off-set and the net amount is reported in the financial statements only when there is a legally enforceable right to set-off the recognised amount and the Bank intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

5.9.3 Derivatives

Derivative financial instruments are recognised at fair value. 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 statement of financial position. The resultant gains and losses are taken to income. However, the Bank does not hold any derivatives.

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

Functional and presentation currency

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

Foreign currency transactions

Foreign currency transactions are recorded in rupees at exchange rates prevailing on the date of transaction. Monetary assets, monetary liabilities and contingencies and commitments in foreign currencies, except forward promises, at the year end are converted in Rupees at exchange rates prevalent on the reporting date.

Translation gains and losses

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

Commitments

Commitments for outstanding forward foreign exchange promises are disclosed at agreed rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the exchange rates ruling on the reporting date.

5.12 Provisions and contingent assets and liabilities

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

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

5.13 Allocation of profit

Allocation of profits between depositors and shareholders is made according to the Bank's profit distribution policy and is approved by the Shari'a Advisor / Shari'a Executive Committee.

5.14 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments.

5.14.1 Business segments

Corporate banking

Corporate banking includes services provided in connection with mergers and acquisition, underwriting, privatization, securitisation, research, Sukuk (government, high yield), equity, syndication, IPO and secondary private placements, provided they are Shari'a compliant.

Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities and financing.

Retail banking

It includes retail financing and deposits, banking services, trust and estates investment advice, merchant / commercial / corporate cards and private labels and retail.

Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, Ijara, financing and issuing guarantees.

5.14.2 Geographical segment

The Bank has 100 branches as at December 31, 2012 (2011: 75 branches) and operates only in Pakistan.

6 CASH AND BALANCES WITH TREASURY BANKS

	Note	2012	2011
		------- Rupees in '000 -------	
In hand			
- local currency		883,956	729,649
- foreign currency		451,243	321,018
		1,335,199	1,050,667
With the State Bank of Pakistan in			
- local currency current account	6.1	1,707,700	1,665,271
- foreign currency current account		26,966	4,966
- foreign currency deposit accounts			
Cash Reserve Account	6.2	296,112	213,441
Special Cash Reserve Account	6.3	355,315	256,111
		651,427	469,552
With National Bank of Pakistan in			
- local currency current account		474,811	239,538
		4,196,103	3,429,994

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

6.2 As per BSD Circular No. 15 dated June 21, 2008, cash reserve of 5% is required to be maintained with State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).

6.3 Special cash reserve of 6% is required to be maintained with State Bank of Pakistan on FE-25 deposits as specified in BSD Circular No. 15 dated June 21, 2008. During the year this deposit was not remunerated (2011: Nil).

7 BALANCES WITH OTHER BANKS

	Note	2012	2011
		------- Rupees in '000 -------	
In Pakistan			
- in current accounts		5,357	5,506
- in deposit accounts	7.1	10	10
		5,367	5,516
Outside Pakistan			
- in current accounts	7.2	5,654,934	1,111,412
- in deposit accounts		-	-
		5,654,934	1,111,412
		5,660,301	1,116,928

7.1 This represents saving deposits carrying profit at the rate of 5% (2011: 5%) per annum.

7.2 This includes an amount of Rs. 4,021.441 million (2011: Rs 44.055 million) deposited with the holding company.

8 DUE FROM FINANCIAL INSTITUTIONS

	Note	2012	2011
		------- Rupees in '000 -------	
Mudaraba Placement	8.1	1,200,000	1,300,000
Commodity Murabaha	8.2	2,006,945	2,526,084
		3,206,945	3,826,084

8.1 These carry expected profit rates ranging from 9.50% to 9.75% per annum (2011: 11.50% to12.6% per annum) and are due to mature latest by January 28, 2013.

8.2 These carry expected profit rates ranging from 9.00% to 9.20% per annum (2011: 11.40% to 11.75% per annum) and are due to mature latest by January 11, 2013.

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		2012	2011
		------- Rupees in '000 -------	
8.3	Commodity Murabaha sale price	254,692,554	136,276,091
	Purchase price	(254,150,000)	(135,970,000)
		542,554	306,091
	Deferred Commodity Murabaha income		
	Opening balance	7,671	-
	Deferred during the year	542,554	306,091
	Recognised during the year	(547,485)	(298,420)
	Closing balance	2,740	7,671
	Commodity Murabaha		
	Opening balance	2,526,084	-
	Sales during the year	254,692,554	136,276,091
	Received during the year	(255,211,693)	(133,750,007)
	Closing balance	2,006,945	2,526,084

8.4 Particulars of amounts due from financial institutions with respect to currencies:

	2012	2011
- In local currency	3,206,945	3,826,084
- In foreign currency	-	-
	3,206,945	3,826,084

9 INVESTMENTS

9.1 Investments by types

	Note	2012 Held by the Bank	2012 Given as collateral	2012 Total	2011 Held by the Bank	2011 Given as collateral	2011 Total
		(Rupees in '000)					
Available for sale securities							
Sukuks / Certificates	9.2	21,207,572	-	21,207,572	11,744,526	-	11,744,526
Units of Open-end mutual fund	9.2	-	-	-	1,200,000	-	1,200,000
Total investment at cost		21,207,572		21,207,572	12,944,526	-	12,944,526
Less: Provision for diminution in value of investments		-	-	-	-	-	-
Investments (net of provisions)		21,207,572		21,207,572	12,944,526	-	12,944,526
Surplus / (deficit) on revaluation of available-for-sale securities	20	127,261		127,261	(7,347)	-	(7,347)
Total investments at market value		21,334,833	-	21,334,833	12,937,179	-	12,937,179

9.2 Investments by segments

	Note	2012	2011
		------- Rupees in '000 -------	
Federal Government Securities			
GOP Ijarah Sukuks	9.3.1	18,818,594	10,000,000
Fully paid up ordinary shares / units			
Units of Mutual Funds	9.3.2	-	1,200,000
Sukuks			
WAPDA Sukuks	9.3.3	379,479	790,518
Other Sukuks	9.3.3	2,009,499	954,008
Total investment at cost		21,207,572	12,944,526
Less: Provision for diminution in value of investments		-	-
Investments (net of provisions)		21,207,572	12,944,526
Surplus / (deficit) on revaluation of available-for-sale securities	20	127,261	(7,347)
Total investments at market value		21,334,833	12,937,179

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9.3 Available for sale securities

9.3.1 Particulars of Federal Government Securities - Unquoted, Secured

Particulars	Collateral	Profit Rate	Profit payment	2012	2011
				Nominal value ---------- Rupees in '000 ----------	
GOP IJARA SUKUK - 5 6,450(2011: 10,000) certificates Maturity date: November, 2013	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	647,769	1,000,000
GOP IJARA SUKUK - 6 42,850(2011: 20,000) certificates Maturity date: December, 2013	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	4,310,437	2,000,000
GOP IJARA SUKUK - 7 9,000 (2011: Nil) certificates Maturity date: March, 2014	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	900,000	-
GOP IJARA SUKUK - 8 20,000 (2011: 20,000) certificates Maturity date: May, 2014	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	2,000,000	2,000,000
GOP IJARA SUKUK - 9 57,550 (2011: 50,000) certificates Maturity date: December, 2014	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	5,762,311	5,000,000
GOP IJARA SUKUK - 11 40,000 (2011: Nil) certificates Maturity date: April, 2015	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	4,000,000	-
GOP IJARA SUKUK - 12 11,850 (2011: Nil) certificates Maturity date: June, 2015	Government of Pakistan Sovereign guarantee	6 months T-Bill plus zero basis points	Semi-annually	1,198,077	-
				18,818,594	10,000,000

9.3.2 Particulars of investments in mutual funds:

2012	2011		2012	2011
Number of shares / units			---------- Rupees in '000 ----------	
		Mutual funds - Face value of Rs. 50 each		
-	23,701,362	Meezan Sovereign Fund	-	1,200,000
			-	1,200,000

9.3.3 Particulars of Sukuk Certificates - Unquoted, Secured

Particulars	Collateral	Profit Rate	Profit payment	2012	2011
				Nominal value ---------- Rupees in '000 ----------	
WAPDA I Nil (2011: 67,000) certificates Maturity date: October, 2012	Government guaranteed	6 months KIBOR plus 35 basis points	Semi-annually	-	335,143
WAPDA II 91,075 (2011: 91,075) certificates Maturity date: July, 2017	Government guaranteed	6 months KIBOR minus 25 basis points	Semi-annually	379,479	455,375
				379,479	790,518
ENGRO FERTILIZER LIMITED 60,000 (2011: 60,000) certificates Maturity date: September, 2015	Tangible Assets	6 months KIBOR plus 150 basis points	Semi-annually	300,000	300,000
ENGRO FERTILIZER LIMITED 75,000 (2011: 75,000) certificates Maturity date: June, 2017	Tangible Assets	6 months KIBOR plus 211 basis points	Semi-annually	375,000	375,000
SUI SOUTHERN GAS COMPANY LIMITED NIL (2011: 165,000) certificates Maturity date: July, 2012	Tangible Assets	3 months KIBOR plus 40 basis points	Quarterly	-	45,835
SUI SOUTHERN GAS COMPANY LIMITED 100,000 (2011: NIL) certificates Maturity date: May, 2017	Tangible Assets	3 months KIBOR plus 75 basis points	Quarterly	500,000	-
K.S. SULEMANJI & SONS (PVT) LIMITED 20,000 (2011: 20,000) certificates Maturity date: July, 2014	Tangible Assets	3 months KIBOR plus 140 basis points	Quarterly	53,173	53,173
QUETTA TEXTILE MILLS LIMITED 40,000 (2011: 40,000) certificates Maturity date: September, 2015	Tangible Assets	6 months KIBOR plus 150 basis points	Semi-annually	160,000	180,000
EMIRATES ISLAMIC BANK P.J.S.C * 300,000 (2011:NIL) certificates Maturity date: January, 2017	Tangible Assets	4.718%	Semi-annually	305,637	-
MAJID AL FUTTAIM * 300,000 (2011: NIL) certificates Maturity date: February, 2017	Tangible Assets	5.850%	Semi-annually	315,689	-
				2,009,499	954,008
				2,388,978	1,744,526

* These sukuks are being held by Dubai Islamic Bank P.J.S.C on behalf of the Bank in fiduciary capacity.

9.3.4 Quality of Available for Sale Securities

	2012	2011	2012	2011 *
	Long / Medium Term Rating (Where available)		---------- Rupees in '000 ----------	
Sukuks / Certificates - (at cost)				
Engro Fertilizer Limited	Unrated	Unrated	300,000	300,000
Engro Fertilizer Limited	Unrated	Unrated	375,000	375,000
Sui Southern Gas Company Limited	N/A	AA	-	45,835
Sui Southern Gas Company Limited	Unrated	N/A	500,000	-
K.S. Sulemanji &Sons (Private) Limited	Unrated	Unrated	53,173	53,173
Quetta Textile Mills Limited	D	BBB+	160,000	180,000
			1,388,173	954,008
Sukuks / Certificates - (at market value)				
WAPDA First Sukuk Certificates	Unrated	Unrated	-	335,143
WAPDA Second Sukuk Certificates	Unrated	Unrated	380,769	455,375
Emirates Islamic Bank	A+	N/A	307,133	-
Majid Al Futtaim	BBB	N/A	320,595	-
GOP Ijara Sukuk - 5 -Maturity:November,2013	Government Guaranteed	Government Guaranteed	649,709	1,000,000
GOP Ijara Sukuk - 6 -Maturity:December,2013	Government Guaranteed	Government Guaranteed	4,324,851	2,000,000
GOP Ijara Sukuk - 7 -Maturity:March,2014	Government Guaranteed	Government Guaranteed	908,460	-
GOP Ijara Sukuk - 8 -Maturity:May,2014	Government Guaranteed	Government Guaranteed	2,019,600	2,000,000
GOP Ijara Sukuk - 9 -Maturity:December,2014	Government Guaranteed	Government Guaranteed	5,802,767	5,000,000
GOP Ijara Sukuk - 11 -Maturity:April,2015	Government Guaranteed	Government Guaranteed	4,036,400	-
GOP Ijara Sukuk - 12 -Maturity:June,2015	Government Guaranteed	Government Guaranteed	1,196,376	-
			19,946,660	10,790,518
Units of open-end mutual funds (at market value)				
Meezan Sovereign Fund	N/A	AA+(f)	-	1,192,653
Total - cost / market value of investments			21,334,833	12,937,179

* Last year all the sukuks were carried at cost as more fully explained in the note 5.2.4(c) to these financial statements

10 ISLAMIC FINANCINGS AND RELATED ASSETS

	Note	2012	2011 (Restated)	2010 (Restated)
		---------------Rupees in '000---------------		
In Pakistan				
- Murabaha	10.1	3,715,869	3,221,451	3,180,882
- Musharaka cum Ijara – Housing		4,917,598	5,159,555	5,493,212
- Musharaka cum Ijara	10.2	6,270,785	5,970,018	5,678,307
- Ijara Muntahiya Bil Tamleek – Autos		209,593	186,642	172,699
- Musharaka cum Ijara – Other		555,302	656,502	921,526
- Export Refinance under Islamic Scheme - SBP		1,600,000	1,548,500	950,000
- Export Refinance under Islamic Scheme - Own Source		41,126	14,696	-
- Wakala Istithmar – Pre manufacturing		689,537	781,305	297,574
- Wakala Istithmar – Post manufacturing		438,104	4,638	23,116
- Shirkatulmilk		1,756,305	1,815,622	1,184,212
- Service Ijarah and related assets		1,000,000	700,000	700,000
- Musharaka		440,667	330,667	369,417
- Istisna cum Wakala	10.3	5,441,542	4,068,355	4,561,892
Islamic financings and related assets – gross		27,076,428	24,457,951	23,532,837
Less: Provision against non-performing Islamic financings and related assets	10.6 & 10.7	(761,761)	(568,908)	(553,203)
Islamic financings and related assets – net of provisions		26,314,667	23,889,043	22,979,634

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		Note	2012	2011 (Restated)	2010 (Restated)
10.1	**Murabaha**		Rupees in '000		
	Financings	10.4.2	3,509,997	2,824,901	3,033,796
	Advances		205,872	396,550	147,086
			3,715,869	3,221,451	3,180,882
10.2	**Musharaka cum Ijara**				
	Financings		6,130,723	5,810,997	5,610,713
	Advances		140,062	159,021	67,594
			6,270,785	5,970,018	5,678,307
10.3	**Istisna cum Wakala**				
	Financings		3,418,509	1,972,464	2,289,543
	Advances		2,023,033	2,095,891	2,272,349
			5,441,542	4,068,355	4,561,892
10.4	Murabaha sale price		7,910,063	6,202,381	7,441,922
	Purchase price		(7,580,182)	(5,917,374)	(7,100,462)
			329,881	285,007	341,460
10.4.1	**Deferred Murabaha income**				
	Opening balance		72,107	64,229	48,730
	Arising during the year		329,881	285,007	341,460
	Recognised during the year		(329,248)	(277,129)	(325,961)
			72,740	72,107	64,229
10.4.2	**Murabaha receivable**				
	Opening balance		2,824,901	3,033,796	2,430,861
	Sales during the year		7,910,063	6,202,381	7,441,922
	Received during the year		(7,224,967)	(6,411,276)	(6,838,987)
			3,509,997	2,824,901	3,033,796

		2012	2011	2010
10.5	**Particulars of Islamic financings and related asset (Gross)**	Rupees in '000		
10.5.1	In local currency	25,433,796	23,679,103	22,574,185
	In foreign currencies	880,869	778,848	958,652
		26,314,665	24,457,951	23,532,837
10.5.2	Short Term (for upto one year)	12,619,116	11,446,963	9,440,762
	Long Term (for over one year)	14,457,310	13,010,988	14,092,075
		27,076,426	24,457,951	23,532,837

10.6 Islamic financings and related assets include Rs. 2,494.271 million (December 31, 2011: 2,130.721 million - restated) which have been placed under non-performing status as detailed below:

Category of Classification	2012								
	Classified Islamic financings and			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Substandard	1,021,088	-	1,021,088	27,307	-	27,307	27,307	-	27,307
Doubtful	285,729	-	285,729	14,055	-	14,055	14,055	-	14,055
Loss	1,187,454	-	1,187,454	667,173	-	667,173	667,173	-	667,173
	2,494,271	-	2,494,271	708,535	-	708,535	708,535	-	708,535

Restated

Category of Classification	2011								
	Classified Islamic financings and			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees in '000								
Substandard	964,046	-	964,046	21,708	-	21,708	21,708	-	21,708
Doubtful	289,304	-	289,304	65,682	-	65,682	65,682	-	65,682
Loss	877,371	-	877,371	425,408	-	425,408	425,408	-	425,408
	2,130,721	-	2,130,721	512,798	-	512,798	512,798	-	512,798

10.7 Particulars of provision against non-performing islamic financings and related assets:

	2012 Specific	2012 General	2012 Total	2011 (Restated) Specific	2011 (Restated) General	2011 (Restated) Total
	(Rupees in '000)					
Opening balance	512,798	56,110	568,908	492,593	60,610	553,203
Charge for the year	409,342	(2,884)	406,458	145,434	-	145,434
Reversals	(213,605)	-	(213,605)	(123,729)	(4,500)	(128,229)
	195,737	(2,884)	192,853	21,705	(4,500)	17,205
Write off	-	-	-	(1,500)		(1,500)
Closing balance	708,535	53,226	761,761	512,798	56,110	568,908

10.7.1 Particulars of provision against non-performing islamic financings and related assets:

	2012 Specific	2012 General	2012 Total	2011 (Restated) Specific	2011 (Restated) General	2011 (Restated) Total
	(Rupees in '000)					
In local currency	706,161	53,226	759,387	508,271	56,110	564,381
In foreign currency	2,374	-	2,374	4,527	-	4,527
	708,535	53,226	761,761	512,798	56,110	568,908

The Bank has availed benefit of forced sale values amounting to Rs. 582.414 million (2011: Rs 548.565 million) in determining the provisioning against non performing financings as at December 31, 2012.

10.7.2 The non performing financings includes classified financings of Rs. 765 million disbursed to Agritech Limited. The required provision as at December 31, 2012 in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan against Agritech Limited amounted to Rs 131.25 million. However, the State Bank of Pakistan vide its letter no. BPRD / BRD - (Policy) / 2013-1857 dated February 15, 2013 has provided relaxation to the Bank, whereby the Bank is allowed to recognise provision in a phased manner against outstanding exposure and maintain at least 10%, 25%, 50%, 75%, and 100% of the required provision as at December 31, 2012, March 31, 2013, June 30, 2013, September 30, 2013 and December 31, 2013. Following relaxation provided by the SBP, the Bank has recorded total provision of Rs. 13.125 million in respect of outstanding exposure of Agritech Limited.

10.7.3 The non performing financings includes classified financings of Rs. 75 million disbursed to Gulistan Textile Mills Limited. The required provision as at December 31, 2012 in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan against Gulistan Textile Mills Limited amounted to Rs 13.160 million. However, the State Bank of Pakistan vide its letter no. BPRD / BRD - 04 / Faysal / 2013 / 1695 dated February 13, 2013 has provided relaxation to the Bank, whereby the Bank is allowed to recognise provision in a phased manner against outstanding exposure and maintain at least 25%, 50%, 75%, and 100% of the required provision as at December 31, 2012, March 31, 2013, June 30, 2013 and September 30, 2013. Following relaxation provided by the SBP, the Bank has recorded total provision of Rs. 3.290 million in respect of outstanding exposure of Gulistan Textile Mills Limited.

10.8 Particulars of write-offs

	2012	2011
	(Rupees in '000)	
Against provisions	-	1,500
Directly charged to the profit and loss account	-	-
	-	1,500
Write offs of Rs. 500,000 and above	-	1,500
Write offs of below Rs. 500,000	-	-
	-	1,500

10.8.1 Details of islamic financings and related assets written-off of Rs. 500,000 and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the Statement in respect of loans written off or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2012 is given in Annexure - 1.

10.8.2 General provisioning is held against consumer finance portfolio calculated in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan except for Musharaka cum Ijara - Autos. The SBP vide its letter no BPRD / BLRD - 03 / 2009 / 6877 dated October 15, 2009 has allowed relaxation to the Bank from recognising general provision against Musharaka cum Ijara - Autos on the condition that the facility will be categorised as "Loss" on the 180th day from the date of default.

		Note	2012	2011
			(Rupees in '000)	
10.8.3	**Particulars of Islamic financings and related assets to directors, executives or officers of the Bank or any of them either severally or jointly with any other persons:**			
	Balance at beginning of the year		868,379	983,551
	Financing granted during the year		284,012	256,800
	Repayments		(255,903)	(371,972)
	Balance at end of the year		896,488	868,379

11 OPERATING FIXED ASSETS

	Note	2012	2011
Capital work-in-progress - net	11.1	52,687	33,914
Property and equipment	11.2	1,148,250	1,153,950
Intangible assets	11.3	334,335	409,906
		1,535,272	1,597,770

11.1 Capital work-in-progress

	2012	2011
Civil works	1,459	3,314
Equipment	42,085	9,886
Advances to suppliers and contractors	24,543	20,714
less: Provision against Capital work-in-progress	(15,400)	-
	52,687	33,914

11.2 Property and equipment

	2012							
	COST			DEPRECIATION				
	As at January 01, 2012	Additions (disposals) / (write-offs)	As at December 31, 2012	As at January 01, 2012	Charge for the year / (disposals) / (write-offs)	As at December 31, 2012	Net book value as at December 31, 2012	Rate of Depreciation
	Rupees in '000							
Leasehold land	47,932	-	47,932	-	-	-	47,932	-
Furniture and fixture	202,095	33,883 (280)	235,698	79,614	22,281 (32)	101,863	133,835	10
Electrical, office and computer equipment	1,060,643	114,780 (14,702) (564)	1,160,157	561,430	118,559 (10,579) (359)	669,051	491,106	10-33.33
Vehicles	23,664	3,080 (936)	25,808	18,122	421 (749)	17,794	8,014	25
Leasehold Improvements	784,283	72,770	857,053	305,501	84,189	389,690	467,363	5 - 15
	2,118,617	224,513 (15,918) (564)	2,326,648	964,667	225,450 (11,360) (359)	1,178,398	1,148,250	

	2011							
	COST			DEPRECIATION				
	As at January 01, 2011	Additions (write offs) / (disposals)	As at December 31, 2011	As at January 01, 2011	Charge for the year (write off) / (disposals)	As at December 31, 2011	Net book value as at December 31, 2011	Rate of Depreciation
	Rupees in '000							
Leasehold land	47,932	-	47,932	-	-	-	47,932	-
Furniture and fixture	170,761	31,334	202,095	60,348	19,266	79,614	122,481	10
Electrical, office and computer equipment	980,192	96,511 (5,919) (10,141)	1,060,643	446,703	122,310 (2,946) (4,637)	561,430	499,213	10 - 33.33
Vehicles	23,664	-	23,664	17,442	680	18,122	5,542	25
Leasehold Improvements	710,469	73,814	784,283	228,661	76,840	305,501	478,782	5 - 15
	1,933,018	201,659 (5,919) (10,141)	2,118,617	753,154	219,096 (2,946) (4,637)	964,667	1,153,950	

11.2.1 Disposal of operating fixed assets

	2012						
	Cost	Accumulated depreciation	Written down value	Sale price	Gain/(loss)	Mode of disposal	Particulars of buyer
	Rupees in '000						
Electrical, office and computer equipment							
Items having book value of more than Rs. 250,000 or cost of more than Rs. 1,000,000	1,627	1,220	407	336	(71)	Negotiation	A.A Trading and Engineering
Others							
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	14,855	10,499	4,356	5,637	1,281	Banks Policy	Various
	16,482	11,719	4,763	5,973	1,210		

11.2.2 The cost of fully depreciated fixed assets still in use amounts to Rs. 343.528 million (2011: Rs. 256.086 million).

11.3 Intangible assets

	2012							
	COST			AMORTISATION				
	As at January 01, 2012	Additions / (disposals)	As at December 31, 2012	As at January 01, 2012	Amortisation	As at December 31, 2012	Net book value as at December 31, 2012	Rate of amortization
	Rupees in '000							
Computer software	655,308	7,195	662,503	245,402	82,766	328,168	334,335	11.11 - 33.33

	2011							
	COST			AMORTISATION				
	As at January 01, 2011	Additions / (disposals)	As at December 31, 2011	As at January 01, 2011	Amortisation	As at December 31, 2011	Net book value as at December 31, 2011	Rate of amortization
	Rupees in '000							
Computer software	646,342	8,966	655,308	165,177	80,225	245,402	409,906	11.11 - 33.33

11.3.1 The cost of fully amortized intangibles still in use amounts to Rs. 30.202 million (2011: Rs. 14.005 million).

	Note	2012	2011
		Rupees in '000	
12 DEFERRED TAX ASSETS			
Deferred tax debits arising in respect of:			
Available tax losses	12.1	170,071	320,384
Minimum tax liability		147,046	115,341
Provision against non-performing islamic financings and related assets		19,147	15,316
Surplus / (deficit) on revaluation of investments		(44,541)	2,571
Deferred tax credits arising due to:			
Accelerated tax depreciation on operating fixed assets		(70,104)	(81,079)
Others		-	5,158
		221,619	377,691

12.1 The Bank has an aggregate amount of Rs. 485.916 million (2011: Rs. 915.385 million) in respect of tax losses as at December 31, 2012. The management carries out periodic assessments of these losses as the Bank would be able to set off the profit earned in future years against these carry forward losses. Based on this assessment the management has recognised the entire deferred tax debit balance on losses amounting to Rs. 170.071 million (2011: Rs. 320.384 million). The amount of this benefit has been determined based on the projected financial statements for the future periods. The determination of future taxable profits is most sensitive to certain key assumptions such as cost to income ratio of the Bank, deposit composition, kibor rates, growth of deposits and financings, investment returns, product mix of financings, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisibility of the deferred tax asset.

13 OTHER ASSETS

	Note	2012	2011 (Restated)	2010 (Restated)
		Rupees in '000		
Profit / return accrued in local currency		572,933	440,992	433,420
Profit / return accrued in foreign currency		8,114	5,852	30,383
Advances, deposits, advance rent and other prepayments	13.1	421,180	521,361	631,426
Advance taxation (payments less provisions)		-	4,430	4,641
Unrealised gain on forward foreign exchange promises		-	-	3,397
Deferred costs	13.2	-	-	10,401
Receivables from group companies		9,324	-	1,364
Commission receivable		12,304	10,534	3,264
Dividend receivable		-	30,811	-
Others		15,507	15,386	19,786
		1,039,362	1,029,366	1,138,082
Less: Provision held against other assets	13.3	(8,397)	(7,606)	-
Other assets (net of provisions)		1,030,965	1,021,760	1,138,082

13.1 This includes Rs 186.376 million (2011: Rs 240.051 million) for advance rent, Rs 115.529 million (2011: 138.488 million) against prepaid commission to staff and dealers in respect of auto and house musharaka. The prepaid commission paid to staff and dealers in respect of auto financings is charged over the period of musharaka agreements. However, the prepaid commission paid to staff and dealers in respect of house musharaka is charged over a period of fifteen years. This also includes an amount of Rs 62.608 million (2011: Rs 102.519 million) pertaining to prepaid tracker maintenance cost which is amortised over the period of time.

13.2 Deferred costs

	Note	2012	2011
		Rupees in '000	
Opening balance		-	10,401
Less: Amortised during the year		-	(10,401)
Closing balance		-	-

13.3 Provision held against other assets

	2012	2011 (Restated)
	Rupees in '000	
Opening balance	7,606	-
Charge for the year	791	7,606
Reversals	-	-
Closing balance	8,397	7,606

14 BILLS PAYABLE

	2012	2011
	Rupees in '000	
In Pakistan	656,592	393,683
Outside Pakistan	2,443	743
	659,035	394,426

15 DUE TO FINANCIAL INSTITUTIONS

	2012	2011
In Pakistan	1,600,000	1,898,500
Outside Pakistan	-	-
	1,600,000	1,898,500

15.1 Details of due to financial institutions secured / unsecured

	Note	2012	2011
Secured			
Musharaka from State Bank of Pakistan under Islamic Export Refinance Scheme	15.1.1	1,600,000	1,548,500
Unsecured			
Wakala Placements		-	350,000
		1,600,000	1,898,500

15.1.1 The Musharaka is on a profit and loss sharing basis having maturity dates between March 03, 2013 to June 4, 2013 (2011: January 30, 2012 to May 13, 2012) and is secured against demand promissory note executed in favor of the State Bank of Pakistan (SBP). A limit of Rs 1,600 million (2011: 950 million) has been allocated to the Bank by the SBP under Islamic Export Refinance Scheme for the financial year ending December 31, 2012.

	Note	2012	2011
		----------- Rupees in '000 -----------	
15.2 Particulars of due to financial institutions with respect to currencies			
In local currency		1,600,000	1,898,500
In foreign currencies		-	-
		1,600,000	1,898,500

16 DEPOSITS AND OTHER ACCOUNTS

	Note	2012	2011
Customers			
Fixed deposits		21,788,048	17,762,396
Savings deposits		17,353,985	12,079,175
Current accounts - non-remunerative		13,822,435	8,604,317
Margin accounts – non-remunerative		44,043	27,030
		53,008,511	38,472,918
Financial Institutions			
Remunerative deposits		100,359	5,437
Non-remunerative deposits		1,178	13,252
		53,110,048	38,491,607

16.1 Particulars of deposits

	Note	2012	2011
In local currency		47,145,986	34,561,601
In foreign currencies		5,964,063	3,930,006
		53,110,049	38,491,607

17 OTHER LIABILITIES

	Note	2012	2011
Profit / return payable in local currency		583,022	578,455
Deferred Murabaha Income - Financings	10.4.1	72,740	72,107
Deferred Murabaha Income - IERS		-	8,315
Deferred Murabaha Income - Commodity Murabaha	8.3	2,740	7,671
Accrued expenses		143,340	103,403
Advance from customers		206,623	216,281
Unrealised loss on forward foreign exchange contracts		19	4,682
Payable to group company		-	14,200
Taxation payable		761	-
Security deposits against musharaka cum ijara		20,875	9,957
Retention money		3,335	7,407
Payable to Contractors		1,377	3,898
Charity Payable	17.1	16,489	24,198
Worker Welfare Fund Payable		19,160	8,206
Withholding tax payable		1,722	1,614
Others		192,176	117,473
		1,264,379	1,177,867

17.1		2012	2011
Opening balance		24,198	22,371
Additions during the year		10,721	13,827
Payments during the year		(18,430)	(12,000)
Closing balance		16,489	24,198

17.1.1 During the year, charity from the Charity Fund of the Bank (in which late payment charges and Shari'a repugnant income of the Bank are credited) was paid to the following individuals / organisations:

	Note	2012	2011
		------- Rupees in '000 -------	
Shaukat Khanum Memorial Cancer Hospital		3,500	2,000
The Indus Hospital		3,500	2,500
Sindh Institute of Urology and Transplantation		2,500	2,500
Chippa Welfare Association		500	500
Layton Rahmatulla Benevolent Trust	17.1.2	3,000	2,000
Al-Shifa Trust		-	500
Ghurki Trust Teaching Hospital		1,500	-
Children Cancer Hospital		1,000	-
Deaf & Dumb Welfare Society (Regd.) Sargodha		500	-
Muhammad Qaiser		30	
Koohi Goth Hospital		900	-
Pakistan Kidney Institute / Shifa Foundation		1,500	
Flood Relief		-	2,000
		18,430	12,000

17.1.2 One member of the Board of Directors of the Bank is the trustee of the Donee.

17.1.3 Charity was not paid to any staff of the Bank or to any individual / organisation in which a director or his spouse had any interest at any time during the year except as mentioned in note 17.1.2.

18 SHARE CAPITAL

18.1 Authorised capital

2012	2011		2012	2011
------- Number of Shares -------			------- Rupees in '000 -------	
1,200,000,000	1,200,000,000	Ordinary shares of Rs.10 each	12,000,000	12,000,000

18.2 Issued, subscribed and paid up

Ordinary shares of Rs. 10/- each **Fully paid in cash**

2012	2011		2012	2011
------- Number of Shares -------			------- Rupees in '000 -------	
677,603,000	677,603,000	Opening Balance	6,776,030	6,776,030
20,000,000	-	Issued during the year	200,000	-
697,603,000	677,603,000	Closing Balance	6,976,030	6,776,030

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

18.4 The State Bank of Pakistan (SBP) vide BSD Circular No. 7 of 2009 dated April 15, 2009 has revised the Minimum Capital Requirement for banks. As per this circular the Bank was required to have a minimum issued, subscribed and paid-up capital (free of losses) of Rs. 9 billion by December 31, 2012 and is required to raise it to Rs. 10 billion by December 31, 2013.The paid-up capital of the Bank (free of losses) amounted to Rs. 6.715 billion as at December 31, 2012. As more fully explained in note 1.5 to the financial statements, the SBP vide its letter No. BPRD/BAID/623/2012/2013 dated February 20, 2013 has granted extension to the Bank in submission of capital plan for meeting MCR till April 30, 2013.

19 RESERVES

	Note	2012	2011
		------- Rupees in '000 -------	
Statutory Reserves	19.1	69,140	85,058

19.1 Under section 21 of the Banking Companies Ordinance, 1962 an amount of not less than 20% of the profit is to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of the paid up capital. Thereafter, an amount of not less than 10 percent of the profit is required to be transferred to such reserve fund. During the current year, SBP's approval was obtained for transferring back the amount from statutory reserves to offset the accumulated losses in order to reduce Minimum Capital Requirement (MCR) shortfall.

		2012	2011
20	**SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS**	------- Rupees in '000 -------	
20.1	**Surplus / (deficit) on revaluation of available for sale securities**		
	Sukuk / Units of open end mutual funds	127,261	(7,347)
	Less : Related deferred tax (liability) / asset	(44,541)	2,571
		82,720	(4,776)

21 CONTINGENCIES AND COMMITMENTS

21.1 Transaction - related contingent liabilities

	2012	2011
Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favoring		
- Government	480,674	439,678
- Banking companies and other financial institutions	30,329	34,617
- Others	1,200,624	1,221,157
	1,711,627	1,695,452

21.2 Trade-related contingent liabilities

	2012	2011
Import Letters of Credit	1,574,556	1,371,808

21.3 Commitments in respect of promises to

	2012	2011
	------- Rupees in '000 -------	
Purchase	1,718,862	2,864,736
Sell	4,071,087	1,563,518

	2012	2011
21.4 Commitments for the acquisition of operating fixed assets	30,515	43,637

21.5 Commitments in respect of financing facilities

The Bank makes commitment(s) to extend financing in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

		Note	2012	2011
22	**PROFIT / RETURN EARNED**		------- Rupees in '000 -------	
	On Islamic financings and related assets to Customers		3,193,468	3,249,392
	On Investments in available for sale securities		1,912,850	1,050,250
	On deposits / placements with financial institutions		575,804	333,143
			5,682,122	4,632,785
23	**PROFIT / RETURN EXPENSED**			
	Deposits and other accounts		2,664,689	2,249,277
	Other short term fund generation		143,103	146,718
			2,807,792	2,395,995
24	**GAIN ON SALE OF SECURITIES**			
	Sukuks certificates			
	- Federal government		9,445	27,225
	- Foreign currency Sukuks		51,537	27,783
	- Mutual Funds Units		3,792	-
	Gain on sale of securities		64,774	55,008

		Note	2012	2011 (Restated)
25	**OTHER INCOME**		------- Rupees in '000 -------	
	Gain on sale of property and equipment	11.2.1	1,210	4,245
	Liabilities no longer required written back		4,093	8,741
	Sharing of management fee		2,607	1,200
	Other		-	766
			7,910	14,952

26 ADMINISTRATIVE EXPENSES

	Note	2012	2011 (Restated)
		------- Rupees in '000 -------	
Salaries, allowances, etc.	26.1	1,056,861	870,223
Sharia Remuneration		3,488	2,323
Charge for defined benefit plan		24,887	19,325
Contribution to defined contribution plan		32,485	28,315
Brokerage and commission		143,362	134,212
Rent, taxes, insurance, electricity, etc.		722,516	596,956
Legal and professional charges		50,054	52,399
Communications		136,125	138,273
Repairs and maintenance		177,518	144,268
Traveling		26,150	32,663
Stationery and printing		38,110	38,217
Subscription fees		2,664	3,621
Advertisement and publicity		28,452	28,564
Auditors' remuneration	26.2	3,350	4,070
Depreciation	11.2	225,450	219,096
Amortization	26.3	82,766	90,626
Others		91,957	93,505
		2,846,195	2,496,656

26.1 This includes Rs. 3.640 million (2011: Rs. 2.939 million) in respect of Contribution to Employees' Old Age Benefit Institution.

26.2 Auditors' remuneration

	Note	2012	2011
		------- Rupees in '000 -------	
Audit fee		750	700
Fee for the review of half yearly financial statements		330	300
Fee for review of compliance with CCG		165	165
Fee for review of Certificate relating to financial reporting and other certifications		1,515	2,523
Out-of-pocket expenses		590	382
		3,350	4,070

26.3 Amortisation

	Note	2012	2011
Intangible assets	11.3	82,766	80,225
Deferred cost		-	10,401
		82,766	90,626

27 OTHER CHARGES

Worker Welfare Fund	10,954	7,843
Penalties imposed by the State Bank of Pakistan	1,749	1,187
	12,703	9,030

28 TAXATION

- Current	39,436	50,899
- Prior years	6,911	2,076
- Deferred	108,960	72,668
	155,307	125,643

28.1 Numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as the Bank has accumulated losses in prior periods and provision for current taxation has been made under section 113 of the Income Tax Ordinance, 2001.

28.2 Under section 114 of the Income Tax Ordinance, 2001 (Ordinance), the Bank has filed the returns of income for the tax years from 2006 to 2012 on due dates. These returns were deemed assessed under the provisions of the prevailing income tax law as applicable in Pakistan during the relevant accounting years.

29 BASIC AND DILUTED EARNING PER SHARE

	Note	2012	2011
		------- Rupees in '000 -------	
Profit after taxation for the year		345,698	190,486
		------- Number of shares -------	
Weighted average number of ordinary shares in issue - Number		683,559,284	677,603,000
		------- Rupees -------	
Earning per share - basic and diluted	29.1	0.51	0.28

29.1 There were no convertible / dilutive potential ordinary shares outstanding as at December 31, 2012 and December 31, 2011

30 CASH AND CASH EQUIVALENTS

	Note	2012	2011
		------- Rupees in '000 -------	
Cash and balances with treasury banks	6	4,196,103	3,429,994
Balances with other banks	7	5,660,301	1,116,928
		9,856,404	4,546,922

31 STAFF STRENGTH

	2012	2011
	------ Number of employees-----	
Permanent	942	765
Contractual basis	5	3
Bank's own staff strength at the end of the year	947	768
Outsourced	792	632
Total staff strength	1,739	1,400

32 DEFINED BENEFIT PLAN

32.1 Principal actuarial assumptions

The latest actuarial valuation of the Bank's gratuity scheme was carried out as at December 31, 2012. Projected unit credit method, using the following significant assumptions, was used for the valuation of the defined benefit plan:

	2012	2011
Discount factor used	11.5%	12.50%
Expected rate of return on plan assets	10%	12.00%
Expected rate of salary increase	8.5%	9.50%
Normal retirement age	60	60

32.2 Reconciliation of payable to defined benefit plan

	2012	2011
	(Rupees in '000)	
Present value of defined benefit obligations	89,470	71,317
Fair value of plan assets	(103,096)	(77,918)
Net actuarial losses not recognised	13,626	9,377
	-	2,776

32.3 Movement in defined benefit obligation

	2012	2011
Obligations at the beginning of the year	71,317	67,299
Current service cost	27,213	19,215
Cost of Fund	8,094	9,421
Benefits paid	(13,127)	(23,859)
Actuarial (gain) / loss on obligation	(4,027)	(759)
Obligations at the end of the year	89,470	71,317

	2012	2011
	(Rupees in '000)	

32.4 Movement in fair value of plan assets

	2012	2011
Fair value at the beginning of the year	77,918	76,319
Expected return on plan assets	10,222	9,158
Contributions	27,663	16,548
Benefits paid	(13,127)	(23,859)
Actuarial gain / (loss) on plan assets	420	(248)
Fair value at the end of the year	103,096	77,918

32.5 Plan assets consist of the following:

	2012	2011
Balance with Bank in deposit accounts	103,096	77,918
	103,096	77,918

32.6 Movement in payable to defined benefit plan

	2012	2011
Opening balance	2,776	-
Charge for the year	24,887	19,325
Bank's contribution to the fund made during the year	(27,663)	(16,549)
Closing balance	-	2,776

32.7 Charge for defined benefit plan

	2012	2011
Current service cost	27,213	19,215
Cost of fund	8,094	9,422
Expected return on plan assets	(10,222)	(9,158)
Actuarial gains recognized	(198)	(154)
	24,887	19,325

32.8 Actual return on plan assets

	2012	2011
Actual return on plan assets	10,642	7,642

32.9 Historical information

	2012	2011	2010	2009	2008
	(Rupees in '000)				
Defined benefit obligation	89,470	71,317	67,299	58,422	45,921
Fair value of plan assets	(103,096)	(77,918)	(76,319)	(63,822)	(41,867)
(Deficit) / surplus	(13,626)	(6,601)	(9,020)	(5,400)	4,054
Experience adjustments on plan liabilities	(4,027)	(759)	(6,001)	(9,729)	(815)
Experience adjustments on plan assets	420	(248)	(2,380)	(278)	(233)

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 contributions by the employer and employees during the year amounted to Rs. 32.485 million each (2011: Rs. 28.315 million).

34 COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief		Directors		Executives	
	2012	2011	2012	2011	2012	2011
	Rupees in '000					
Fees		-	6,684	2,375	-	-
Managerial remuneration (including Bonus)	20,044	8,335	-	-	243,488	184,593
Charge for defined benefit plan	-	-	-	-	16,897	15,383
Contribution to defined contribution plan	-	-	-	-	20,277	18,459
Rent and house maintenance	5,117	4,934	-	-	83,747	77,470
Utilities	879	834	-	-	20,277	18,459
Medical	40	40	-	-	5,917	5,004
Leave fare assistance	621	621	-	-	17,584	15,484
Car allowance	-	-	-	-	55,130	46,787
Others	1,933	1,933	-	-	4,141	1,224
	28,634	16,697	6,684	2,375	467,458	382,863
Number of persons	1	1	8	4	186	170

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

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The fair value of quoted investments is based on quoted market prices. Unquoted equity securities are valued at lower of cost and break-up value as per the latest available audited financial statements. Other unquoted securities are valued at cost less impairment losses. The provision for impairment in the value of investments has been determined in accordance with the accounting policy as stated in note 5.2.5 to these financial statements.

Fair values of islamic financings and related assets cannot be determined with reasonable accuracy due to absence of current and active market. The provisions against islamic financings and related assets have been calculated in accordance with the accounting policy as stated in note 5.3 to these financial statements. The repricing, maturity profile and effective rates are stated in note 39 to these financial statements.

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

Off-balance sheet financial instruments	**2012**		**2011**	
	Book value	**Fair value**	**Book value**	**Fair value**
	Rupees in '000			
Forward purchase of foreign exchange	1,719,923	1,718,862	2,866,822	2,864,736
Forward sale of foreign exchange	4,072,129	4,071,087	1,560,922	1,563,518

36 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2012					
	Corporate Finance	**Trading & Sales**	**Retail Banking**	**Commercial Banking**	**Others**	**Total**
	Rupees in '000					
Internal Income	-	(2,180,950)	3,268,646	(1,081,661)	(6,035)	-
Total income	51,651	2,548,344	2,085,235	1,665,013	27,223	6,377,466
Total expenses	-	(126,508)	(5,291,670)	(591,931)	(21,659)	(6,031,768)
Net income (loss)	51,651	244,142	198,462	6,661	(155,218)	345,698
Segment assets (gross)	-	25,069,252	10,525,288	18,381,685	10,310,038	64,286,263
Segment non performing financings	-	-	1,054,504	1,408,802	30,965	2,494,271
Segment provision required		-	511,449	234,976	15,336	761,761
Segment liabilities	-	-	52,271,221	3,097,861	1,264,380	56,633,462
Segment return on net assets (ROA) (%)	-	10.23%	18.46%	11.69%	4.21%	-
Segment cost of funds (%)	-	9.85%	5.81%	9.24%	-	-

	2011					
	Corporate Finance	**Trading & Sales**	**Retail Banking**	**Commercial Banking**	**Others**	**Total**
	Rupees in '000					
	Restated					
Internal Income	-	(1,188,938)	2,339,782	(1,153,868)	3,024	-
Total income	105,265	1,377,513	2,112,058	1,633,859	20,570	5,249,265
Total expenses	(35,359)	(144,910)	(4,336,934)	(517,673)	(23,903)	(5,058,779)
Net income / (loss)	69,906	43,665	114,906	(37,682)	(309)	190,486
Segment assets (gross)	-	16,910,220	13,658,614	13,453,898	4,750,231	48,772,963
Segment non performing financings	-	-	1,022,922	1,075,183	32,616	2,130,721
Segment provision required	-	-	441,403	123,943	11,168	576,514
Segment liabilities	-	-	37,869,638	2,192,358	1,900,404	41,962,400
Segment return on net assets (ROA) (%)	-	10.50%	19.03%	13.15%	4.60%	-
Segment cost of funds (%)	-	12.28%	6.67%	8.45%	0.00%	-

37 RELATED PARTY TRANSACTIONS

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

The Bank has related party relationship with Dubai Islamic Bank P.J.S.C, U.A.E, the holding company, shareholder, directors, related group companies and associated undertakings, key management personnel including Chief Executive Officer and Staff Retirement Funds.

A number of banking transactions are entered into with related parties in the normal course of business. These include financing and deposit transactions. These transactions are executed substantially on the same terms including profit rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk.

Contributions to staff retirement benefit plan are made in accordance with the terms of the contribution plan. Remuneration to the executives are determined in accordance with the terms of their appointment.

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:

	Note	2012	2011
		(Rupees '000)	
Key management personnel			
Financings			
At beginning of the year		108,810	144,101
Disbursements		69,925	63,552
Repayments		(82,005)	(98,843)
At the end of the year		96,730	108,810
Profit earned on islamic financings and related assets		4,688	5,034
Remuneration to Key Management Personnel.		130,838	101,009
Deposits			
At beginning of the year		40,112	21,432
Deposits		203,743	165,140
Withdrawals		(227,719)	(146,460)
At the end of the year		16,136	40,112
Return on deposits		1,257	807
Directors			
Financings			
At beginning of the year		-	13,425
Transferred from staff financings		-	(13,425)
At the end of the year		-	-
Profit earned on islamic financings and related assets		-	513
Deposits			
At beginning of the year		1,720	730
Deposits		2,687	3,218
Withdrawals		(3,243)	(2,228)
At the end of the year		1,164	1,720
Return on deposits		128	3
Holding company			
Placements			
At beginning of the year		-	2,140,918
Placements	37.1	33,593,582	10,735,835
Repayments		(33,593,582)	(12,876,753)
At the end of the year		-	-
Profit earned on placements with Holding Company		935	3,067
Purchase of Foreign Currency Sukuks from Holding Company		3,674,782	597,072
Sale of Foreign Currency Sukuks to Holding Company		3,178,694	626,518
Gain on sale of foreign currency sukuks		51,537	27,783
Fee charged by the holding company in respect of outsourcing arrangement		33,352	32,802

37.1 These include placements made with the holding company under Wakala arrangement on behalf of the Bank.

37.2 The bank has also entered into transactions pertaining to sale and purchase of foreign currencies (in ready / spot / tom and forward markets) with Dubai Islamic Bank PJSC in the ordinary couse of business.

	2012	2011
	---------- (Rupees '000)	----------
Deposits		
At beginning of the year	13,252	35,338
Deposits	823,005	620,280
Withdrawals	(835,079)	(642,366)
At the end of the year	1,178	13,252
Balance held abroad		
At beginning of the year	44,055	317,727
Deposits	85,201,173	20,316,894
Withdrawals	(81,223,787)	(20,590,566)
At the end of the year	4,021,441	44,055
Other payables	-	14,200
Other receivables	9,324	-
Employee benefit plans		
Contribution to Employees Gratuity Fund	27,663	19,325
Contribution to Employees Provident Fund	32,485	28,315

38 CAPITAL ASSESSMENT AND ADEQUACY

38.1 Capital management

Capital Management aims to safeguard the Bank's ability to continue as a going concern so that it could continue to provide adequate returns to shareholder by pricing products and services commensurately with the level of risk. For this the Bank ensures strong capital position and efficient use of capital as determined by the underlying business strategy i.e. maximizing growth on continuing basis. The Bank maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

This process is managed by the Asset Liability Committee (ALCO) of the Bank. The objective of ALCO is to derive the most appropriate strategy in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movement, liquidity constraints and capital adequacy and its implication on risk management policies.

38.2 Goals of managing capital

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

- To be an appropriately capitalised institution, considering the requirements set by the regulators of the banking markets where the Bank operates;
- Maintain strong ratings and to protect the Bank against unexpected events; and
- Availability of adequate capital at a reasonable cost so as to enable the Bank to operate adequately and provide reasonable value addition for the shareholders and other stakeholders.

38.3 Statutory Minimum Capital Requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 7 dated April 2009 requires the minimum paid-up capital (free of losses) for Banks / Development Finance Institutions to be raised to Rs. 10 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs. 9 billion paid-up capital (free of losses) by the end of the year 2012. The paid-up capital (free of losses) of the Bank for the year ended December 31, 2012 stood at Rs. 6.715 billion. As more fully explained in note 1.5 to the financial statements, the SBP has granted extension to the Bank for submission of capital plan for meeting Minimum Capital Requirement MCR till April 30, 2013. In addition, Bank is also required to maintain Capital Adequacy Ratio (CAR) of 15 percent of the risk weighted exposure of the Bank. The Bank's CAR as at December 31, 2012 was approximately 19.06% percent of its risk weighted exposure.

38.4 Capital Structure

The Bank's Regulatory Capital has been analysed into three tiers i.e.:

- Tier I Capital, which includes fully paid-up capital, general reserves and unappropriated profits (net of losses) etc. after deductions for certain specified items such as book value of intangibles etc.

- Tier II Capital, which includes general provision for loan losses (upto a maximum of 1.25% of total risk weighted assets) and reserve on revaluation of equity investments after deduction of deficit on available for sale investments (upto a maximum of 45%).

- Tier III Capital has also been prescribed by SBP for managing Market Risk. However, the Bank does not have any Tier III capital.

The total of Tier II and Tier III capital has to be limited to Tier I capital.

Banking operations are categorised in either the trading book or the banking book and risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off balance sheet exposures. The total risk weighted exposures comprise the credit risk, market risk and operational risk.

38.5 Capital adequacy ratio

The capital to risk weighted assets ratio, calculated in accordance with the SBP guidelines on capital adequacy using Basel II Standardized approach for credit and market risk and basic indicator approach for operational risk is presented below:

Regulatory Capital Base		**2012**	**2011**
		---------- Rupees in '000 ----------	
Tier I Capital			
Issued, subscribed and paid-up capital		6,976,030	6,776,030
Reserves as disclosed on the Statement of Financial Position		69,158	85,076
Accumulated loss		(260,665)	(622,281)
Other deductions:			
Book value of intangible assets (computer software)		(343,029)	(427,531)
Shortfall in provisions required against classified assets irrespective of any		(9,870)	(191,250)
Surplus / (Deficit) on account of revaluation of investments held in AFS		-	(4,776)
Total Tier I Capital		6,431,624	5,615,268
Tier II Capital			
General provisions for loan losses-up to maximum of 1.25% of Risk Weighted Assets		53,226	56,110
Revaluation Reserves up to 45%		37,224	-
Other Deductions		-	-
Total Tier II Capital		90,450	56,110
Eligible Tier III Capital		-	-
Total Regulatory Capital Base	(a)	6,522,074	5,671,378

Risk-weighted exposures		2012		2011	
		Capital Requirement *	Risk adjusted value	Capital Requirement *	Risk adjusted value
Credit risk		---------- Rupees in '000 ----------		---------- Rupees in '000 ----------	
Portfolios subject to standardised approach (Simple Approach for CRM)					
Banks and securities firms		577,970	3,853,131	216,510	1,443,400
Corporate portfolio		2,115,670	14,104,466	1,697,960	11,319,730
Retail non mortgages		751,239	5,008,261	703,036	4,686,909
Mortgages – residential		261,399	1,742,658	266,838	1,778,920
Fixed assets		178,836	1,192,243	175,536	1,170,239
Other assets		192,534	1,283,557	292,733	1,951,553
Market risk					
Capital requirement for portfolios subject to standardized approach					
Interest rate risk		242,577	1,617,178	137,739	918,258
Equity position risk		-	-	-	-
Foreign exchange risk		4,210	28,065	9,681	64,538
Operational risk					
Capital Requirement for operational risks subject to Basic Indicator Approach		807,077	5,380,513	579,986	3,866,573
Total	(b)	5,131,512	34,210,072	4,080,019	27,200,120
Capital adequacy ratio					
Total eligible regulatory capital held	(a)	6,522,074		5,671,378	
Total risk weighted assets	(b)	34,210,072		27,200,120	
Capital adequacy ratio	[(a / b) x 100]	19.06%		20.85%	

* Capital adequacy ratio requirement of 15% has been applied in accordance with the requirement of the State Bank of Pakistan

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 and 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 the organization's strategic advantage.

RISK FRAMEWORK

The Bank's Risk management framework is based on three pillars; (a) Risk Principles and strategies, (b) Organizational Structures and Procedures and (c) Prudent Risk Measurement and Monitoring Processes which are closely aligned with the activities of the Bank so as to give maximum value to the shareholder 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 this committee have been approved by the Board. Various Management Committees such as Management Committee, Asset and Liability Management Committee and Credit Committee support these goals.

The 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 and adhered for quantifiable risks by those who accept risks on behalf of the 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 and policies for managing risks and establishing adequate systems and 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 and 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 Risk Management Group 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 Management Information System 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

	2012					
	Islamic Financings and Related Assets (Gross)		Deposits		Contingencies and Commitments *	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture	-	-	294	0.00%		-
Textile	6,094,752	22.51%	181,748	0.34%	200,824	6.11%
Chemical and pharmaceuticals	1,706,012	6.30%	625,678	1.18%	19,363	0.59%
Cement	798,817	2.95%	12,891	0.02%	-	-
Sugar	-	-	141	0.00%	-	-
Food	2,738,431	10.11%	358,916	0.68%	420,696	12.80%
Footwear and leather garments	83,794	0.31%	5,627	0.01%	-	-
Automobile and transportation equipment	75,000	0.28%	159,948	0.30%	-	-
Electronics and electrical appliances	7,133	0.03%	10,695	0.02%	-	-
Construction	775,000	2.86%	120,082	0.23%	209,455	6.37%
Power (electricity), gas, water, sanitary	409,384	1.51%	593,184	1.12%	600,000	18.26%
Wholesale and retail trade	362,024	1.34%	173,358	0.33%	56,260	1.71%
Exports / imports	69,349	0.26%	163,544	0.31%	50,000	1.52%
Transport, storage and communication	1,436,610	5.31%	1,018,878	1.92%	464,937	14.15%
Financial	-	-	101,537	0.19%	1,073,745	32.67%
Insurance	-	-	57,906	0.11%	-	-
Services	107,618	0.40%	5,965,502	11.23%	80,813	2.46%
Individuals	11,397,975	42.10%	42,685,925	80.37%	-	-
Others	1,014,529	3.73%	874,194	1.64%	110,090	3.36%
	27,076,428	100%	53,110,048	100%	3,286,183	100%

* Contingent liabilities for the purpose of this note are presented at cost and include direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

	2011					
	Islamic Financings and Related Assets (Gross) Restated		Deposits		Contingencies and Commitments*	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture	-	-	2,473	0.01%	-	-
Textile	5,013,439	20.50%	164,183	0.43%	217,006	2.07%
Chemical and pharmaceuticals	2,259,965	9.24%	274,295	0.71%	59,220	0.57%
Cement	398,941	1.63%	4,337	0.01%	-	-
Sugar	-	-	140	0.00%	-	-
Food	1,417,532	5.80%	76,326	0.20%	282,182	2.70%
Footwear and leather garments	154,155	0.63%	2,801	0.01%	-	-
Automobile and transportation equipment	59,000	0.24%	15,930	0.04%	-	-
Electronics and electrical appliances	2,006	0.01%	12,687	0.03%	-	-
Construction	775,000	3.17%	212,187	0.55%	-	-
Power (electricity), gas, water, sanitary	428,466	1.75%	262,659	0.68%	605,610	5.79%
Wholesale and retail trade	375,246	1.53%	274,744	0.71%	-	-
Exports / imports	190,788	0.78%	155,848	0.40%	-	-
Transport, storage and communication	1,124,000	4.60%	401,907	1.04%	454,156	4.34%
Financial	-	-	5,437	0.01%	8,366,736	79.98%
Insurance	-	-	229,142	0.60%	-	-
Services	87,511	0.36%	4,368,613	11.35%	120,626	1.15%
Individuals	11,358,950	46.44%	31,085,552	80.76%	-	-
Others	812,952	3.32%	942,346	2.46%	355,947	3.40%
	24,457,951	100%	38,491,607	100%	10,461,483	100%

* Contingent liabilities for the purpose of this note are presented at cost and include direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

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39.1.2 Segment by sector

2012

	Islamic Financings and Related Assets (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	458,037	1.69%	668,257	1.26%	600,000	18.26%
Private	26,618,391	98.31%	52,441,791	98.74%	2,686,183	81.74%
	27,076,428	100.00%	53,110,048	100.00%	3,286,183	100.00%

2011
Restated

	Islamic Financings and Related Assets (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	400,000	1.64%	980,920	2.55%	600,000	5.74%
Private	24,057,951	98.36%	37,510,687	97.45%	9,861,483	94.26%
	24,457,951	100.00%	38,491,607	100.00%	10,461,483	100.00%

39.1.3 Details of non-performing islamic financings and related assets and specific provisions by class of business segment:

	2012		2011 Restated	
	Classified Islamic financings and related assets	Specific provisions held	Classified Islamic financings and related assets	Specific provisions held
	Rupees in '000			
Textile	157,807	74,797	82,850	37,661
Chemical	765,000	13,125	765,000	-
Wholesale and retail trade	238,546	13,985	42,831	20,960
Transportation, storage and communication	-	-	1,497	1,497
Services	1,202	1,202	159,994	385,842
Individuals	1,082,457	470,547	1,055,537	59,708
Import/Export	19,638	11,238	-	-
Food	146,289	81,403	20,000	4,118
Others	83,332	42,238	3,012	3,012
	2,494,271	708,535	2,130,721	512,798

39.1.4 Details of non-performing islamic financings and related assets and specific provisions by class of business segment:

	2012		2011 Restated	
	Classified financings	Specific provisions held	Classified financings	Specific provisions held
	Rupees in '000			
Public / Government	-	-	-	-
Private	2,494,271	708,535	2,130,721	512,798
	2,494,271	708,535	2,130,721	512,798

39.1.5 Geographical segment analysis

2012

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments *
	Rupees in '000			
Pakistan	501,005	63,500,705	6,867,243	3,286,183

2011

	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments *
	Rupees in '000			
Pakistan	316,129	48,196,449	6,234,049	10,461,483

* Contingent liabilities for the purpose of this note are presented at cost and include direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

39.1.6 Credit risk - General disclosures

The Bank uses the 'Standardised Approach' in calculation of credit risk and capital requirements throughout its statement of financial position.

Credit Risk: Disclosures for portfolio subject to the Standardised Approach and 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	2012 JCR - VIS	2012 PACRA	2012 S and 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	2012 Amount Outstanding	2012 Deduction CRM	2012 Net amount	2011 Amount Outstanding	2011 Deduction CRM	2011 Net amount
		Rupees in '000					
Funded							
Corporate	1	1,799,590	-	1,799,590	2,783,145	-	2,783,145
	2	1,528,500	-	1,528,500	1,607,089	-	1,607,089
	3,4	183,978	-	183,978	-	-	-
		3,512,068	-	3,512,068	4,390,234	-	4,390,234
Banks	1	3,696,737	-	3,696,737	4,748,668	-	4,748,668
	2,3	5,645,320	-	5,645,320	433,882	-	433,882
		9,342,057	-	9,342,057	5,182,550	-	5,182,550
Mortgages		4,210,906	-	4,210,906	4,284,767	-	4,284,767
PSEs		457,925	-	457,925	-	-	-
Retail		6,665,537	5,049	6,660,488	6,375,739	9,075	6,366,664
Unrated		11,521,455	-	11,521,455	9,668,715	853,154	8,815,561
		35,709,948	5,049	35,704,899	29,902,005	862,229	29,039,776
Non Funded							
Corporate	1	677,145	-	677,145	600,000	-	600,000
	2	-	-	-	69,227	-	69,227
		677,145	-	677,145	669,227	-	669,227
Banks	1	-	-	-	-	-	-
	2,3	1,073,745	-	1,073,745	1,016,149	-	1,016,149
		1,073,745		1,073,745	1,016,149	-	1,016,149
PSEs	1	-	-	-	-	-	-
Retail		42,230	21,115	21,115	51,311	17,057	34,254
Unrated		1,493,063	172,550	1,320,513	1,330,573	85,793	1,244,780
		3,286,183	193,665	3,092,518	3,067,260	102,850	2,964,410

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 have been adopted by the risk management 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 purchases or sells currencies in today / ready and gives or receives unilateral promises for sale or purchase of FX at future dates 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 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.

The following is a summary of the assets of the Bank subject to foreign exchange risk:

	2012			
	Assets	Liabilities	Off-balance Sheet	Net foreign currency exposure
	------- Rupees in '000 -------			
Pakistan rupee	55,192,853	50,666,017	2,352,606	6,879,442
United States dollar	7,824,354	4,458,931	(3,388,870)	(23,447)
Great Britain pound	157,071	424,925	267,566	(288)
Japanese yen	89	-	-	89
Euro	108,201	290,062	186,015	4,154
Swiss franc	4,513	-	-	4,513
U.A.E Dirham	213,624	793,527	582,683	2,780
	63,500,705	56,633,462	-	6,867,243

	2011			
	Assets	Liabilities	Off-balance Sheet	Net foreign currency exposure
	------- Rupees in '000 -------			
Pakistan rupee	45,504,652	38,026,157	597,856	8,076,351
United States dollar	2,388,621	2,885,592	(1,433,466)	(1,930,437)
Great Britain pound	111,149	355,952	328,674	83,871
Japanese yen	88	-	-	88
Euro	94,226	259,318	506,936	341,844
Swiss franc	2,251	-	-	2,251
U.A.E Dirham	95,462	435,381	-	(339,919)
	48,196,449	41,962,400	-	6,234,049

39.2.1 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 Shari'a Advisor / Shari'a Executive Committee Board 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 statement of financial position due to changes in profit / return on investment and financing products. Yield / profit rate risk review of the statement of financial position 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 risks.

39.2.4 MISMATCH OF YIELD / PROFIT RATE SENSITIVE ASSETS AND LIABILITIES

	2012											
			Exposed to Yield / Profit risk									
	Effective Yield / Profit rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-profit bearing financial instruments
			Rupees in '000									
On-balance sheet financial instruments												
Assets												
Cash and balances with Treasury Banks	-	4,196,103	-	-	-	-	-	-	-	-	-	4,196,103
Balances with other Banks	1.24%	5,660,301	10	-	-	-	-	-	-	-	-	5,660,291
Due from financial institutions	10.84%	3,206,945	3,206,945	-	-	-	-	-	-	-	-	-
Investments	11.53%	21,334,833	433,944	1,368,460	18,904,701	-	-	-	-	627,728	-	-
Islamic financings and related as:	14.86%	26,314,667	5,019,059	7,239,292	7,358,285	3,955,331	11,058	13,278	195,762	15,272	621,130	1,886,200
Other assets	-	613,981	-	-	-	-	-	-	-	-	-	613,981
		61,326,830	8,659,958	8,607,752	26,262,986	3,955,331	11,058	13,278	195,762	643,000	621,130	12,356,575
Liabilities												
Bills payable	-	659,035	-	-	-	-	-	-	-	-	-	659,035
Due to financial institutions	9.31%	1,600,000	1,600,000			-	-	-	-	-	-	-
Deposits and other accounts	5.94%	53,110,048	39,242,391	-	-	-	-	-	-	-	-	13,867,657
Other liabilities	-	949,863	-	-	-	-	-	-	-	-	-	949,863
		56,318,946	40,842,391	-	-	-	-	-	-	-	-	15,476,555
On-balance sheet gap		5,007,884	(32,182,433)	8,607,752	26,262,986	3,955,331	11,058	13,278	195,762	643,000	621,130	(3,119,980)
Total Yield / Profit Risk Sensitivity Gap			(32,182,433)	8,607,752	26,262,986	3,955,331	11,058	13,278	195,762	643,000	621,130	(3,119,980)
Cumulative Yield/Profit Risk Sensitivity Gap			(32,182,433)	(23,574,681)	2,688,305	6,643,636	6,654,694	6,667,972	6,863,734	7,506,734	8,127,864	5,007,884

	Effective yield / Profit Rate	Total	Exposed to Yield / Profit risk									Non-profit bearing financial instruments
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
			2011									
			Rupees in '000									
On-balance sheet financial instruments												
Assets												
Cash and balances with Treasury Banks	-	3,429,994	-	-	-	-	-	-	-	-	-	3,429,994
Balances with other Banks	6.70%	1,116,928	10	-	-	-	-	-	-	-	-	1,116,918
Due from financial institutions	12.54%	3,826,084	3,826,084	-	-	-	-	-	-	-	-	-
Investments	13.38%	12,937,179	1,701,203	525,833	10,710,143	-	-	-	-	-	-	-
Islamic financings and related assets	15.42%	23,889,043	3,708,120	6,199,114	6,762,419	4,064,687	20,877	21,212	114,003	51,699	623,194	2,323,718
Other assets	-	488,839	-	-	-	-	-	-	-	-	-	488,839
		45,688,067	9,235,417	6,724,947	17,472,562	4,064,687	20,877	21,212	114,003	51,699	623,194	7,359,469
Liabilities												
Bills payable	-	394,426	-	-	-	-	-	-	-	-	-	394,426
Due to financial institutions	10.11%	1,898,500	398,000	978,500	522,000	-	-	-	-	-	-	-
Deposits and other accounts	6.65%	38,491,607	29,859,524	-	-	-	-	-	-	-	-	8,632,083
Other liabilities	-	858,991	-	-	-	-	-	-	-	-	-	858,991
		41,643,524	30,257,524	978,500	522,000	-	-	-	-	-	-	9,885,500
On-balance sheet gap		4,044,543	(21,022,107)	5,746,447	16,950,562	4,064,687	20,877	21,212	114,003	51,699	623,194	(2,526,031)
Total Yield / Profit Risk Sensitivity Gap			(21,022,107)	5,746,447	16,950,562	4,064,687	20,877	21,212	114,003	51,699	623,194	(2,526,031)
Cumulative Yield/Profit Risk Sensitivity Gap			(21,022,107)	(15,275,660)	1,674,902	5,739,589	5,760,466	5,781,678	5,895,681	5,947,380	6,570,574	4,044,543

39.3 Liquidity Risk

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet in an 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 commitments. 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 finance 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 statement of financial position from a statement of financial position integrity and sustainability perspective and monitoring the Bank's liquidity profile and associated activities.

39.3.1 MATURITIES OF ASSETS AND LIABILITIES

Maturities Of Assets And Liabilities - Expected Maturity

2012

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	4,196,103	1,821,607	-	-	-	2,374,496	-	-	-	-
Balances with other banks	5,660,301	5,660,301	-	-	-	-	-	-	-	-
Due from financial institutions	3,206,945	3,206,945	-	-	-	-	-	-	-	-
Investments	21,334,833	86,012	3,662	30,720	55,781	5,086,307	8,971,821	5,861,179	1,239,351	-
Islamic financings and related assets	26,314,667	3,722,230	4,359,171	3,976,908	324,593	1,780,193	2,333,578	4,687,023	2,411,432	2,719,539
Operating fixed assets	1,535,272	63,035	58,378	92,346	185,023	294,023	258,989	353,079	180,629	49,770
Deferred tax assets	221,619	18,468	36,936	55,405	110,810	-	-	-	-	-
Other assets	1,030,965	337,639	119,629	354,423	69,536	63,797	49,026	21,432	10,288	5,195
	63,500,705	14,916,237	4,577,776	4,509,802	745,743	9,598,816	11,613,414	10,922,713	3,841,700	2,774,504
Liabilities										
Bills payable	659,035	659,035	-	-	-	-	-	-	-	-
Due to financial institutions	1,600,000	-	1,240,000	360,000	-	-	-	-	-	-
Deposits and other accounts	53,110,048	6,068,051	4,679,147	5,713,270	10,421,699	6,307,114	11,602,162	6,834,281	1,484,324	-
Other liabilities	1,264,379	704,345	276,709	112,731	74,451	30,059	18,750	30,147	17,187	-
	56,633,462	7,431,431	6,195,856	6,186,001	10,496,150	6,337,173	11,620,912	6,864,428	1,501,511	-
Net assets	6,867,243	7,484,806	(1,618,080)	(1,676,199)	(9,750,407)	3,261,643	(7,498)	4,058,285	2,340,189	2,774,504
Share capital	6,976,030									
Reserves	69,140									
Accumulated loss	(260,665)									
Advance against future issue of share capital	18									
Surplus on revaluation of assets	82,720									
	6,867,243									

2011

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	3,429,994	1,309,179	-	-	-	2,120,815	-	-	-	-
Balances with other banks	1,116,928	1,116,928	-	-	-	-	-	-	-	-
Due from financial institutions	3,826,084	3,826,084	-	-	-	-	-	-	-	-
Investments	12,937,179	1,192,653	55,833	-	382,643	3,155,984	7,153,858	503,333	492,875	-
Islamic financings and related assets	23,889,043	2,291,129	4,296,051	4,042,794	665,942	1,731,579	1,885,910	4,044,501	1,824,025	3,107,112
Operating fixed assets	1,597,770	23,996	45,916	67,471	129,495	267,444	228,683	428,057	358,776	47,932
Deferred tax assets	377,691	15,736	31,474	47,211	94,422	188,848	-	-	-	-
Other assets	1,021,760	347,333	57,998	286,169	110,377	104,122	57,299	43,296	15,166	-
	48,196,449	10,123,038	4,487,272	4,443,645	1,382,879	7,568,792	9,325,750	5,019,187	2,690,842	3,155,044
Liabilities	-									
Bills payable	394,426	394,426	-	-	-	-	-	-	-	-
Due to financial institutions	1,898,500	398,000	978,500	522,000	-	-	-	-	-	-
Deposits and other accounts	38,491,607	26,745,612	2,808,953	2,204,539	3,284,313	1,198,529	554,267	899,627	795,767	-
Other liabilities	1,177,867	650,689	228,345	115,961	81,299	47,372	19,230	24,346	10,625	-
	41,962,400	28,188,727	4,015,798	2,842,500	3,365,612	1,245,901	573,497	923,973	806,392	-
Net assets	6,234,049	(18,065,689)	471,474	1,601,145	(1,982,733)	6,322,891	8,752,253	4,095,214	1,884,450	3,155,044
Share capital	6,776,030									
Reserves	85,058									
Accumulated loss	(622,281)									
Advance against future issue of share capital	18									
Surplus on revaluation of assets	(4,776)									
	6,234,049									

Regarding behavior of non-maturity deposits (non-contractual deposits), the Bank conducted a behavioral study based on 3 years data. On the basis of its findings 31% of current accounts saving accounts are bucketed into 'Upto' 1-Year maturity and 61% of current and saving accounts are bucketed in 'Upto' 2 to 5 years.

Maturities Of Assets And Liabilities - Contractual Maturity

	2012									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	4,196,103	1,821,607	-	-	-	2,374,496	-	-	-	-
Balances with other banks	5,660,301	5,660,301	-	-	-	-	-	-	-	-
Due from financial institutions	3,206,945	3,206,945	-	-	-	-	-	-	-	-
Investments	21,334,833	86,012	3,662	30,720	55,781	5,086,307	8,971,821	5,861,179	1,239,351	-
Islamic financings and related assets	26,314,667	3,722,230	4,359,171	3,976,908	324,593	1,780,193	2,333,578	4,687,023	2,411,432	2,719,539
Operating fixed assets	1,535,272	63,035	58,378	92,346	185,023	294,023	258,989	353,079	180,629	49,770
Deferred tax assets	221,619	18,468	36,936	55,405	110,810	-	-	-	-	-
Other assets	1,030,965	337,639	119,629	354,423	69,536	63,797	49,026	21,432	10,288	5,195
	63,500,705	14,916,237	4,577,776	4,509,802	745,743	9,598,816	11,613,414	10,922,713	3,841,700	2,774,504
Liabilities										
Bills payable	659,035	659,035	-	-	-	-	-	-	-	-
Due to financial institutions	1,600,000	-	1,240,000	360,000	-	-	-	-	-	-
Deposits and other accounts	53,110,048	36,591,984	3,056,410	3,265,863	5,580,090	904,069	796,072	1,431,236	1,484,324	-
Other liabilities	1,264,379	704,345	276,709	112,731	74,451	30,059	18,750	30,147	17,187	-
	56,633,462	37,955,364	4,573,119	3,738,594	5,654,541	934,128	814,822	1,461,383	1,501,511	-
Net assets	6,867,243	(23,039,127)	4,657	771,208	(4,908,798)	8,664,688	10,798,592	9,461,330	2,340,189	2,774,504
Share capital	6,976,030									
Reserves	69,140									
Accumulated loss	(260,665)									
Advance against future issue of share capital	18									
Surplus on revaluation of assets	82,720									
	6,867,243									

	2011									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	3,429,994	1,309,179	-	-	-	2,120,815	-	-	-	-
Balances with other banks	1,116,928	1,116,928	-	-	-	-	-	-	-	-
Due from financial institutions	3,826,084	3,826,084	-	-	-	-	-	-	-	-
Investments	12,937,179	1,192,653	55,833	-	382,643	3,155,984	7,153,858	503,333	492,875	-
Islamic financings and related assets	23,889,043	2,291,129	4,296,051	4,042,794	665,942	1,731,579	1,885,910	4,044,501	1,824,025	3,107,112
Operating fixed assets	1,597,770	23,996	45,916	67,471	129,495	267,444	228,683	428,057	358,776	47,932
Deferred tax assets	377,691	15,736	31,474	47,211	94,422	188,848	-	-	-	-
Other assets	1,021,760	347,333	57,998	286,169	110,377	104,122	57,299	43,296	15,166	-
	48,196,449	10,123,038	4,487,272	4,443,645	1,382,879	7,568,792	9,325,750	5,019,187	2,690,842	3,155,044
Liabilities										
Bills payable	394,426	394,426	-	-	-	-	-	-	-	-
Due to financial institutions	1,898,500	398,000	978,500	522,000	-	-	-	-	-	-
Deposits and other accounts	38,491,607	6,620,955	4,037,908	4,030,868	6,897,269	4,562,633	7,282,476	4,263,731	795,767	-
Other liabilities	1,177,867	650,689	228,345	115,961	81,299	47,372	19,230	24,346	10,625	-
	41,962,400	8,064,070	5,244,753	4,668,829	6,978,568	4,610,005	7,301,706	4,288,077	806,392	-
Net assets	6,234,049	2,058,968	(757,481)	(225,184)	(5,595,689)	2,958,787	2,024,044	731,110	1,884,450	3,155,044
Share capital	6,776,030									
Reserves	85,058									
Accumulated loss	(622,281)									
Advance against future issue of share capital	18									
Surplus on revaluation of assets	(4,776)									
	6,234,049									

Current and Saving deposits have been classified under maturity upto one month as these do not have any contracted maturity. Further, the bank estimates that these deposits are a core part of its liquid resources and will not fall below the current year's level.

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 have also been initiated. In order to strengthen the Operational Risk Management Framework, an Operational Risk reporting system by the name of "Operational Risk Management System" ORMS has also been acquired.

In addition to the above, the Operational Risk Policy is supported by Operation Manuals, Anti Money Laundering, Fraud Risk Framework, Know Your Customer policies (AML / KYC), Technology Controls, Internal Control and IT security policies.

40 PROFIT / (LOSS) DISTRIBUTION TO DEPOSITOR'S POOL

The Bank maintained the following pools for profit declaration and distribution during the year ended December 31, 2012:

i) Common Mudaraba Pool;
ii) Umra Deposits Pool (matured during the year); and
iii) Musharaka Pool under SBP's Islamic Export Refinance Scheme.

The deposits and funds accepted under the Common Mudaraba Pool are provided to diversified sectors and avenues of the economy / business mainly to 'Consumer Financings', 'Textile & Allied', 'Food & Allied', 'Distribution & Trade' and 'Investment in Government of Pakistan Ijara Sukuks'.

The deposits and funds accepted under the Umra Deposits Pool are mainly used for consumer financing (Auto Finance and Housing Finance) and the returns are distributed between DIBPL and the deposit holders.

Musharaka investments from the SBP under Islamic Export Refinance Scheme (IERS) are channeled towards the export sector of the economy.

Key features and risk & reward characteristics of all pools

The 'Common Mudaraba Pool' for both local and foreign currency is catered for all DIBPL depositors and provide profit / loss based on Modaraba.

The IERS Pool caters the 'Islamic Export Refinance' requirements based on the guidelines issued by the SBP.

Umra Deposits is a product which was launched under which deposits were obtained for specific period and the depositors were offered Umra package as a gift from the Bank. The Bank no longer offers these deposits and all such deposits have been matured / encashed before December 31, 2012.

The risk characteristic of each pool mainly depends on the asset and liability profile of each pool.

Parameters used for allocation of profit, charging expenses and provisions etc. along with a brief description of their major components:

Gross income generated from relevant assets, calculated at the end of the month is first divided between the Bank and investors / depositors in ratio of Bank's weighted average equity commingled in a pool on pro rata basis, and then amongst the Bank and the depositors as per agreed mudarib fee and weightages declared before start of a month, respectively.

Profit share is determined using weight and profit sharing ratio assigned to each category of deposit within a pool. These weightages and profit sharing ratios are declared by the Bank in compliance with the requirements of the SBP and Shariah.

The allocation (of income and expenses to different pools) is based on pre-defined basis and accounting principles / standards. Provisions against any non-performing asset of the pool also passed on to the pool. The profit of the pool is shared between the members of the pool on pre-defined mechanism based on the weightages announced before the profit calculation period.

Profit / (loss) distribution to depositor's pool

General Remunerative Depositor's Pools	Profit Sharing Ratio	Mudarib Share-Net of Hiba and Including Mudarib Fee (Amount in '000)	Mudarib Share-Net of Hiba and Including Mudarib Fee in %age	Amount of Mudarib share transferred to the depositors through Hiba (Amount in '000)	%age of Net Mudarib share transferred to the depositors through Hiba	Profit Rate and weightage announcement period	Percentage of Mudarib Share transferred through Hiba	Profit rate return earned	Profit rate return distributed
Common Mudaraba Pool	62.69% : 37.31%	3,025,435	53.89%	494,208	16.34%	Monthly	14.04%	12.67%	7.78%

Specific Pools	Profit Sharing Ratio	Mudarib Share-Net of Hiba and Including Mudarib Fee (Amount in '000)	Mudarib Share-Net of Hiba and Including Mudarib Fee in %age	Amount of Mudarib share transferred to the depositors through Hiba (Amount in '000)	%age of Net Mudarib share transferred to the depositors through Hiba	Profit Rate and weightages announcement period	Percentage of Mudarib Share transferred through Hiba	Profit rate return earned	Profit rate return distributed
Umra Deposits Pool	94.96% : 5.04%	6,874	88.85%	472	6.87%	Monthly	6.43%	10.54%	3.68%

Specific pools	Ratio of weightage of Bank to SBP	Share of profit to SBP (Amount in '000)	HIBA (Amount in '000)	Profit rate and weightage announcement period	Profit rate return earned by SBP
Musharaka Pool under SBP's Islamic Export Refinance Scheme	2.25 : 1	130,943	35,329	Monthly	9.56%

41 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 05 MAR 2013 by the Board of Directors of the Bank.

42 GENERAL

42.1 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 statement of financial position and profit and loss account.

42.2 The figures in the financial statements are rounded off to the nearest thousand rupee.

42.3 Corresponding figures

Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparisons. No significant reclassifications were made during the current year except for the following expenses, which were netted off from "Fee, commission and brokerage income" have now been reclassified to the respective heads.

Transfer from	Amount Rs in '000	Transfer to	Amount Rs in '000
Fee, commission and brokerage income	159,344	Brokerage and commission	122,571
		Others	32,546
		Rent, taxes, insurance, electricity, etc.	4,227

PRESIDENT / CHIEF EXECUTIVE DIRECTOR DIRECTOR DIRECTOR

ANNEXURE - 1

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND RUPEES OR ABOVE PROVIDED DURING THE YEAR ENDED DECEMBER 31, 2012

S. No.	Name and address of the borrower		Father/Husband Name	CNIC No.	Outstanding Liabilities at beginning of year				Principal written-off	Profit written-off	Other financial relief provided (Early Settlement charges)	Total (10+11+12)
	Name	Address			Principal	Profit	Others (Early Settlement charges)	Total (6+7+8)				
1	2	3	4	5	6	7	8	9	10	11	12	13
					Rupees in '000							
1	Chaudhary Mahmood Ahmed	House No.P-5, Street No.01, Near Hockey Stadium, Kohe-Enoor Town, Faisalabad	Chaudhary Khushi Muhammad (Late)	33100-2592581-1	10,813	1,057	291	12,161	-	1,481	291	1,772
2	Rashid Yousaf	House # 195-D, Block # A, Qadri Chowk, Samanabad near Kaloo Car Decoration, Faisalabad	Malik Muhammad Yousaf	33100-9686480-3	4,347	838	-	5,185	-	796	-	796
3	Ghulam Fareed	House No.180, Block-A, Canal Road, Saeed Colony, Faisalabad	Haji Muhammad Akber	33100-6708400-3	9,283	1,647	-	10,930	-	1,518	-	1,518
4	Amir Hanif	House No.1257, Block-B Ghulam Muhammad Abad, Faisalabad	Mian Muhammad Hanif	33100-2268093-7	3,894	772	140	4,806	-	666	140	806
5	Syed Ashraf Ali	DP-69/A, Sector 12-D North Karachi Industrial Area, Karachi	Syed Ashraf Ali	42101-8228717-5	3,868	731	142	4,741	-	658	142	800
6	Feroz Dawood Dossani	Flat No. 1302-A, Mehran Squre,13Th Floor, Ch. Khaliq-Uz-Zaman Road Near Teen Talwar, Ferer Town,Karachi	Dawood Abbo	42301-0729454-9	7,072	537	-	7,609	-	710	-	710
7	Abidullah	Plot# A-18, Ground Floor,Block# 1, Shireen Jinnah Colony,Near Clifton Medical Cetnre,Clifton, Karachi	Noor Badshah	42301-1955382-9	4,067	184	294	4,545	-	220	294	514
8	M Saleem	House# 43, Block# 7/8,Farha Co-Operative Society,Bahadurabad, Karachi	Muhammad Basheer	42301-0256677-7	20,106	3,690	694	24,490	-	3,321	694	4,015
9	Ghulam Rasool	Flat No.52-B,Askari IV, Rashid Minhas Road, Karachi.	Ghulam Hussain	42201-7932731-5	7,561	199	237	7,997	-	306	237	543
10	M Sharjeel Goplani	Sharjeel & Brothers Kaka Streetoff Siddiqui Wahab Roadold Haji Camp, Karachi	Abdul Shakoor	42301-4432674-7	2,743	374	76	3,193	-	450	76	526
11	Qayyum Abid Choudhry	House No. 13-D, School Road Askari Road Cantt, Karachi	Siddique Abid Chodhry	42301-1058223-9	8,750	1,567	-	10,317	-	1,253	-	1,253
12	Ch.Azhar Hameed	Madina Motors, Charaghia Market, Walton Roadlahore, Cantt.Lahore.	Hameed Ullah	35201-8820070-3	6,645	1,210	-	7,855	-	1,110	-	1,110
13	Noor Ahmad Shahid	House No.3/A, Shahdrah,Mohallah Ameer Ali Park,Tool Tax Shahdrah,Lahore	Abdul Hameed	35202-3896517-7	3,601	678	-	4,279	-	579	-	579
14	Zainab Ansari	House # 9, Block # D,Nayab Villas, Near Garrison College For Boys, Lahore Cantt, Lahore	Muhammad Azhar Ansari	35201-1451614-4	14,116	1,292	782	16,190	-	2,145	782	2,927
15	Waseem Raja	Iron Steel Traders 129, 40 Shaheed Ganjsarai Sultan, Lahore	Raja Abdul Sattar	35202-5392599-9	5,750	164	202	6,116	-	495	202	697
16	Masood Ahmed Orakzai	Flash Leathershop 10-A, Block-12, F-7 Markaz, Islamabad	Faiz Ullah Khan	61101-1884996-3	11,404	2,097	-	13,501		5,099	-	5,099
17	Mohsin Enterprises	Grand Homes (Pvt.) Ltd., East Cannal Road, Faisalabad	Muhammad Sharif	33100-6735553-5	35,000	2,953	4,381	42,334	-	2,953	6,653	9,606
					159,020	19,990	7,239	186,249	-	23,760	9,511	33,271

Alko