

# BankIslami



BankIslami



4<sup>th</sup> Annual Report  
December 2007

Serving you, the Right way







# Vision

To be recognized as the leading authentic Islamic Bank

# Mission

To create value for our stakeholders by offering Authentic, Sharia'h compliant and technologically advanced products and services. We differentiate ourselves through:

- Authenticity
- Innovation
- Understanding our clients' needs
- Commitment to excellence
- Fast, Efficient and seamless delivery of solution. As a growing institution, the foundation for our performance lies on our human capital and BankIslami remains committed to becoming an employer of choice, attracting, nurturing and developing talent in a transparent and performance driven culture.



# Values

- Product Authenticity
- Customer Focus
- Meritocracy
- Integrity
- Teamwork
- Humility
- Innovation

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## Corporate Information

### Board of Directors

Chief Justice (Retd.) Mahboob Ahmed Chairman

Mr. Ahmed Goolam Mahomed Randeree

Mr. Ahmed Mohammed El Shall

Mr. Ali Raza Siddiqui

Mr. Hasan A. Bilgrami

Chief Executive Officer

Mr. Mohamed Abdulla Amer Al Nahdi

Mr. Shabir Ahmed Randeree

### Sharia'h Supervisory Board

Justice (Retd.) Muhammad Taqi Usmani

Chairman

Professor Dr. Fazlur Rahman

Member

Mufti Irshad Ahmad Aijaz

Member & Sharia'h Adviser

### Audit Committee

Mr. Ahmed Mohammed El Shall

Chairman

Mr. Ali Raza Siddiqui

Member

Mr. Shabir Ahmed Randeree

Member

### Executive Committee

Chief Justice (Retd.) Mahboob Ahmed

Chairman

Mr. Ahmed Goolam Mahomed Randeree

Member

Mr. Ahmed Mohammed El Shall

Member

Mr. Hasan A. Bilgrami

Member

### Human Resource & Compensation Committee

Mr. Ali Raza Siddiqui

Chairman

Mr. Ahmed Goolam Mahomed Randeree

Member

Mr. Ahmed Mohammed El Shall

Member

Mr. Hasan A. Bilgrami

Member

### Company Secretary

Mr. Gohar Iqbal Shaikh

### Auditors

Ford Rhodes Sidat Hyder & Co.

Chartered Accountants

### Legal Adviser

Haidermota & Co.

Barrister at Law

Management (in alphabetical order)

Mr. Aqeel Siddiqui

Mr. Arsalan Vohra

Mr. Asad Alim

Mr. Faisal Shaikh

Mr. Farooq Anwar

Mr. Gohar Iqbal Shaikh

Mr. Hasan A. Bilgrami

Mr. Jawad Khan

Mr. Muhammad Imran

Mr. Muhammad Shoaib Khan

Mr. Rehan Shuja Zaidi

Ms. Sheba Matin Khan

Mr. Syed Akhtar Ausaf

Mr. Syed Mujtaba H. Kazmi

Head, Commercial Banking

Head, Risk Management

Head, Information Systems

Head, Corporate & Product Development

Head, Operations

Head, Finance & Operations

Chief Executive Officer

Head, Legal & Compliance

Head, Consumer Banking

Head, Treasury & Financial Institutions

Head, Internal Audit

Head, Human Resources

Head, Credit

Head, Investment Banking

Registered Office

11th Floor, Executive Tower,

Dolmen City, Marine Drive,

Block -4, Clifton,

Karachi.

Phone: (92-21) 111-247(BIP)-111

Fax: (92-21) 5378373

Email: [info@bankislami.com.pk](mailto:info@bankislami.com.pk)

Share Registrar

Technology Trade (Private) Limited,

Dagia House, 241-C, Block-2,

P.E.C.H.S. off Shakra-e-Quaideen,

Karachi.

Phone: (92-21) 4387960-61

Fax: (92-21) 4391318

Website

[www.bankislami.com.pk](http://www.bankislami.com.pk)

The Story Behind Our Logo...

When it is a question of Faith,  
**'Authenticity'**  
is the key word.

Our name & logo sets  
the benchmark



**BankIslami**





# BankIslami

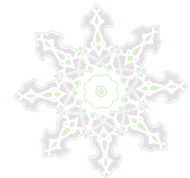
A simple, local and Authentic name that leaves no confusion about what we do -

## only Islamic Banking!

The same thought process went into designing the logo- simple, local and Authentic to the core.

### ■ Motif

The blue and green motif sets the background of the logo. Like all 'Authentic' Islamic motifs, it has eight corners filled with flowing lines without any source point. These two features are an important part of Islamic art. Next time you see an Islamic motif, check its authenticity by these benchmarks.



### ■ Script and Calligrapher

We opted for the Arabic script for its versatility, beauty and Authenticity. 'Khat-e-Sulus', a script which has graced the Islamic monuments from the subcontinent to Turkey to Arabia including the two most sacred mosques- was opted for. It stands for timeless traditions and values that Muslims in these regions have shared for centuries- trade and commerce included. When it came to the Calligrapher, we went to one of the best sources in the world -Ustad Shafiq-uz-Zaman, the only person chosen to do calligraphy in the Masjid-e-Nabwi after 500 years.

Can you think of any better and more authentic standards?



### ■ The Crescent

A rising crescent in the traditional green encircles the motif and calligraphy. The Crescent has deep association with contemporary and modern Islam. In our logo it stands for Shariah encompassing everything that we do at BankIslami.



### ■ Motif Bands

Two motif bands run parallel to each other and frame the symbol. Again, stars in the bands have eight corners. This band is found on many Islamic monuments all around the world including the Holy Ka'ba.



Do you think **Authenticity** will ever escape our attention in whatever we do?

## FINANCIAL HIGHLIGHTS AT A GLANCE

	2007	2006*
	----- Rupees in million -----	
<b>PROFIT AND LOSS ACCOUNT</b>		
Return earned	602.06	100.01
Profit paid	303.84	18.67
Net Spread	298.22	81.34
Fee, Commission, Brokerage and Exchange Income	71.46	4.17
Core Banking Income	369.68	85.51
Provisions	(28.37)	(1.00)
Other Income	68.82	40.38
Operating expenditure	(510.59)	(159.29)
Profit/(Loss) before tax	(100.46)	(34.40)
Taxation	63.44	26.05
Profit/(loss) after tax	(37.02)	(8.35)
<b>BALANCE SHEET</b>		
Assets	14,447	4,025
Financings	3,963	959
Deposits	9,934	1,778
Share Capital	3,200	2,000
Shareholders Fund	3,845	2,003
Market Capitalization	5,184	2,110
Number of staff	563	236
Number of branches	36	10
<b>RATIO</b>		
Break up Value (Rs)	9.89	10.01
Market Value per Share (Rs.)	16.20	10.55
Earning per Share (Rs.)	(0.13)	(0.04)
Net Spread to gross return (%)	49.53	81.34
Financing to deposit ratio-ADR (%)	39.89	53.94
Capital Adequacy ratio	37.92	61.83

\* Profit and Loss figures for 2006 represents period from 7<sup>th</sup> April 2006 to 31<sup>th</sup> December 2006.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 4th Annual General Meeting of the Members of BankIslami Pakistan Limited will be held InshaAllah on Saturday, March 29, 2008 at 8:00 a.m. at Hotel Regent Plaza, Shakra-e-Faisal, Karachi to transact the following business:

## Ordinary Business

To receive, consider and adopt the Audited Financial Statements (separate and consolidated) for the year ended December 31, 2007 together with the Auditors' and Directors' Reports thereon.

To appoint auditors of the bank for the year ending December 31, 2008 and to fix their remuneration. The present auditors M/s Ford Rhodes Sidat Hyder & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

To elect seven (7) Directors as fixed by the Board in accordance with the provision of Section 178 of the Companies Ordinance 1984 for a period of three years in place of the retiring directors namely:

1. Chief Justice (R) Mahboob Ahmed
2. Mr. Ahmed Goolam Mahomed Randeree
3. Mr. Ali Raza Siddiqui
4. Mr. Ahmed M. El Shall
5. Mr. Hasan A. Bilgrami
6. Mr. Mohamed Abdulla Amer Al Nahdi
7. Mr. Shabir Ahmed Randeree

## Special Business

To consider and if deemed fit, pass the following Special Resolution:

"Resolved that the Bank may issue and allot up to 8 million shares @ Rs.10/- per share making a total amount of up to Rs.80 million to shareholders who have deposited the subscription amount but could not be issued shares due to re-conciliation problem, subject to approval of the Securities & Exchange Commission of Pakistan under the Proviso of Section 86 (1) of the Companies Ordinance 1984.

Further resolved that the Company Secretary be and is hereby authorized to take all necessary steps in this respect".

The statement, as required under Section 160 (1)(b) of the Companies Ordinance 1984 setting out in detail the special business to be conducted in the Annual General Meeting ("Statement") is annexed to the notice of the meeting to the shareholders.

## Any other Business

To transact any other business with the permission of the chair.

By Order of the Board,



Gohar Iqbal Shaikh  
Company Secretary

Karachi: March 07, 2008

## Notes:

1. The Members' Register will remain closed from March 21, 2008 to March 28, 2008 (both days inclusive).
2. A member eligible to attend and vote at this meeting may appoint another member as proxy to attend and vote in the meeting. Proxies in order to be effective must be received at the registered office not less than 48 hours before the meeting is held.
3. An individual beneficial owner of the Central Depository Company, entitled to vote at this meeting, must bring his/her Computerized National Identity Card with him/her to prove his/her identity, and in case of proxy must enclose an attested copy of his/her Computerized National Identity Card. Representatives of corporate members should bring the usual documents required for such purposes.
4. Members are requested to promptly notify Share Registrar, M/s. Technology Trade (Pvt.) Ltd., Dagia House, 241-C, P.E.C.H.S. Society, Karachi, of any change in their addresses.
5. Any person who seeks to contest the election of directors shall file the following with the Bank at its Registered Office not later than fourteen days before the day of the above said meeting.
  - i) His/her intention to offer himself/herself for election of Directors in terms of Section 178(3) of the Companies Ordinance 1984 (the Ordinance) together with (a) consent on Form 28 as prescribed by the Companies (Provision and Forms) Rules, 1985 (b) a declaration with the consent to act as Director in the prescribed form under clause (ii) of the Code of Corporate Governance (the Code) to the effect that he/she is aware of the duties and powers of Directors as mentioned in the Companies Ordinance 1984, the Memorandum and Articles of the Bank and the Listing Regulations of the Karachi Stock Exchange and has read the relevant provisions contained therein; and (c) a declaration in accordance with clauses (iii) and (iv) of the Code to the effect that he/she is not serving as a Director of more than ten listed companies and he/she is registered National Tax Payee (except where he/she is a non-resident) that he/she has not been convicted by a court of competent jurisdiction as defaulter in payment of any loan to a banking company, a development financial institution or a non-banking financial institution.
  - ii) A specified affidavit as prescribed in the State Bank of Pakistan (SBP) BPRD Circular No.12 dated June 2, 2000 together with the prescribed Questionnaire in accordance with the Prudential Regulation No.G-1, the 'Fit and Proper Test' for the appointment of Directors in terms of SBP BPRD Circular No.13 dated May 17, 2004 along with two recent photographs and a copy of CNIC (Passport in case of foreign national). Copies of SBP circulars/annexures may be obtained from the SBP website or from the office of the Company Secretary of the Bank. SBP circular/annexures also list various persons who are not eligible to become director of a bank. Any person with these anomalies is considered undesirable; and against the public interest in terms of SBP BPRD Circular No.12 dated June 2, 2000.

A statement of Material Facts U/s 160(1) (b) of the Companies Ordinance 1984 pertaining to Special Business is being sent to the Shareholders with the Annual Report:

1. BankIslami Pakistan Limited, in order to meet the minimum capital requirement of the State Bank of Pakistan, offered Right Shares in the ratio of 31.25 shares for every 100 shares held to all the shareholders as on November 20, 2007 amounting to Rs.1 billion (100 million shares at par). The last date for subscription by the shareholders was fixed to be December 31, 2007, which was later on extended up to January 5, 2008. The amount subscribed by the shareholders towards the Right Issue, based on the figures reported by all the Bankers to the Right Issue, was short of the total amount required and accordingly the underwriters were required to make up the shortfall in terms of the underwriting agreements. As per approval of the State Bank, the Bank was required to issue shares to increase its capital latest by January 31, 2008. Subsequent to the payment by the underwriters and issuance of shares, it transpired that the amount reported by one of the Bankers to the Issue was less than the amount actually received by Rs.80 million (approximately). Since the amount received in excess is only 1.90% of the total paid up capital, it is proposed that the total paid up capital be increased by the excess amount. The underwriting of the Right Issue was done by the sponsor shareholders equally.
2. The Directors of the Bank are interested in the shares to the extent of their respective shareholding.



## DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board, I am pleased to present the 4th Annual Report of BankIslami Pakistan Limited.

Pakistan's economy in 2007 performed well despite of all the expected and unexpected political and economic upheavals. On the political front, I had expected some uncertainty and had mentioned it in our last year's review as well. The magnitude and its corresponding impact on the economy was however under estimated. Coupled with it, external factors such as oil prices and resulting current account deficit and inflation some what halted what was turning out to be a good economic story. However, there were positive signs as well. The growth rate remained above 6%, Foreign Portfolio Investment largely remained intact, Remittances increased and Foreign Direct Investment continued to pour in. This shows that both local and foreign investors are better aware of the risks and opportunities in Pakistan and economics not events is dictating decision making - signs of a maturing market.

In this backdrop, Islamic banking industry did extremely well. The growth rates continued to remain impressive. In the first nine months of the year, deposits increased by 49.4% to Rs.124 billion, assets 51% to Rs.178 billion, branches 38% to 207 and share in the industry to 3.80% from 2.90%. This 31% incremental growth rate in comparison with 13.40% of the over all banking industry should put to rest doubts about future of Islamic Banking industry in Pakistan. As a matter of fact, there is a consensus within Islamic Banking industry that the market share will rise to 12% by 2012 i.e. the incremental growth rate on average will be around 20% per annum in next five years.

BankIslami is ideally poised within the Industry to reap the fruits of opportunity.

We continued with our strategy of creating a large national network. Alhamdulillah I am pleased to report that during the year BankIslami opened 26 branches (+260%) in 21 cities taking our network to 36 in 23 cities across the nation. This is probably the fastest expansion recorded by any bank. As most of the branches were opened in the last two months, the increase in business was mainly generated by the old network. Deposits increased to Rs.9.93 billion (+ 559%), Advances to Rs.3.96 billion (+413%), Investments to Rs.3.86 billion (+784%), staff strength rose to 563 (+238%) while average employees per branch dropped to 16 from 24 (-50%) compared from last year. Number of accounts increased to about 20,000 (+ 626%). The Bank also successfully extended its service offering into Consumer and Investment Banking.

In Consumer Banking, we were one of the few banks which correctly predicted the trends in the industry. Our strategy is to have between 10% to 15% of the portfolio in Consumer Business while keeping the default rate less than 2%. We successfully soft launched our Housing Finance Product, Muskun, during the year with good results. Auto Ijarah, our car financing business was further consolidated. At year end, the Consumer portfolio stood at about 15% of the portfolio with infection at less than 0.5%. Debit card was also introduced during the year. The existing strategy is likely to continue this year with offerings in selected segments. We shall be inshallah launching our Visa debit card this year. Yet another mile stone would be the introduction of card less ATM facility using Biometric Technology.

A key achievement of the year was setting up of an Investment Banking department which has come up very well. BankIslami's strategy is to be a player of significance in the mid-tier segment with some presence in the large transactions. During the year, we lead managed and successfully closed Sukuk transactions worth Rs.15.3 billion spread over seven mandates. Notable among them were: Sui Southern Gas Company Limited, Shahmurad Sugar Mills Limited, Eden Housing Limited, Pak Elektron Limited, New Allied Electronics Industries (Private) Limited, Amtex Limited and Fatima Sugar Mills Limited. The deal pipeline is extremely healthy. BankIslami has recently been mandated to lead manage the largest Sukuk offering so far by a government agency. We expect to increase earnings form our Investment Banking business by almost 300% in 2008.

Corporate and SME are the main revenue generators at present. In Corporate, we do not have a significant presence as yet. Recession in textile, the largest industrial segment, phasing out of Export Re-finance and our reluctance to work at fine rates were the main reason for that. It also explains our negligible presence in the Trade Finance Business. Corporate is getting a lot of attention this year as we have a network to cater to their needs across the country. Our target is to increase our Corporate Book by 900% this year without any adverse impact on the quality which at present is infection free. SME, on the other hand has been very active. We plan to deepen our business penetration in SMEs with almost a similar increase as projected in Corporate Business. At the end of year we have made provisioning of about Rs.13 m in SME using "subjective criteria". This was done more out of prudence than requirement. We do not expect these provisionings to result into a loss.

BankIslami has taken a lot of pride in its investment in technology. Notable milestones achieved this year were: Purchase of state-of-art and the only Sharia'h compliant core banking system, iMal. This system has recently been ranked as the best Islamic Banking Software by International Bank Sales, London. We expect iMal to add significantly to our business efficiency and Sharia'h compliance. Other achievements were: Implementation of first smart card based thin clients, deployment of Global Bunch Note Acceptor ATM and deployment of Anti-Money Laundering Software, XM3. All these milestones were achieved first time by any institution in Pakistan. As well, BankIslami became the first Islamic Bank to have offered Inter Bank Fund Transfer Facility ("IBFT"). Some of the other initiatives taken and completed were: Implementation of e-statements facility and development of an in-house biometric kiosk. Our main challenge this year is to successfully complete the deployment of iMal software by the end of third quarter.

On the Human Resources front, we continued with our strategy of being employer of choice for those who have conviction for Islamic Banking. Our recruitment process is transparent, unbiased and geared to hire people who have high moral and ethical values. We routinely conduct written tests at hiring stage together with psychometric testing. The measure of success of our recruitment process was our ability to hire almost 100% local staff in rural areas. Training and Development is yet another forte of ours. We have a formal training and development center in the Head Office. All employees in BankIslami are required to attend and pass an Islamic banking course through a formal examination with passing marks as high as 90% for certain disciplines. Soft skills get due attention as well. Our three year graduate training program has come up well. Most of manpower requirement would be met internally next year.

In line with our strategy of setting up 'Principal Businesses' for Wealth Management offering, we acquired JS Finance Limited, which has since been re-named BankIslami Modaraba Investments Limited. It is our intention to set up a number of specific purpose Modarabas to be managed by this Company. The existing Modaraba, Modaraba Al-Mali is in the process of being re-structured which will be completed by end third quarter this year. This particular Modaraba will primarily focus on energy business. Similar other initiatives are in pipeline.

No progress was made in our desire to offer Wealth Management in 2007. Delay in certain regulatory approvals, our pre-occupation with expansion of network and implementation of the software are some of the reasons. However, we are committed to deploy the infrastructure this year for offering from next year.

In the Media, we kept ourselves present. A program was sponsored in Ramazan to promote Islamic Banking on CNBC. A study is also under progress to re-brand the Branches. Decision is expected by end of first quarter.

BankIslami distinguishes itself from its peers by offering not only authentic Sharia'h compliant Islamic banking, but also ensures that Islamic practices are truly reflected in our business dealings and work place. Azaan is made through public address system and almost all work places are provided with formal prayer areas. There is a dress code for both men and women denoting modesty. All our advertisements carry simple and plain statements as a symbol of humility and humbleness. Customer dealings are kept transparent. Un-solicited sales calls are discouraged, specially after business hours. All promotional material, including visiting cards are available in Urdu to ensure there are no language barriers. Islamic Banking, is much more than structuring of business contracts. We will never loose sight of that. 2008 will be no exception.

#### Future Outlook

We have received 30 branch licenses in addition to 32 sub-branches from State Bank of Pakistan. This will take our network to 98 or possibly 100 by close of the year. Our focus this year will remain on creating a national network to be player of significance in Pakistan's financial services industry. Specifically, we expect almost 100% growth in balance sheet. Despite of this three fold increase in the network, we shall be InshaAllah reporting a profit for the year.

On the capital front, we abandoned the idea of raising the capital to Rs.6 billion due to political uncertainty in the country. We will re-visit this option once situation some what settles down. Alternatively, a rights issue shall be made in the third quarter to raise the capital to Rs.5 billion.

#### Corporate and Financial Reporting Framework

The Board of Directors is fully cognizant of its responsibility under the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan and adopted by the State Bank of Pakistan. The following statements are a manifestation of its commitment towards high standards of Corporate Governance and continuous organizational improvement:

1. The financial statements prepared by the Management of the Bank present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements except as disclosed in the financial statements and accounting estimates are based on reasonable and prudent judgment.
4. International Accounting Standards as applicable in Pakistan have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no doubts upon the Bank's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations.
8. The value of investments of the Bank's Provident Fund based on un-audited accounts at December 31, 2007 amounted to Rs.16.728 million.
9. The purchase and sale of shares by the Directors and the Chief Executive during the year is given in enclosed annexure.

#### Compliance with Code of Corporate Governance

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange in its listing regulation relevant for the year ended 31st December 2007 have been adopted by the Bank and have been duly complied with. A statement to this effect is annexed with the report.

#### Risk Management Framework

The Risk management function has now taken its root within the financial institutions on a world-wide basis, and is as critical in fulfilling the institutes financial objectives as the objectives themselves. Its not just a function to foretell and manage an adverse future event, but it brings about the basic function of being informed; being informed of what can or may happen, being informed of what steps/controls need to be taken to reduce/mitigate the level of risk and to be informed and to be reasonably prepared to deal with any undesired event/circumstances. Decisions emanating from this basic understanding form the cornerstone of our Risk Management Framework.

A strong organizational set-up, with clearly defined roles and responsibilities permits a higher level of articulation of the banks' risk mandate, establishment of a structure that provides for authority, delegation, accountability, and the development of a control framework. Risk management cannot live in a vacuum; in order to be effective, it has to be run on an enterprise level. Our framework comprises of a separate department, with a dedicated and growing team, which shares our core strategic values including an effective Sharia'h compliance.

Committees related to the management of risks at BIPL form the main layer of the framework, the inflow/outflow of information is through the dedicated function of risk management. The Head of Credit/Risk, Operations, Finance, Treasury and other related functions review the critical risk areas of operational, credit and market risk as well as other risks being faced by the organization, along with the magnitude of their impact and likelihood of occurrence.

BIPL perceives the management of risk not to be limited to a department or a function, but rather should read-into our daily business routine. Ideas and decisions are heavily based on the risk/reward trade-off, some of the ideas which never see the light of the day are usually the ones which have been shelved due to an unacceptable risk level. The risks when identified and analyzed are further weighed against the applicable risk weights and its impact reviewed on a periodic basis. This proactive approach helps in outlining the organization's risk tolerance level vis-à-vis BIPL's risk appetite in relation to its size, current position and market standing, with a view to refine processes, controls and guidelines to not only mitigate, but also to effectively manage risk.

#### Credit Rating

The Bank has been assigned a long term entity rating of 'A -' and short term rating of 'A 2' for the year December 31, 2006 by Pakistan Credit Rating Agency Limited (PACRA), reflecting BankIslami's well conceived business strategy and establishment of an effective operating platform to execute the business strategy. Rating process of 2007 is expected to commence soon.

#### Pattern of Shareholding

The pattern of shareholding as at 31st December 2007 is annexed with the report.

#### Auditors

The present auditors Ford Rhodes Sidat Hyder & Co., Chartered Accountants, retire and being eligible offer themselves for re-appointment. As required under the Code of Corporate Governance, the Audit Committee has recommended the appointment of Ford Rhodes Sidat Hyder & Co., as auditors for the year ending 31st December 2008.

#### Acknowledgments

I would like to place on record my appreciation to the State Bank of Pakistan and Securities and Exchange Commission of Pakistan for their support and guidance. A note of gratitude is due to the Sharia'h Board for their confidence, encouragement and guidance. We draw our strength from our Human Resources - a special thank you to the BankIslami family for your loyalty and commitment.

On behalf of the Board,



Hasan A. Bilgrami  
Chief Executive Officer  
March 06, 2008

## ANNEXURE TO DIRECTOR REPORT

The purchase and sale of shares by the Directors and Chief Executive Officer during the year are given below:

Name	Designation	No. of Shares as at Jan 1, 2007	Shares subscribed during the year	No. of Shares as at Dec 31, 2007
Chief Justice (Retd.) Mahboob Ahmed	Chairman	50,500	30,300	80,800
Mr. Ahmed G. M. Randeree	Director	18,750,000	11,250,000	30,000,000
Mr. Shabir Ahmed Randeree	Director	18,750,000	11,250,000	30,000,000
Mr. Hasan A. Bilgrami	Director & Chief Executive Officer	500	50,300	50,800

## Attendance of Board of Directors for the Year 2007

Directors	Total	Attended	Leave of Absence
Chief Justice (Retd.) Mahboob Ahmed	6	6	-
Mr. Ahmed G. M. Randeree	6	-	6
Mr. Ali Raza Siddiqui	6	6	-
Mr. Hasan A. Bilgrami	6	6	-
Mr. Shabir Ahmed Randeree	6	6	-
Mr. Mohammed Ahmed El Shall	6	5	1
Mr. Mohamed Abdulla Amer Al Nahdi	6	3	3
Mr. Yavar Moini	1	-	1



# STATEMENT OF INTERNAL CONTROL

## Statement of Management's Responsibility

It is the responsibility of the Bank's management to:

- Establish and maintain an adequate and effective system of internal controls and procedures for an efficient working environment for obtaining desired objectives.
- Evaluate the effectiveness of the Bank's internal control system that encompasses material matters by identifying control objective, reviewing significant policies and procedures and establishing relevant control procedures.

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

During the year under review, efforts have been made for an effective and efficient internal control system. In accordance with SBP-BSD Circular No.7 of 2004, the Bank formulated all the key policies and procedures for its different lines of business. While formulating such policies, clear line of authority and responsibility has been established in order to ensure an effective internal control system. The Bank has established an audit function independent of line management. The control activities are being closely monitored across the bank through audit group/compliance & control, which covers all banking activities in general and key risk areas in particular. The Audit Committee of the Board reviews the audit function quarterly which includes program as well as surprise audits.

Internal control system in the Bank is designed to manage, rather than to eliminate the risk of failure to achieve the business objective, and can only provide reasonable and not absolute assurance against material misstatement or loss. However, it is an on going process that includes identification, evaluation and management of significant risks faced by the bank.

The Board of Directors is ultimately responsible for the internal control system and the Board endorses the above management evaluation.

For and on Behalf of the Board,



Hasan A. Bilgrami  
Chief Executive Officer  
March 06, 2008

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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

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

1. The Bank encourages representation of independent non-executive directors on its Board of Directors. At present, the Board includes six non-executive directors and one executive director.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies including this Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI, or NBFIs, or being a member of a stock exchange, has been declared as a defaulter by the stock exchange.
4. Casual vacancy occurred in the Board during the year was duly filled on the same day.
5. The Bank has prepared Statement of Ethics and Business Practices which has been signed by majority of the Directors and employees of the Bank.
6. The Board has developed a vision and mission statement and an overall corporate strategy and significant policies of the Bank. A complete record of particulars of the significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms of conditions of the employment of the CEO, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence by a director elected by the Board for this purpose. Six meetings of the Board were held during the year. Written notices/e-mails of the Board meetings, along with agenda and working papers were circulated at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated.
9. The management of the Bank has circulated a summary of provisions of various laws i.e. the Companies Ordinance 1984, the Code of Corporate Governance, the Banking Companies Ordinance 1962, the Prudential Regulations of the State Bank of Pakistan and the Listing Regulations of Karachi Stock Exchange as required by clause (xiv) of the Code i.e. with respect to the 'Orientation Course' of Directors to acquaint them of their duties and responsibilities and enable them to manage the affairs of the Bank on behalf of the shareholders.
10. The Board approved appointments of the CFO cum Company Secretary and the Head of Internal Audit including their remuneration and terms of conditions of employment as determined by the CEO.

11. The Directors' Report for this year has been prepared in compliance with the requirement of the Code and fully described the salient matters required to be disclosed.
12. The financial statements of the Bank were duly endorsed by the CEO & CFO before the approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Bank, other than that disclosed in the pattern of shareholding.
14. The Bank has complied with all corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.
16. Four meetings of the Audit Committee were held during the year prior to approval of interim and final results of the Bank as required by the Code. The terms of reference of the Committee have been formed, approved by the Board and advised to the Committee for compliance.
17. The Board has set up an internal audit function, the members of which are considered suitably qualified and experienced for the purposes and are conversant with the policies and procedures of the Bank.
18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.



Hasan A. Bilgrami  
Chief Executive Officer  
March 06, 2008

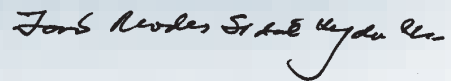
## REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best Practices contained in the Code of Corporate Governance for the year ended December 31, 2007 prepared by the Board of Directors of Bankislami Pakistan Limited (the Bank) to comply with the regulation G-1 of the Prudential Regulations for Corporate/Commercial Banking issued by the State Bank of Pakistan and Listing Regulation No.37 of the Karachi Stock Exchange, where the Bank is listed.

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflects the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, as applicable to the Bank for the year ended December 31, 2007.



Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants

KARACHI: March 06, 2008

# SHARIAH ADVISER'S REPORT

بِسْمِ اللّٰهِ الرَّحْمٰنِ الرَّحِیْمِ

الحمد لله رب العلمين، والصلاة والسلام على رسوله الكريم  
وعلى آله واصحابه اجمعين، وبعد

The Shareholders of BankIslami Pakistan Limited:

The year under review was the first full year of Islamic Commercial Banking operations of BankIslami. During the year, BankIslami refined the products developed in the previous year. In this regard, revisions were carried out in existing Process Flows, Agreements and Product Manuals.

Following is an approximate break up of Financing portfolio of the bank during the current year:

1.	Murabahah:	16 %
2.	Ijarah:	36 %
3.	Diminishing Musharakah:	44 %
4.	Istisn'a:	1 %
5.	Salam:	3 %

It is encouraging to note that BankIslami has executed Salam and Istisn'a transactions during the current year. However, further product refinement is required.

BankIslami revised its current account deposit product "Islami Current Account" from Mudarabah structure to "Qard" structure.

During the year, BankIslami launched its Housing Finance Product "Muskun" on the basis of Diminishing Musharakah (Shirkat-ul-Milk). The product has innovative features as compared to other similar products available in the Islamic Banking sector.

Sharia'h Audit was carried out in branches during the year. An amount of Rs.250,486 was identified as impure income arising out of improper execution of Murabahah transaction. Additionally, Rs.2,819,005 was received as charity on account of late payment. The charity amount will be utilized by BankIslami, on behalf of its customers, as per the directives of Sharia'h Supervisory Board of BankIslami.

Since BankIslami's inception, Product Development Department was primarily responsible for Sharia'h Audit and Compliance. In its desire to make processes and transactions more authentic, it has been decided that a separate Sharia'h Department would be established. Sharia'h Department, with its direct reporting to Sharia'h Adviser, would be responsible for Sharia'h Audit & Compliance and Training tasks. InshaAllah this step would help in improving Sharia'h standards of BankIslami.

Following are certain recommendations for bringing further improvement in our transactions:

1. Murabahahs are being executed on direct payment (to supplier) basis along with physical inspection element in some cases. However, to improve our Sharia'h standards, BankIslami needs to improve the ratio of such Murabahahs and separate functions may be implemented for this purpose.



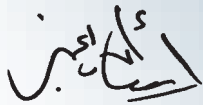
2. Number of Sale and Lease Back (SLB) transactions have increased over the year. The transactions were carried out to facilitate customers in converting from conventional banking to Islamic banking. However, extra care should be taken while undertaking such transactions. Alternative products also need to be developed on a high priority.
3. Proper training of BankIslami's staff on Sharia'h elements is significant for ensuring proper Sharia'h compliance. At present, BankIslami is providing training to new joiners through an internally developed mechanism. However, BankIslami needs to formulate extensive training programs in the coming year.

BankIslami will continue its process of development and refinement of its products to make them conforming to the highest standard of Sharia'h Compliance. BankIslami has the support of its Sharia'h Supervisory Board in this endeavor.

It is heartening to note that the Bank has acquired a Mudarabah Company specifically to undertake business based on Musharakah and Mudarabah. We expect that during 2008, management would InshaAllah launch products based on Musharakah and Mudarabah, which will represent true spirit of Islamic Banking.

May Allah make us successful and accept efforts of the whole team of BankIslami and grant us Ikhlas. In addition to this, I would like to take this opportunity to offer praise to Almighty Allah, His guidance, and to express my wishes for further progress, development and prosperity of Islamic Banking in general and BankIslami Pakistan Limited in particular.

وصلی اللہ علی نبینا محمد وآلہ واصحابہ وبارک وسلم



Irshad Ahmad Aijaz  
Sharia'h Adviser  
March 06, 2008

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of BANKISLAMI PAKISTAN LIMITED (the Bank) as at December 31, 2007, and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here in after referred to as the 'financial statements'), for the year then ended, in which are incorporated the un-audited certified returns from the branches except for seven branches which have been audited by us. We state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with the accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2007, and its true balance of the loss, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

*Ford Rhodes Sidat Hyder & Co.*

Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants

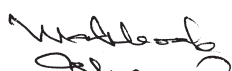
KARACHI: March 06, 2008

# BALANCE SHEET

AS AT DECEMBER 31, 2007

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>ASSETS</b>			
Cash and balances with treasury banks	6	1,433,166	338,222
Balances with other banks	7	2,577,491	790,709
Due from financial institutions	8	625,037	412,131
Investments	9	3,864,027	493,008
Financings	10	3,962,867	959,133
Operating fixed assets	11	1,093,324	441,428
Deferred tax assets	12	90,418	27,130
Other assets	13	801,143	562,913
		<u>14,447,473</u>	<u>4,024,674</u>
<b>LIABILITIES</b>			
Bills payable	14	84,998	23,830
Due to financial institutions	15	70,000	50,000
Deposits and other accounts	16	9,934,282	1,778,008
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	17	513,467	169,949
		<u>10,602,747</u>	<u>2,021,787</u>
<b>NET ASSETS</b>		<u><u>3,844,726</u></u>	<u><u>2,002,887</u></u>
<b>REPRESENTED BY</b>			
Share capital	18	3,200,000	2,000,000
Reserves		-	-
Accumulated loss		(45,377)	(8,354)
		<u>3,154,623</u>	<u>1,991,646</u>
Advance against future issue of share capital	19	681,409	-
Surplus on revaluation of assets - net of tax	20	8,694	11,241
		<u>3,844,726</u>	<u>2,002,887</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	21		

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

  
Chairman

  
Chief Executive Officer

  
Director

  
Director

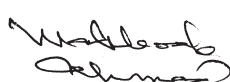


# PROFIT AND LOSS ACCOUNT

## FOR THE YEAR ENDED DECEMBER 31, 2007

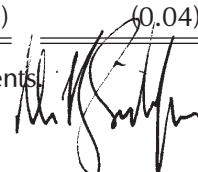
	Note	December 31, 2007	For the period from April 07, 2006 to December 31, 2006
----- Rupees in `000 -----			
Profit/return on financings, investments and placements earned	23	602,060	100,008
Return on deposits and other dues expensed	24	303,842	18,665
Net spread		<u>298,218</u>	<u>81,343</u>
Provision against non-performing financings	10.6	28,372	1,001
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		<u>28,372</u>	<u>1,001</u>
Net spread after provisions		<u>269,846</u>	<u>80,342</u>
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		61,207	3,430
Dividend income		23,150	13,569
Income from dealing in foreign currencies		10,248	740
Gain on sale of securities	25	41,922	24,179
Unrealized loss on revaluation of investments classified as held-for-trading		-	(926)
Other income	26	3,754	3,555
Total other income		<u>140,281</u>	<u>44,547</u>
		<u>410,127</u>	<u>124,889</u>
<b>OTHER EXPENSES</b>			
Administrative expenses	27	491,172	145,526
Other provisions/write offs		-	-
Other charges	28	19,418	13,762
Total other expenses		<u>(510,590)</u>	<u>(159,288)</u>
		<u>(100,463)</u>	<u>(34,399)</u>
Extra ordinary/unusual items		-	-
<b>LOSS BEFORE TAXATION</b>		<u>(100,463)</u>	<u>(34,399)</u>
Taxation - Current		(4,004)	(1,021)
- Prior years		-	(266)
- Deferred		67,444	27,332
	29	<u>63,440</u>	<u>26,045</u>
<b>LOSS AFTER TAXATION</b>		<u>(37,023)</u>	<u>(8,354)</u>
Accumulated loss brought forward		(8,354)	-
Accumulated loss carried forward		<u>(45,377)</u>	<u>(8,354)</u>
Basic loss per share	30	<u>(0.13)</u>	<u>(0.04)</u>
Diluted loss per share	31	<u>(0.13)</u>	<u>(0.04)</u>

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

  
Chairman

  
Chief Executive Officer

  
Director

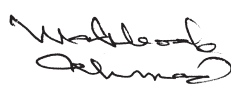
  
Director

# CASH FLOW STATEMENT

## FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(100,463)	(34,399)
Add: Deferred cost incurred - net		-	(9,257)
Less: Dividend income		(23,150)	(13,569)
		<u>(123,613)</u>	<u>(57,225)</u>
Adjustments:			
Depreciation		65,417	28,405
Amortisation		6,397	1,627
Provision against non-performing financings		28,372	1,001
Surplus/(deficit) on revaluation of investments (classified as held-for-trading)		(926)	926
Loss/(gain) on sale of fixed assets		(124)	7
Deferred cost amortised		16,080	12,062
Gain on revaluation of derivative instrument		-	(3,555)
		<u>115,216</u>	<u>40,473</u>
		(8,397)	(16,752)
(Increase)/decrease in operating assets:			
Due from financial institutions		(212,906)	(412,131)
Held-for-trading securities		222,480	(222,480)
Financings		(3,032,106)	(953,944)
Others assets (excluding advance taxation and deferred cost)		(246,949)	(475,238)
		<u>(3,269,481)</u>	<u>(2,063,793)</u>
Increase/(decrease) in operating liabilities:			
Bills payable		61,168	23,830
Borrowings from financial institutions		20,000	50,000
Deposits and other accounts		8,156,274	1,778,008
Other liabilities		343,578	164,829
		<u>8,581,020</u>	<u>2,016,667</u>
		5,303,142	(63,878)
Income tax paid		(11,365)	(9,553)
Net cash flow from operating activities		<u>5,291,777</u>	<u>(73,431)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net investments in available-for-sale securities		(3,400,008)	(260,213)
Investment in subsidiary		(191,015)	-
Dividend income received		23,150	13,569
Investments in operating fixed assets		(726,420)	(240,553)
Sale proceeds of property and equipment disposed-off		2,833	952
Net cash flow from investing activities		<u>(4,291,460)</u>	<u>(486,245)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of share capital		1,200,000	528,510
Advance against future issue of share capital - net off issue of shares		681,409	-
Net cash flow from financing activities		<u>1,881,409</u>	<u>528,510</u>
Net increase in cash and cash equivalents		<u>2,881,726</u>	<u>(31,166)</u>
Cash and cash equivalents at beginning of the year	32	<u>1,128,931</u>	<u>1,160,097</u>
Cash and cash equivalents at end of the year	32	<u>4,010,657</u>	<u>1,128,931</u>

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

  
Chairman

  
Chief Executive Officer

  
Director

  
Director

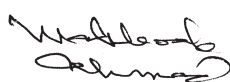


# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED DECEMBER 31, 2007

	Share capital	Accumulated loss	Total
	----- Rupees in `000 -----		
Balance as of January 01, 2006	595,025	-	595,025
Loss for the period	-	(8,354)	(8,354)
Issue of right shares during the year	1,404,975	-	1,404,975
Balance as of January 01, 2007	2,000,000	(8,354)	1,991,646
Loss for the year	-	(37,023)	(37,023)
Issue of right shares during the year	1,200,000	-	1,200,000
Balance as of December 31, 2007	<u>3,200,000</u>	<u>(45,377)</u>	<u>3,154,623</u>

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

  
Chairman

  
Chief Executive Officer

  
Director

  
Director

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED DECEMBER 31, 2007

### 1. STATUS AND NATURE OF BUSINESS

BankIslami Pakistan Limited was incorporated in Pakistan as a public limited company on October 18, 2004 under the Companies Ordinance, 1984 to carry out business of an Islamic Commercial Bank in accordance with the principles of Islamic Sharia'h. The registered office of the Bank is situated at 11th Floor, Dolmen City, Marine Drive, Block-4, Clifton, Karachi. The Bank commenced its operations from April 07, 2006. The shares of the Bank are quoted on the Karachi Stock Exchange. The Bank is operating with thirty-six branches (2006: ten branches) as at December 31, 2007.

### 2. BASIS OF PRESENTATION

- 2.1 These financial statements have been prepared in accordance with the requirements of State Bank of Pakistan vide BSD Circular No.4 dated February 17, 2006.
- 2.2 The Bank provides financing mainly through Sharia'h compliant financial products. Except for Murabaha transactions (which are accounted for under the Islamic Financial Accounting Standard - 1), the purchases, sales and rentals arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of rental/profit thereon. Income, if any, received which does not comply with the principles of Islamic Sharia'h is recognised as charity payable.
- 2.3 These financial statements are separate financial statements of the Bank in which investments in subsidiaries are accounted for on the basis of direct equity interest and are not consolidated.

### 3. STATEMENT OF COMPLIANCE

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

The SBP as per BSD Circular No.10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for Banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirement of various circulars issued by SBP.

### 4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for certain financial instruments which have been marked to market and are carried at fair value as stated in note 9.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Cash and cash equivalents

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

### 5.2 Investments

Investments in subsidiaries are stated at cost less provision for impairment, if any. Other investments in securities are classified as follows:

#### Held-for-trading

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

#### Held-to-maturity

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

#### Available-for-sale

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

In accordance with the requirements of the SBP, quoted securities other than those classified as held-to-maturity are stated at market value. Investments classified as held to maturity are carried at amortised cost. Unquoted securities are valued at cost less impairment, if any.

Surplus/(deficit) arising on revaluation of the Bank's held-for-trading investment portfolio is taken to the profit and loss account. The surplus/(deficit) arising on revaluation of quoted securities classified as available-for-sale is kept in "Surplus/(Deficit) on Revaluation of Securities account" and is shown in the balance sheet below equity. The surplus/(deficit) arising on these securities is taken to the profit and loss account when actually realised upon disposal.

Provision for diminution in the value of securities (except debentures, sukuks, participation term certificates and term finance certificates) is made after considering impairment, if any, in their value. Provision for diminution in value of debentures, sukuks, participation term certificates and term finance certificates are made in accordance with the requirements of the Prudential Regulations issued by the SBP.

### 5.3 Trade date accounting

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

### 5.4 Financings

Financings are financial products originated by the Bank and principally comprise Murabaha, Istisn'a, Ijarah, Salam, Musawamah and Diminishing Musharaka receivables. These are stated at amortised cost (except for Murabaha which is accounted for at gross receivable) net of general and specific provisions.

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

Murabaha is the sale of commodities and assets at cost plus an agreed profit mark up whereby the seller informs the purchaser of the price at which he purchases the product and also stipulates an amount of profit.

Istisn'a is an order to manufacture or construct some assets. The Bank purchases marketable/exportable goods under Istisn'a mode and sells them through an agent.

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

Salam is a sale transaction where the seller undertakes to supply some specific goods to the buyer at a future date against an advance price fully paid on spot.

Musawamah is a sale transaction in which price of a commodity to be traded is bargained between seller and the purchaser without any reference to the cost incurred by the seller.

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

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

## 5.5 Operating fixed assets

### 5.5.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment, if any. Depreciation is computed using the straight-line method by taking into consideration the estimated useful life of the related assets at the rates specified in note 11.2 to the financial statements. Depreciation on additions/deletions during the year is charged for the proportionate period for which the asset remained in use. Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements, if any, are capitalized when it is probable that future economic benefits will flow to the Bank.

The carrying values of property and equipment are reviewed at each reporting date for indication that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use.

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each financial year end.

Gains and losses on disposal of assets are included in income currently.

### 5.5.2 Capital work-in-progress

All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use. These are stated at cost.

### 5.5.3 Intangible assets

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

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

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

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

## 5.6 Taxation

### 5.6.1 Current taxation

Provision for current taxation is the higher of the amount computed on taxable income at the current tax rate after taking into account tax credits/rebates, if any, and the minimum tax computed at the prescribed rate on turnover.

### 5.6.2 Deferred taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and un-absorbed tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and un-absorbed tax losses can be utilised.

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

Deferred tax on surplus/(deficit) on revaluation of assets, if any, is charged or credited directly to the same account. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

## 5.7 Staff retirement benefits

### 5.7.1 Defined benefit plan

The Bank operates a gratuity scheme for all of its permanent employees. The contribution to the scheme is made on the basis of actuarial recommendations. Actuarial valuation is carried out at each year end using the Projected Unit Credit Method. Actuarial gains and losses are recognised as income or expense over the average remaining useful lives of the employees, if the cumulative recognised actuarial gains or losses for the Scheme at the end of the previous reporting period exceed 10 percent of the higher of defined benefit obligation and the fair value of the plan assets.

### 5.7.2 Defined contribution plan

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



## 5.8 Revenue recognition

- 5.8.1 Income 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.
- 5.8.2 Income from Istisn'a, Diminishing Musharaka, Salam and Musawamah are recognised on a time proportionate basis.
- 5.8.3 Income from Ijarah contracts is recognised on a pattern reflecting a constant periodic return on the net investment outstanding in accordance with International Accounting Standard 17 : Leases.
- 5.8.4 Profit on Diminishing Musharaka is recognised on an accrual basis.
- 5.8.5 Provisional profit of Musharaka/Modaraba financing is recognised on accrual basis. Actual profit/loss or loss on Musharaka and Modaraba financings is adjusted for declaration of profit by Musharaka partner/modarib or at liquidation of Musharaka/Modaraba.
- 5.8.6 Profit on classified financing is recognised on receipt basis.
- 5.8.7 Dividend income is recognised when the right to receive dividend is established.
- 5.8.8 Gains and losses on sale of investments are included in income currently.
- 5.8.9 Fee on issuance of letter of credit and acceptance is recognised on receipt basis as generally the transaction consummates within an accounting period. Fee on guarantees, if considered material, is recognised over the period of guarantee.

## 5.9 Financial instruments

Financial assets and financial liabilities are recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expire or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognised in the profit and loss account of the current period.

## 5.10 Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

## 5.11 Derivatives

Derivative financial instruments are initially recognized at their fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the value of derivative financial instruments is taken to the profit and loss account.

## 5.12 Related party transactions

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

### 5.13 Foreign currency

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. Forward exchange promises are revalued using forward exchange rates applicable to their respective remaining maturities. Exchange gains or losses are included in income currently.

### 5.14 Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank in the balance sheet.

### 5.15 Provisions

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

### 5.16 Deferred costs

These represent preliminary, formation and pre-operating cost and expenses incurred on issue of shares. These are being amortised over a period of five years.

### 5.17 Impairment

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

### 5.18 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing product or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The segment reporting format has been determined and prepared in conformity with the format of financial statements and guidelines, prescribed by the SBP vide BSD Circular No.4 of 2006 dated February 17, 2006.

### 5.19 Accounting judgments and estimates

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

The estimates, judgments and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The changes in estimates made during the year and impact on the financial statements are disclosed in note 10.5.1 and 11.3.1 respectively. The estimates, judgments and assumptions that have significant effect on the financial statements are as follows:

	Note
Classification of investments	5.2 & 9
Useful lives of assets and methods of depreciation	5.5 & 11
Deferred taxation	5.6 & 12
Provision against non-performing financings	5.4 & 10.6
Defined benefit plan	5.7 & 34

#### 5.20 Accounting standards not yet effective

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

Standard or interpretation	Effective date (accounting periods beginning on or after)
IAS 1 Presentation of Financial Statements	January 01, 2009
IAS 23 Borrowings Costs	January 01, 2009
IAS 27 Consolidated and Separated Financial Statements	January 01, 2009
IAS 41 Agriculture	May 22, 2007
IFRS 3 Business Combinations	January 01, 2009
IFRIC 11 Group and Treasury Share Transactions	March 01, 2007
IFRIC 12 Service Concession Arrangements	January 01, 2008
IFRIC 13 Customer Loyalty Programs	July 01, 2008
IFRIC 14 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interactions	January 01, 2008
IFAS 2 Ijarah	January 01, 2008

The Bank expects that, except for IFAS 2, "Ijarah", the adoption of the above standards and interpretations will have no material impact on the Bank's financial statements in the period of initial application. Under IFAS 2 Ijarah transaction will be accounted for as follows:

- The bank shall present the assets subject to Ijarah in its balance sheet according to the nature of the asset, distinguish from the asset in own use.
- Costs, including depreciation on the assets given on Ijarah, incurred in earning the Ijarah income shall be recognised as an expense.
- Ijarah income shall be recognised in income on an accrual basis as and when rental returns due, unless another systematic basis is more representative of the time pattern in which the benefit of the use derived from the leased asset is diminished.

The above requirements are applicable for Ijarah contracts which commence on or after January 01, 2008.

In addition to the above, the following new standards have been issued by the IASB but have not yet been adopted by the Institute of Chartered Accountants of Pakistan or notified by the SECP and hence presently do not form part of the local financial reporting framework:

IFRS 4	Insurance Contracts
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>6. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
- local currency		214,050	58,373
- foreign currency		36,313	9,499
		<u>250,363</u>	<u>67,872</u>
With State Bank of Pakistan in:			
- local currency current accounts	6.1	1,123,034	252,335
- foreign currency deposit accounts	6.2	26,326	18,015
		<u>1,149,360</u>	<u>270,350</u>
With National Bank of Pakistan in:			
- local currency current accounts		33,443	-
		<u>1,433,166</u>	<u>338,222</u>
6.1 Includes Rs.618.772 million (2006: Rs.211.189 million) held against Cash Reserve Requirement and Statutory Liquidity Requirement. Balance amount is available to the Bank for its operations.			
6.2 Includes amounts equivalent to Rs.9.9 million (2006: Rs.3.09 million) held against Cash Reserve Requirement and Special Cash Reserves Requirement. Balance amount is available to the Bank for its operations. These deposits do not carry any return.			
	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>7. BALANCES WITH OTHER BANKS</b>			
In Pakistan			
- on current accounts		9,150	12,896
- on deposit accounts	7.1	2,520,330	750,827
		<u>2,529,480</u>	<u>763,723</u>
Outside Pakistan			
- on current accounts		48,011	26,986
		<u>2,577,491</u>	<u>790,709</u>
7.1 Represents deposits with various Islamic commercial banks under Musharaka and Modaraba arrangements with maturities less than 3 months. The expected profit rates on these arrangements range between 2 percent to 9.15 percent per annum (2006: 1.5 percent to 9 percent per annum).			
	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>8. DUE FROM FINANCIAL INSTITUTIONS</b>			
Commodity Murabaha - local currency	8.1 & 8.2	<u>625,037</u>	<u>412,131</u>
8.1 The Bank has entered into Commodity Murabaha agreements under which the Bank purchases an underlying commodity from open market through an agent and sells it to a financial institution on credit with profit. The rate on the Commodity Murabaha ranges from 9.80 percent to 11.24 percent (2006: 11.25 percent to 12.85 percent) per annum.			

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
8.2	Murabaha sale price	3,401,162	412,131
	Purchase price	3,300,000	400,000
		101,162	12,131
	Deferred Murabaha income		
	Opening balance	10,969	-
	Deferred during the year	101,162	12,131
	Recognised during the year	100,366	1,162
		11,765	10,969
	Murabaha receivable		
	Opening balance	412,131	-
	Sales during the year	3,401,162	412,131
	Received during the year	3,188,256	-
		625,037	412,131
9.	INVESTMENTS		
9.1	Investments by types - held by Bank		
	Held-for-trading securities		
	- Listed companies (Ordinary shares)	9.2.1	- 222,480
	Available-for-sale		
	- Sukuk Bonds (Certificates)	9.2.2	3,510,162 250,213
	- Mutual Funds (Units)	9.2.3	150,000 10,000
	Subsidiary		
	- Unlisted company	9.2.4	191,015 -
	Investments at cost		3,851,177 482,693
	Deficit on revaluation of held-for-trading securities		- (926)
	Surplus on revaluation of available-for-sale securities	20.1	12,850 11,241
	Total investments at market value		3,864,027 493,008
9.2	Investments by segments		
	Fully paid up ordinary shares:		
	- Listed companies	9.2.1	- 222,480
	- Un-listed company	9.2.4	191,015 -
	Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:		
	- Sukuk Bonds	9.2.2	3,510,162 250,213
	Other investments		
	- Mutual Funds	9.2.3	150,000 10,000
	Total investments at cost		3,851,177 482,693
	Deficit on revaluation of held-for-trading securities		- (926)
	Surplus on revaluation of available-for-sale securities	20.1	12,850 11,241
	Total investments at market value		3,864,027 493,008



December 31, 2007		December 31, 2006	
Number of Shares/Units	Rupees in '000	Number of Shares/Units	Rupees in '000

### 9.2.1 Details of investment in listed companies

Fully paid-up ordinary shares of Rs.10/- each

Held for trading securities

Oil and Gas Development Company Limited	-	-	87,000	10,167
Pakistan Oilfield Limited	-	-	145,000	50,667
Pakistan Petroleum Limited	-	-	459,000	107,749
Pakistan State Oil Company Limited	-	-	41,000	12,080
Pakistan Telecommunication Company Limited	-	-	915,500	41,817
			<u>-</u>	<u>222,480</u>

### 9.2.2 Details of investment in Sukuk

Name of investee company	Note	2007		2006	Face Value (Rupees)	2007		2006	
		Number of Certificates	Cost (Rupees in '000)			Cost (Rupees in '000)	Instrument rating		
Sukuk Certificates									
First WAPDA Sukuk	9.2.2.1	50,000	50,000	5,000	250,162	250,213	Unrated	Unrated	
Second WAPDA Sukuk	9.2.2.2	134,000	-	5,000	670,000	-	Unrated	-	
KSEW Sukuk	9.2.2.3	38,000	-	5,000	190,000	-	Unrated	-	
Pak Electron Sukuk	9.2.2.4	90,000	-	5,000	450,000	-	Unrated	-	
Amtex Sukuk	9.2.2.5	64,000	-	5,000	320,000	-	Unrated	-	
Engro Chemical Sukuk	9.2.2.6	50,000	-	5,000	250,000	-	AA	-	
Security Leasing Sukuk	9.2.2.7	12,000	-	5,000	60,000	-	A-	-	
Shahmurad Sugar Mills Sukuk	9.2.2.8	250	-	1,000,000	250,000	-	A-	-	
First Sitara Chemicals Sukuk	9.2.2.9	8,000	-	5,000	50,000	-	Unrated	-	
Second Sitara Chemicals Sukuk	9.2.2.10	10,000	-	5,000	40,000	-	Unrated	-	
Sitara Energy Sukuk	9.2.2.11	6,000	-	5,000	30,000	-	Unrated	-	
New Allied Electronics (LG) Sukuk	9.2.2.12	29,000	-	5,000	145,000	-	A-	-	
Sui Southern Gas Company Sukuk	9.2.2.13	84,000	-	5,000	420,000	-	AA	-	
Kohat Cement Sukuk	9.2.2.14	27,000	-	5,000	135,000	-	A-	-	
Eden Housing Sukuk	9.2.2.15	50,000	-	5,000	250,000	-	A	-	
					<u>3,510,162</u>	<u>250,213</u>			

- 9.2.2.1 These carry profit at the rate of six months KIBOR plus 35 basis points (2006: six months KIBOR plus 35 basis points) receivable on semi-annual basis with maturity in October 2012. The principal will be repaid on maturity. The rentals are backed by Government of Pakistan's Sovereign Guarantee. At December 31, 2007, these had a market value of Rs.262,036 (2006: Rs.261,876).
- 9.2.2.2 These carry profit at the rate of six months KIBOR minus 25 basis points (2006: Nil) receivable on semi-annual basis with maturity in July 2017. The principal will be repaid in 12 equal semi-annual installment with first installment falling due on the 54th month from the first drawdown date. The rentals are backed by Government of Pakistan's Sovereign Guarantee.
- 9.2.2.3 These carry profit at the rate of six months KIBOR plus 40 basis points (2006: Nil) receivable on semi-annual basis with maturity in November 2015. The principal will be redeemed in eight semi-annual installments starting from May 2012. The rentals are backed by Government of Pakistan's Sovereign Guarantee.
- 9.2.2.4 These carry profit at the rate of three months KIBOR plus 175 basis points (2006: Nil) receivable quarterly based on Diminishing Musharaka mechanism with maturity in September 2012. There is an early purchase option available to the issuer after 30 months from the date of issue.
- 9.2.2.5 These carry profit at the rate of three months KIBOR plus 200 basis points (2006: Nil) receivable quarterly based on Diminishing Musharaka mechanism with maturity in October 2012. There is an early purchase option available to the issuer after 2 years from the date of issue.



- 9.2.2.6 These carry profit at the rate of six months KIBOR plus 150 basis points (2006: Nil) receivable quarterly based on Diminishing Musharaka mechanism with maturity in September 2015. Upto two consecutive, equal semi-annual installments, the first such installment falling due on the 90th month from the date of the first contribution under the facility.
- 9.2.2.7 These carry profit at the rate of six months KIBOR plus 195 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in September 2012. The principal to be redeemed in eight equal semi-annual installments commencing from the 18th month from the issue date.
- 9.2.2.8 These carry profit at the rate of six months KIBOR plus 225 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in September 2012. There is an early purchase option available to the issuer after 2 years from the date of issue.
- 9.2.2.9 These carry profit at the rate of three months KIBOR plus 100 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in December 2012. There is an early purchase option available to the issuer after 3 years of disbursement with `No Early Payment Penalty.
- 9.2.2.10 These carry profit at the rate of three months KIBOR plus 170 basis points (2006: Nil) receivable quarterly based on Diminishing Musharaka mechanism with maturity in December 2012. There is an early purchase option available to the issuer after 2 years from the date of issue.
- 9.2.2.11 These carry profit at the rate of six months KIBOR plus 195 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in July 2012. The principal with be redeemed in ten equal semi-annual installments commencing from the 6th month from the date of issue.
- 9.2.2.12 These carry profit at the rate of three months KIBOR plus 220 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in December 2012. There is an early purchase option available to the issuer after 2 years of disbursement.
- 9.2.2.13 These carry profit at the rate of three months KIBOR plus 20 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in December 2012. There is an early purchase option available to the issuer after 1 year of disbursement.
- 9.2.2.14 These carry profit at the rate of six months KIBOR plus 180 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in September 2012.
- 9.2.2.15 These carry profit at the rate of six months KIBOR plus 250 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in December 2012. There is an early purchase option available to the issuer after 2 years of disbursement.

9.2.3 Details of investments in Mutual Funds

Name of investee company	2007		2006		2007		2006	
	Number of Units		Mark value (Rupees in '000)		Cost (Rupees in '000)		Entity rating Long term/short term	
Units								
Meezan Islamic Investment Fund	1,436,571	-	75,000	-	75,000	-	Unrated	
NAFA Islamic Income Fund	7,500,000	-	75,975	-	75,000	-	MFR-5 Star	
Pakistan International Element Islamic Fund	-	200,000	-	10,422	-	10,000	Unrated	
			<u>150,975</u>	<u>10,422</u>	<u>150,000</u>	<u>10,000</u>		

#### 9.2.4 Details of investments in subsidiary

	Holding %	Net Asset value per share	Cost	
			2007	2006
BankIslami Modaraba Investments Limited (Formerly JS Finance Limited)				
Chief Executive Mr. Zulfiqar Ali 8,000,000 (2006: Nil) Ordinary shares of Rs.10/- each				
	100	18.38	<u>191,015</u>	<u>-</u>

Net asset value per share is based on the unaudited financial statements for the year ended December 31, 2007.

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>10. FINANCINGS</b>			
Financings - in Pakistan			
- Murabaha	10.1 & 10.2	581,505	359,166
- Istisn'a		31,886	74,919
- Diminishing Musharaka - Housing		179,213	
- Diminishing Musharaka - Others		1,576,705	224,233
- Against Bills - Murabaha		6,158	-
- Salam		105,000	-
- Musawamah		66,362	-
		<u>2,546,829</u>	<u>658,318</u>
Net investment in Ijarah financing in Pakistan	10.4	1,332,819	271,755
Financings to employees		112,592	30,061
		<u>3,992,240</u>	<u>960,134</u>
Financings - gross			
Provision for non-performing financings	10.6		
- Specific		(20,285)	-
- General		(9,088)	(1,001)
Financings - net of provision		<u>3,962,867</u>	<u>959,133</u>
10.1 Includes financings amounting to Rs.100 million (2006: Rs.47.552 million) against Murabaha under Islamic Export Refinance Scheme.			
10.2 Murabaha sale price			
Purchase price		1,447,724	600,924
		<u>1,379,461</u>	<u>547,436</u>
		<u>68,263</u>	<u>53,488</u>
Deferred murabaha income			
Opening balance		37,403	-
Deferred during the year		68,263	53,488
Recognised during the year		67,622	16,085
		<u>38,044</u>	<u>37,403</u>
Murabaha receivable			
Opening balance		359,166	-
Sales during the year		1,447,724	600,924
Received during the year		1,225,385	241,758
		<u>581,505</u>	<u>359,166</u>

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
10.3 Particulars of financings			
10.3.1 In local currency		3,971,820	960,134
In foreign currency		20,420	-
		<u>3,992,240</u>	<u>960,134</u>
10.3.2 Short-term (for upto one year)		962,372	568,889
Long-term (for over one year)		3,029,868	391,245
		<u>3,992,240</u>	<u>960,134</u>

10.4 Net investment in Ijarah financing

	December 31, 2007				December 31, 2006			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
----- (Rupees in `000) -----								
Ijarah rentals receivable	522,415	964,952	-	1,487,367	103,779	215,195	-	318,974
Residual value	-	243,628	-	243,628	-	39,583	-	39,583
Minimum Ijarah payments	522,415	1,208,580	-	1,730,995	103,779	254,778	-	358,557
Financial charges for future periods	181,265	216,911	-	398,176	38,362	48,440	-	86,802
Present value of minimum ijarah payments	341,150	991,669	-	1,332,819	65,417	206,338	-	271,755

10.5 Financings include Rs.78,371 thousand (2006: Rs. NIL) which have been placed under non-performing status as follows:

Category of classification	Note	Domestic	Overseas	Total	Provision Required	Provision Held
----- (Rupees in `000) -----						
Substandard	10.5.2	75,602	-	75,602	18,900	18,900
Doubtful		2,769	-	2,769	1,385	1,385
Loss		-	-	-	-	-
		<u>78,371</u>	<u>-</u>	<u>78,371</u>	<u>20,285</u>	<u>20,285</u>

10.5.1 During the year, the SBP vide its BSD Circular No.7 dated October 12, 2007, has amended Prudential Regulation in respect of provisioning against non-performing advances. The revised regulations that are effective from December 31, 2007, prohibit consideration of forced sale value of collateral held by the bank in determining the amount of provision against non-performing financing except in case of housing finance. However, the above change in regulation does not have any impact on these financial statements.

Further, the time period for classifying personal loans under consumer financing as "loss" has been reduced from 1 year to 180 days. This change has no effect on these financial statements.

10.5.2 Included in substandard category are assets amounting to Rs.53.715 million which have been classified under subjective evaluation, resulting in a provision of Rs.13.429 million.

10.5.3 Particulars of provision against non-performing financings:

	2007			2006		
	Specific	General	Total	Specific	General	Total
----- (Rupees in `000) -----						
In local currency	20,285	9,088	29,373	-	1,001	1,001
In foreign currency	-	-	-	-	-	-
	<u>20,285</u>	<u>9,088</u>	<u>29,373</u>	<u>-</u>	<u>1,001</u>	<u>1,001</u>

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

10.6 Particulars of provisions against non-performing financings - local currency

	2007			2006		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
Opening balance	-	1,001	1,001	-	-	-
Charge for the year	20,285	8,087	28,372	-	1,001	1,001
Closing balance	20,285	9,088	29,373	-	1,001	1,001

Note      December      December  
                          31, 2007      31, 2006  
                          ----- Rupees in `000 -----

10.7 No financings have been written off during the year.

10.8 Particulars of financings to directors, Associated companies etc.

- Financings due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons

Balance at beginning of year	30,061	6,190
Financing granted during the year	99,629	27,769
Repayments	(17,098)	(3,898)
Balance at end of year	112,592	30,061

- Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties

Balance at beginning of year	-	-
Financing granted during the year	189,000	-
Repayments	-	-
Balance at end of year	189,000	-
	301,592	30,061

11. OPERATING FIXED ASSETS

Capital work-in-progress	11.1	165,994	8,719
Property and equipment	11.2	908,441	417,890
Intangible assets	11.3	18,889	14,819
		1,093,324	441,428

11.1 Capital work-in-progress

Civil works	510	6,805
Equipments	12,698	534
Advances to suppliers and contractors	152,786	1,380
	165,994	8,719



## 11.2 Property and equipment

	2007							
	COST			DEPRECIATION			Book value at December 31, 2007	Rate of depreciation %
	Balance at January 01, 2007	Additions/ (deletions)	Balance at December 31, 2007	Balance at January 01, 2007	Charge/ (adjustment)	Balance at December 31, 2007		
------(Rupees in '000)-----								
Building	231,756	376,870	608,626	7,039	12,830	19,869	588,757	5
Furniture and fixture	91,097	66,385 (70)	157,412	5,075	11,634 (2)	16,707	140,705	10
Electrical, office and computer equipments	89,263	73,307 (83)	162,487	11,415	32,634 (19)	44,030	118,457	25
Vehicles	37,590	41,001 (2,634)	75,957	8,287	8,319 (1,171)	15,435	60,522	20
	449,706	557,563 (2,787)	1,004,482	31,816	65,417 (1,192)	96,041	908,441	

	2006							
	COST			DEPRECIATION			Book value at December 31, 2006	Rate of depreciation %
	Balance at January 01, 2006	Additions/ (deletions)	Balance at December 31, 2006	Balance at January 01, 2006	Charge/ (adjustment)	Balance at December 31, 2006		
------(Rupees in '000)-----								
Building	-	231,756	231,756	-	7,039	7,039	224,717	5
Furniture and fixture	-	91,097	91,097	-	5,075	5,075	86,022	10
Electrical, office and computer equipments	12,883	76,480 (100)	89,263	1,739	9,705 (29)	11,415	77,848	25
Vehicles	13,772	24,769 (951)	37,590	1,764	6,586 (63)	8,287	29,303	20
	26,655	424,102 (1,051)	449,706	3,503	28,405 (92)	31,816	417,890	

11.2.1 Includes Rs. NIL (2006: Rs.1.518 million) charged to deferred costs.

## 11.3 Intangible assets

	2007							
	COST			AMORTISATION			Book value at December 31, 2007	Rate of Amortisation %
	Balance at January 01, 2007	Additions/ (deletions)	Balance at December 31, 2007	Balance at January 01, 2007	Charge/ (adjustment)	Balance at December 31, 2007		
------(Rupees in '000)-----								
Computer software	16,774	11,582 (1,289)	27,067	1,955	6,397 (174)	8,178	18,889	20

	2006							
	COST			AMORTISATION			Book value at December 31, 2006	Rate of Amortisation %
	Balance at January 01, 2006	Additions/ (deletions)	Balance at December 31, 2006	Balance at January 01, 2006	Charge/ (adjustment)	Balance at December 31, 2006		
------(Rupees in '000)-----								
Computer software	6,395	10,379	16,774	328	1,627	1,955	14,819	10

11.3.1 During the year, effective January 01, 2007, the useful lives of the computer softwares were reviewed which resulted in the revision of depreciation rates from 10% to 20%. In the opinion of the management, the revision would result in a more accurate reflection of amortisation charge over the useful lives of the related asset. The above change has been accounted for as change in accounting estimate. Had the estimate not been revised the amortisation charge and the carrying amount would have been lower and higher by Rs.4.4 million respectively and loss for the year would have been lower by the same amount.

11.3.2 Includes Rs. NIL (2006: Rs.0.210 million) charged to deferred cost.

#### 11.4 Details of property and equipment disposed-off

The following assets were disposed-off during the year:

	Original Cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of purchaser
------(Rupees in '000)-----						
Vehicles						
Honda City	969	517	452	467	Bank Policy	Sheba Mateen (Employee)
Honda Civic	1,070	535	535	538	Bank Policy	Asad Alim (Employee)
Suzuki Cultus	595	119	476	595	Negotiation (Employee)	M. Furqan
Electrical, office and computer equipment						
Miscellaneous office equipment	75	19	56	42	Insurance Claim	Adamjee Insurance Company Ltd.
	<u>2,709</u>	<u>1,190</u>	<u>1,519</u>	<u>1,642</u>		

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>12. DEFERRED TAX ASSETS</b>			
Deferred credits arising due to			
Accelerated tax depreciation allowances		(147,317)	(59,763)
Ijarah financings		(97,837)	(19,371)
Deferred cost		(478)	-
Surplus on revaluation of assets		(4,156)	-
		<u>(249,788)</u>	<u>(79,134)</u>
Deferred debits arising in respect of			
Deferred cost		-	1,890
Unused tax losses		326,812	103,998
Tax credit against minimum tax paid		4,004	65
Provision against non-performing financings		9,390	311
		<u>340,206</u>	<u>106,264</u>
		<u>90,418</u>	<u>27,130</u>
<b>13. OTHER ASSETS</b>			
Profit/return accrued in local currency		200,091	20,547
Advances, deposits, advance rent and other prepayments		82,478	42,169
Advance against financings	13.1	132,938	305,912
Advance taxation (payments less provision)		16,600	9,239
Deferred costs	13.2	52,271	68,351
Stamps in hand		543	120
Dividend receivable		-	1,380
Receivable from broker		303,723	-
Insurance claim receivable		10,897	-
Advance for investment		-	110,600
Derivative asset		-	3,555
Other receivable		1,602	1,040
		<u>801,143</u>	<u>562,913</u>

13.1 Represents advance given in respect of Murabaha and Ijarah financings.

	Note	December 31, 2007	December 31, 2006
13.2		----- Rupees in `000 -----	
Deferred cost			
Represents preliminary/pre-operating expenses incurred as follows:			
		68,351	71,156
		-	9,257
		<u>68,351</u>	<u>80,413</u>
		16,080	12,062
		<u>52,271</u>	<u>68,351</u>
14.			
BILLS PAYABLE			
		<u>84,998</u>	<u>23,830</u>
15.			
DUE TO FINANCIAL INSTITUTIONS			
		<u>70,000</u>	<u>50,000</u>
15.1			
Represents Musharaka contributions by the State Bank of Pakistan against Islamic Export Refinance Scheme. These carry expected profit rate of 6.5 percent (2006: 6.5 percent) per annum and are secured against collateral.			
	Note	December 31, 2007	December 31, 2006
16.		----- Rupees in `000 -----	
DEPOSITS AND OTHER ACCOUNTS			
Customers			
		4,929,274	811,730
		3,598,793	607,468
		1,372,978	336,686
		31,431	22,124
		<u>9,932,476</u>	<u>1,778,008</u>
Financial Institutions			
		1,806	-
		<u>9,934,282</u>	<u>1,778,008</u>
16.1			
Particulars of deposits			
		9,861,275	1,749,951
		73,007	28,057
		<u>9,934,282</u>	<u>1,778,008</u>
17.			
OTHER LIABILITIES			
		82,478	13,607
		8,185	340
		51,730	10,562
	10.2	38,044	37,403
	8.2	11,765	10,969
	34.4	9,521	2,484
		256,750	62,006
		29,506	27,633
	17.1	2,824	5
		10,506	-
		66	-
		12,092	4,940
		<u>513,467</u>	<u>169,949</u>

	Note	December 31, 2007	December 31, 2006
17.1 Charity fund		----- Rupees in `000 -----	
Balance at the beginning of the year		5	-
Additions during the year		2,819	5
Balance at the end of the year		<u>2,824</u>	<u>5</u>
<b>18. SHARE CAPITAL</b>			
18.1 Authorised capital		2007	2006
---- Number of shares ----		----- Rupees in `000 -----	
<u>600,000,000</u>	Ordinary shares of Rs.10/- each	<u>6,000,000</u>	<u>6,000,000</u>
18.2 Issued, subscribed and paid up		2007	2006
---- Number of shares ----		----- Rupees in `000 -----	
200,000,000	Ordinary shares Fully paid in cash	2,000,000	595,025
120,000,000	- Opening balance	1,200,000	1,404,975
<u>320,000,000</u>	- Issued during the year	<u>3,200,000</u>	<u>2,000,000</u>
18.2.1	<p>The Board of Director of the Bank in their meeting held on August 23, 2007 approved issue of 31.25 percent right shares in order to meet the Minimum Capital Requirement of Rs.4 billion (net of losses) prescribed for all commercial banks by the State Bank of Pakistan to be achieved by December 31, 2007. The Bank had received Rs.681.409 million by December 31, 2007 and subsequent to the year end, an amount of Rs.398.236 million was received from eligible shareholders and the underwriters of the right issue thereby complying to the Minimum Capital Requirement of the SBP of raising the capital to Rs.4 billion. However, the total amount received was in excess of the actual Right Issue, by Rs.80 million (approx). The Bank is seeking approval from the shareholders by way of a special resolution to allot shares to in respect of the excess amount received. The issue of shares is subject to approval of the SECP.</p>		
		December 31, 2007	December 31, 2006
		----- Rupees in `000 -----	
<b>19. ADVANCE AGAINST FUTURE ISSUE OF SHARE CAPITAL</b>			
Opening balance		-	876,465
Received during the year		681,409	-
Shares issued during the year		-	(876,465)
Closing balance		<u>681,409</u>	<u>-</u>
<b>20. SURPLUS ON REVALUATION OF ASSETS</b>			
20.1 Surplus on revaluation of available-for-sale securities			
Sukuk Bonds		11,875	11,663
Mutual Funds		975	(422)
		<u>12,850</u>	<u>11,241</u>
Less: Related deferred tax liability		4,156	-
		<u>8,694</u>	<u>11,241</u>



	Note	December 31, 2007	December 31, 2006
		----- Rupees in `000 -----	
21. CONTINGENCIES AND COMMITMENTS			
21.1 Trade-related contingent liabilities			
Import letters of credit		<u>455,681</u>	<u>207,002</u>
Acceptances		<u>65,477</u>	<u>113,018</u>
21.2 Transaction-related contingent liabilities			
Guarantees favouring			
- Banks		<u>245,000</u>	<u>67,901</u>
- Government		<u>168,072</u>	<u>-</u>
- Others		<u>82,442</u>	<u>42,910</u>
21.3 Commitments in respect of forward exchange promises			
Purchase		<u>164,140</u>	<u>-</u>
Sale		<u>9,121</u>	<u>-</u>
21.4 Commitments for the acquisition of operating fixed assets		<u>146,687</u>	<u>22,560</u>
21.5 Commitments for acquisition of investments		<u>710,000</u>	<u>14,400</u>
21.6 Commitments in respect of financing		<u>4,385,126</u>	<u>172,310</u>
21.7 Other commitments			
Bills for collection		<u>109,865</u>	<u>4,159</u>
22. DERIVATIVE INSTRUMENTS			
<p>Derivative instruments held by the Bank mainly comprise of defined settlement contracts sold in the capital market (Arbitrage transaction). These are revalued at the difference between contract price and the closing price quoted.</p>			
			For the period from April 07, 2006 to December 31, 2006
	Note	2007	31, 2006
		----- Rupees in `000 -----	
23. PROFIT/RETURN ON FINANCINGS, INVESTMENTS AND PLACEMENTS EARNED			
On financings to:			
• Customers		305,469	48,518
• Financial Institutions		100,322	1,162
		<u>405,791</u>	<u>49,680</u>
On investments in available-for-sale securities		96,080	15,619
On deposits with financial institutions		97,663	34,371
Others		2,526	338
		<u>602,060</u>	<u>100,008</u>

	Note	2007	For the period from April 07, 2006 to December 31, 2006
		----- Rupees in `000 -----	
24. RETURN ON DEPOSITS AND OTHER DUES EXPENSED			
Deposits		297,828	18,302
Other short-term due to financial institutions		6,014	363
		<u>303,842</u>	<u>18,665</u>
25. GAIN ON SALE OF SECURITIES			
Shares - Listed		33,827	24,179
Mutual fund units		8,075	-
Sukuk bonds		90	-
		<u>41,992</u>	<u>24,179</u>
26. OTHER INCOME			
Gain on revaluation of derivative instrument		-	3,555
Gain on termination of Ijarah financing		2,043	-
Gain on disposal of property and equipment		124	-
Others		1,587	-
		<u>3,754</u>	<u>3,555</u>
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits		178,968	52,224
Charge for defined benefit plan	34.5	7,037	808
Contribution to defined contribution plan		6,330	2,687
Non-executive directors' fees, allowances and other expenses		1,350	1,375
Insurance on consumer car ijarah		15,339	2,361
Rent, taxes, insurance and electricity		56,638	14,102
Legal and professional charges		6,645	4,862
Communication		20,155	4,143
Repairs and maintenance		21,952	6,362
Stationery and printing		13,600	3,315
Advertisement and publicity		34,758	14,700
Auditors' remuneration	27.1	1,481	1,338
Depreciation	11.2	65,417	26,887
Amortisation	11.3	6,397	1,417
CDC and share registrar services		4,667	767
Entertainment expense		3,078	1,025
Security service charges		5,674	1,521
Brokerage and commission		11,436	-
Travelling and conveyance		5,631	1,872
Remuneration to Sharia'h Board	27.2	250	856
Fees and Subscription		11,140	-
Vehicle running and maintenance		6,460	-
Others		6,769	2,904
		<u>491,172</u>	<u>145,526</u>



	Note	2007	For the period from April 07, 2006 to December 31, 2006
----- Rupees in `000 -----			
27.1	Auditors' remuneration		
	Audit fee	700	350
	Special certifications and sundry advisory services	335	565
	Half yearly review	200	250
	Review of Compliance with Code of Corporate Governance	50	50
	Tax services	75	125
	Out-of-pocket expenses	121	75
		1,481	1,415
27.1.1	Includes Rs. NIL (2006: Rs.0.077 million) charged to deferred cost.		
27.2	Remuneration to Sharia'h Board		
	Charged to administrative expenses	250	856
	Charged to deferred cost	-	213
		250	1,069
28.	OTHER CHARGES		
	Penalties imposed by State Bank of Pakistan	590	57
	Deferred cost amortised	13.2 16,080	12,062
	Others	2,748	1,643
		19,418	13,762
29.	TAXATION		
	For the year		
	- Current	(4,004)	(1,021)
	- Deferred	67,444	27,332
		63,440	26,311
	For prior years		
	- Current	-	(65)
	- Deferred	-	(201)
		-	(266)
		63,440	26,045
29.1	Relationship between tax expense and accounting profit		
	Accounting loss for the year	(100,463)	(34,399)
	Tax @ 35%	35,162	12,040
	Tax effect of income under FTR	11,180	4,929
	Tax effect of permanent differences	17,098	9,342
	Prior year taxation	-	(266)
	Tax charge	63,440	26,045

29.2 During the year the Seventh Schedule (the Schedule) of the Income Tax Ordinance, 2001 has been introduced for taxation of banks in Pakistan. Rules of the schedule inter alia provide that all provision for classified advances and off balance sheet items created under the SBP Prudential Regulations except for provisions falling under the category of "sub-standard" will be allowed as claimed in the financial statements. The Schedule is applicable for the year ending December 31, 2008 and does not contain any transitory provision. Currently, provisions for classified advances and off balance sheet items are allowed as deduction if they fulfill the criteria set out in Section 29 of Income Tax Ordinance, 2001. The matter of introduction of such transitory provisions has been taken up with Federal Board of Revenue by Pakistan Banks Association and based on discussions to date the Bank's management is confident that such provisions will be enacted in the Schedule. Accordingly, the deferred tax calculation assumes that the Bank would be able to get the benefit of the asset so recognized on such provisions that have not been allowed as a deduction for tax purposes in the past.

		December 31, 2007	December 31, 2006
30.	<b>BASIC LOSS PER SHARE</b>		
	Loss for the year	Rupees in '000 (37,023)	(8,354)
	Weighted average number of ordinary shares	Number 280,979,452	188,979,486
	Basic loss per share	<u>Re.(0.13)</u>	<u>Re. (0.04)</u>
31.	<b>DILUTED LOSS PER SHARE</b>		
	Loss for the year	Rupees in '000 (37,023)	(8,354)
	Weighted average number of ordinary shares	Number 280,979,452	188,979,486
	Adjustment for advance against future issue of share capital	Number 1,493,499	-
		<u>282,472,951</u>	<u>188,979,486</u>
	Diluted loss per share	<u>Re.(0.13)</u>	<u>Re. (0.04)</u>
		December 31, 2007	December 31, 2006
		----- Rupees in `000 -----	
32.	<b>CASH AND CASH EQUIVALENTS</b>		
	Cash and balances with treasury banks	1,433,166	338,222
	Balances with other banks	2,577,491	790,709
		<u>4,010,657</u>	<u>1,128,931</u>
		December 31, 2007	December 31, 2006
		----- Number -----	
33.	<b>STAFF STRENGTH</b>		
	Permanent	342	168
	Temporary/on contractual basis	221	66
	Bank's own staff strength at the end of the year	<u>563</u>	<u>234</u>
	Outsourced	-	2
	Total staff strength	<u>563</u>	<u>236</u>

34. DEFINED BENEFIT PLAN

34.1 General description

The Bank has a gratuity scheme for its employees (members of the scheme). The scheme entitles the members to a lump sum payment at the time of retirement, resignation or death. Permanent staff are eligible for such benefits after 3 years of service.

	December 31, 2007	December 31, 2006
34.2 Principal actuarial assumptions		
Discount rate	10%	10%
Expected rate of increase in salaries	10%	10%
	----- Rupees in `000 -----	
34.3 Reconciliation of payable against defined benefit plan		
Present value of defined benefit obligations	10,150	3,669
Net actuarial losses not recognized	(629)	(1,185)
	<u>9,521</u>	<u>2,484</u>
34.4 Movement in payable against defined benefit plan		
Opening balance	2,484	1,174
Charge for the year	7,037	1,310
	<u>9,521</u>	<u>2,484</u>
34.5 Charge for defined benefit plan		
Current service cost	6,619	1,251
Cost of funds	367	112
Transitional liability recognized	-	(53)
Actuarial gains and losses	51	-
	<u>7,037</u>	<u>1,310</u>
34.6 Movement in present value of defined benefit obligation		
Opening balance	3,669	1,174
Current service cost	6,619	1,251
Cost of funds	367	112
Transitional liability recognized	-	(53)
Actuarial gain on obligation	(505)	-
	<u>10,150</u>	<u>2,484</u>
34.7 Annual actuarial losses		
Experience loss on obligation	<u>51</u>	<u>-</u>

### 35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President/Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	-----Rupees in '000-----					
Fees	-	-	1,350	1350	-	-
Managerial remuneration	6,250	5,675	-	-	41,888	16,547
Bonus	-	-	-	-	2,215	-
Charge for defined benefit plan	521	473	-	-	-	-
Salary in lieu of provident fund	625	568	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	4,189	1,655
Rent and house maintenance	270	270	-	-	10,524	3,750
Utilities	625	568	-	-	4,189	1,655
Medical	625	568	-	-	4,189	1,655
	<u>8,916</u>	<u>8,122</u>	<u>1,350</u>	<u>1,350</u>	<u>67,194</u>	<u>25,262</u>
Number of persons	<u>1</u>	<u>1</u>	<u>4</u>	<u>4</u>	<u>60</u>	<u>15</u>

35.1 In addition to the above, an amount of Rs.3 million has been paid to the President/Chief Executive as bonus pertaining to the period when the Bank was not operational and has been charged to the current year Profit & Loss Account.

35.2 The Bank's President/Chief Executive and certain Executives are provided with free use of Bank's maintained cars.

### 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

#### 36.1 On-balance sheet financial instruments

	December 31, 2007		December 31, 2006	
	Book value	Fair value	Book value	Fair value
	-----Rupees in '000-----			
<b>Assets</b>				
Cash and balances with treasury banks	1,433,166	1,433,166	338,222	338,222
Balances with other banks	2,577,491	2,577,491	790,709	790,709
Due from financial institutions	625,037	625,037	412,131	412,131
Investments	3,864,027	3,864,027	482,693	493,008
Financings	3,962,867	3,962,867	959,133	910,761
Other assets	649,794	649,794	485,323	485,323
	<u>13,112,382</u>	<u>13,112,382</u>	<u>3,468,211</u>	<u>3,430,154</u>
<b>Liabilities</b>				
Bills payable	84,998	84,998	23,830	23,830
Due to financial institutions	70,000	70,000	50,000	50,000
Deposits and other accounts	9,934,282	9,934,282	1,778,008	1,778,008
Other liabilities	455,473	455,473	121,237	121,237
	<u>10,544,753</u>	<u>10,544,753</u>	<u>1,973,075</u>	<u>1,973,075</u>

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

#### 36.2 Off-balance sheet financial instruments

	December 31, 2007		December 31, 2006	
	Book value	Fair value	Book value	Fair value
	-----Rupees in '000-----			
Forward promise for purchase of foreign exchange	<u>164,140</u>	<u>164,140</u>	-	-
Forward promise for sale of foreign exchange	<u>9,121</u>	<u>9,121</u>	-	-

### 37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
December 31, 2007									
Rupees in '000									
Total income	-	369,438	147,429	225,475	-	-	-	-	-
Total expenses	-	558,528	77,800	206,476	-	-	-	-	-
Net income/(loss)	-	(189,090)	69,630	18,999	-	-	-	-	-
Segment assets (gross)	-	9,872,696	1,281,760	3,322,390	-	-	-	-	-
Segment non performing loans	-	-	40,978	37,393	-	-	-	-	-
Segment provision required	-	-	9,088	20,285	-	-	-	-	-
Segment liabilities	-	6,871,305	1,124,177	2,607,265	-	-	-	-	-
Segment return on net assets (ROA) (%)	-	(6.3)	44.2	2.7	-	-	-	-	-
Segment cost of funds (%)	-	3.84	3.84	3.84	-	-	-	-	-
December 31, 2006									
Rupees in '000									
Total income	-	90,367	3,929	50,258	-	-	-	-	-
Total expenses	-	81,253	13,576	58,079	-	-	-	-	-
Net income/(loss)	-	9,114	(9,647)	(7,821)	-	-	-	-	-
Segment assets (gross)	-	2,532,949	204,940	1,287,786	-	-	-	-	-
Segment non performing loans	-	-	-	-	-	-	-	-	-
Segment provision required	-	1,001	-	-	-	-	-	-	-
Segment liabilities	-	1,065,409	198,479	757,899	-	-	-	-	-
Segment return on net assets (ROA) (%)	-	0.36%	(4.71%)	(0.61%)	-	-	-	-	-
Segment cost of funds (%)	-	1.26%	1.26%	1.26%	-	-	-	-	-

### 38. RELATED PARTY TRANSACTIONS

The related parties of the Bank comprise related group companies, principal shareholders, key management personnel, companies where directors of the Bank also hold directorship, directors and their close family members and staff retirement funds.

The details of transactions with related parties during the year other than those which have been disclosed elsewhere in these financial statements are as follows:

SUBSIDIARY	2007	2006
Rupees in `000		
<b>Financings:</b>		
At January 1	-	-
Disbursed during the year	189,000	-
Repaid during the year	-	-
At December 31	<u>189,000</u>	<u>-</u>
<b>Deposits:</b>		
At January 1	-	-
Deposit during the year	518,685	-
Withdrawal during the year	(203,330)	-
At December 31	<u>315,355</u>	<u>-</u>
<b>Transactions, income and expenses:</b>		
Profit earned on financing	10,876	-
Acquisition of fixed assets	327,600	-
<b>ASSOCIATES</b>		
<b>Deposits:</b>		
At January 1	98,350	-
Deposit during the year	863,096	485,913
Withdrawal during the year	(924,797)	(387,563)
At December 31	<u>36,649</u>	<u>98,350</u>

	2007	2006
	----- Rupees in `000 -----	
Transactions, income and expenses:		
Return on deposits expensed	9,069	764
Rent expense	-	396
<b>KEY MANAGEMENT</b>		
Financings:		
At January 1	3,526	3,719
Disbursed during the year	40,939	-
Repaid during the year	(4,236)	(193)
At December 31	<u>40,229</u>	<u>3,526</u>
Deposits:		
At January 1	431	-
Deposit during the year	23,480	1,620
Withdrawal during the year	(23,706)	(1,189)
At December 31	<u>205</u>	<u>431</u>
Transactions, income and expenses:		
Profit earned on financing	553	72
Return on deposits expensed	20	4
<b>OTHER RELATED PARTIES</b>		
Financings:		
At January 1	26,330	1,541
Disbursed during the year	58,691	27,809
Repaid during the year	(12,861)	(3,020)
At December 31	<u>72,160</u>	<u>26,330</u>
Deposits:		
At January 1	10,350	-
Deposit during the year	517,532	68,502
Withdrawal during the year	(500,565)	(58,152)
At December 31	<u>27,317</u>	<u>10,350</u>
Transactions, income and expenses:		
Profit earned on financing	1,382	266
Return on deposits expensed	3,673	40
Principal share holders		
Share capital issued	675,806	529,975
Purchase of shares in subsidiary	191,015	-

### 39. CAPITAL ADEQUACY

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

The SBP through its BSD Circular No.6 dated October 28, 2006 requires the minimum paid up capital (net of losses) for Banks/Development Finance Institutions to be raised to Rs.6 billion by the year ending December 31, 2009. The increase is to be achieved in a phased manner requiring Rs.4 billion paid up capital (net of losses) by the end of the financial year 2007. The paid up capital of the Bank as at the year ended December 31, 2007 stood at Rs.3.2 billion. As disclosed in note 18.2.1 the Bank has raised the capital to the minimum requirement of the SBP subsequent to the year end.



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

	December 31, 2007	December 31, 2006		
	----- Rupees in `000 -----			
Regulatory Capital Base				
Tier I Capital				
Shareholders Capital	3,200,000	2,000,000		
Advance For issue Of Share Capital	681,409	-		
Accumulated loss	(45,377)	(8,354)		
	<u>3,836,032</u>	<u>1,991,646</u>		
Less: Cost of investment in subsidiary	(191,015)	-		
	<u>3,645,017</u>	<u>1,991,646</u>		
Tier II Capital				
General provisions subject to 1.25% of total risk weighted assets	9,088	1,001		
Revaluation reserve (upto 50%)	-	-		
Total Tier II Capital	9,088	1,001		
Eligible Tier III Capital	-	-		
Total Regulatory Capital	(a) <u><u>3,654,105</u></u>	<u><u>1,992,647</u></u>		
Risk-Weighted Exposures				
	2007	2006		
	Book value	Risk Adjusted Value		
	Book value	Risk Adjusted Value		
	----- Rupees in `000 -----			
Credit Risk				
Balance sheet items:				
Cash and other liquid assets	4,010,657	522,187	1,128,931	158,142
Due from financial institutions	625,037	289,081	412,131	412,131
Investments	3,864,027	2,550,975	493,008	231,132
Financings	3,962,867	3,760,668	959,133	927,872
Fixed assets	1,093,324	1,093,324	441,428	441,428
Other assets	891,561	835,465	590,043	542,366
	<u>14,447,473</u>	<u>9,051,700</u>	<u>4,024,674</u>	<u>2,713,071</u>
Off balance sheet items				
Loan repayment guarantees	65,477	65,477	113,018	113,018
Performance bonds etc	474,844	237,422	109,880	54,940
Stand by Letters of Credit	444,994	222,497	185,809	92,905
Outstanding foreign exchange contracts				
- Purchase	164,140	985	-	-
- Sale	9,121	55	-	-
	<u>1,158,576</u>	<u>526,436</u>	<u>408,707</u>	<u>260,863</u>
Credit risk-weighted exposures		<u>9,578,136</u>		<u>2,973,934</u>
Market Risk				
Specific market risk	4,618	57,720	19,896	248,695
Market risk-weighted exposures		57,720	-	248,695
Total Risk-Weighted exposures	(b) <u><u>9,635,856</u></u>		(b) <u><u>3,222,629</u></u>	
Capital Adequacy Ratio [(a) / (b) x 100]		<u>37.92</u>		<u>61.83</u>

#### 40. RISK MANAGEMENT

The Board has set a clear policy of broad diversification in terms of geography, product mix, service range, delivery options by spreading the bank's credit, trade financing, investment and service activities over a wide range of customers and instruments with the emphasis on secured business operations. The Bank realizes that being an Islamic Bank taking pride in delivery of authentic Sharia'h financial solutions, it carries a significant reputational risk. It is the Bank's policy not to deal in products and/or services which are not cleared by its own Sharia'h Board under any situation whatsoever.

The Bank has established a Risk Management Section that issues risk management directives from time to time according to guidelines given by Bank's Board of Directors and State Bank of Pakistan, as well as, taking into consideration the local conditions and risk characteristics. Risk Management deals with "risk" in various ways, which encompass the full disclosure of all relevant risk categories, the quantification of the Bank's risk appetite, the implementation of operating limits within the defined risk appetite, the comprehensive and accurate quantification of the Bank's risk exposure, the limit approval and control process, the segregation of duties and the protection of the Bank's reputation.

The broad term "risk" can be broken down into following main categories. i.e. credit risk, market risk, currency risk, rate of return risk, liquidity and re-finance risk, operational risk, strategic risk, systematic risk and Sharia'h non-compliance risk.

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

##### 40.1 Credit Risk

Credit risk arises due to the risk of a borrower defaulting on his commitment either in part or as a whole. The term Credit Risk has certain sub-categories as follows:

###### i) Price risk

There is a risk that the asset repossessed due to default of the leasee may be sold or leased out to another party at a price lower than the original contract price.

###### ii) Counter party risk

The risk that the counter-party defaults during the term of a transaction (Murabaha, Ijarah etc.).

###### iii) Settlement risk

The risk that the counter-party does not meet its commitments at the maturity of the transaction after the Bank has already met its commitments.

###### iv) Country risk

The risk that a country in its function as contracting partner defaults during the term of a transaction and/or the risk that the cross-border transfer of funds could be restricted or completely blocked, i.e. that a country issues legislation to prohibit free transfer rights of funds including foreign exchange restrictions and/or the risk that country's specific economic and political factors precipitate the default of private sector counterparties (social unrest, civil war etc.).

The Bank places a strong emphasis on long-term stability before high returns. It is the Bank's strategy to keep risks to a minimum through broad diversification in terms of geography and product mix and to spread the Bank's credit and trade financing activities over a wide range of customers. Financing should as a rule be secured and self liquidating.

#### 40.1.1 Segmental information

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

##### 40.1.1.1 Segments by class of business

	December 31, 2007					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agriculture, Forestry, Hunting and Fishing	-	-	335,753	3.4%	-	-
Mining and Quarrying	-	-	301,114	3.0%	-	-
Textile	801,379	20.1%	24,957	0.3%	1,115,470	17.1%
Chemical and Pharmaceuticals	95,561	2.4%	7,522	0.1%	220,951	3.4%
Cement	88,564	2.2%	15,551	0.2%	491,475	7.5%
Sugar	309,780	7.8%	1,847	0.0%	35,888	0.5%
Footwear and Leather garments	168,042	4.2%	16,602	0.2%	75,151	1.1%
Automobile and transportation equipment	18,889	0.5%	384	0.0%	435,577	6.7%
Education	2,020	0.1%	111,786	1.1%	-	-
Electronics and electrical appliances	7,703	0.2%	3,835	0.0%	54,495	0.8%
Production and transmission of energy	-	-	10,004	0.1%	-	-
Construction	348,307	8.7%	1,877,152	18.9%	105,342	1.6%
Power (electricity), Gas, Water, Sanitary	63,740	1.6%	566,673	5.7%	93,498	1.4%
Wholesale and Retail Trade	143,277	3.6%	49,740	0.5%	193,164	3.0%
Exports/Imports	6,391	0.2%	2,429	0.0%	20,000	0.3%
Transport, Storage and Communication	226,578	5.7%	36,753	0.4%	814,517	12.5%
Financial	232,397	5.8%	432,956	4.4%	1,439,619	22.0%
Insurance	-	-	32,160	0.3%	-	-
Services	394,774	9.9%	-	-	216,196	3.3%
Individuals	155,625	3.9%	2,136,095	21.5%	92,269	1.4%
Others	929,213	23.3%	3,970,969	40.0%	1,137,999	17.4%
	<u>3,992,240</u>	<u>100.0%</u>	<u>9,934,282</u>	<u>100.0%</u>	<u>6,541,611</u>	<u>100.0%</u>

	December 31, 2006					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agriculture, Forestry, Hunting and Fishing	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-
Textile	16,733	1.7%	32,018	1.8%	43,596	6.8%
Chemical and Pharmaceuticals	10,095	1.1%	-	-	-	-
Cement	116,656	12.2%	1,339	0.1%	280	0.0%
Sugar	19,976	2.1%	-	-	-	-
Footwear and Leather garments	105,204	11.0%	-	-	12,783	2.0%
Automobile and transportation equipment	79,906	8.3%	25,989	1.5%	173,817	27.0%
Education	-	-	-	-	-	-
Electronics and electrical appliances	-	-	119,196	6.7%	-	-
Production and transmission of energy	-	-	-	-	-	-
Construction	-	-	-	-	80,637	12.5%
Power (electricity), Gas, Water, Sanitary	30,537	3.2%	79,798	4.5%	26,968	4.2%
Wholesale and Retail Trade	-	-	-	-	-	-
Exports/Imports	2,897	0.3%	-	-	46,215	7.2%
Transport, Storage and Communication	-	-	-	-	16,398	2.6%
Financial	20,096	2.1%	347,680	19.6%	14,400	2.2%
Services	282,515	29.4%	-	-	127,065	19.7%
Individuals	227,690	23.7%	687,487	38.7%	-	-
Others	47,829	5.0%	484,501	27.3%	102,101	15.8%
	<u>960,134</u>	<u>100.0%</u>	<u>1,778,008</u>	<u>100.0%</u>	<u>644,260</u>	<u>100.0%</u>

All those business classes should be disclosed in which concentration is equal to or exceeds 10 percent of exposure. The above classes of business are for reference purposes only and other classes can be included or deleted.

#### 40.1.1.2 Segments by sector

	December 31, 2007					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/Government	-	-	514,536	5%	168,072	2.5%
Private	3,992,240	100%	9,419,746	95%	6,373,539	97.5%
	<u>3,992,240</u>	<u>100%</u>	<u>9,934,282</u>	<u>100%</u>	<u>6,541,611</u>	<u>100%</u>
	December 31, 2006					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/Government	-	-	-	-	-	-
Private	960,134	100%	1,778,008	100%	644,260	100%
	<u>960,134</u>	<u>100%</u>	<u>1,778,008</u>	<u>100%</u>	<u>644,260</u>	<u>100%</u>

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

	2007		2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in '000-----			
Wholesale and retail trade *	29,493	7,373	-	-
Chemical and pharmaceuticals *	7,900	1,975	-	-
Power (electricity), gas, water, sanitary *	16,323	4,081	-	-
Individuals	24,655	6,856	-	-
	<u>78,371</u>	<u>20,285</u>	<u>-</u>	<u>-</u>

\* Provision has been made under subjective evaluation.

#### 40.1.1.4 Geographical segment analysis

	December 31, 2007			
	Profit/(loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	(100,463)	14,447,473	3,844,726	6,541,611
	December 31, 2006			
	Profit/(loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	(34,399)	4,024,674	2,002,887	644,260

#### 40.2 Market Risk

Market risk encompasses the risk of losses due to adverse movements in markets for instruments carrying a fixed rate, foreign exchange rates, securities, precious metals or other commodities.

The strategy of Bank is to keep market risks to the minimum in that the Bank does not enter into any speculative transaction. In general, the Bank ensures that an adequate hedging mechanism is in place before it enters into financial markets for trading.

Moreover, since the Bank does not deal in interest based products, the impact of the above risks will be very minimal. The Bank does not have positions or forward exchange contracts giving mismatches of maturity unless such risks have been taken care of through some other mechanism.

#### 40.2.1 Foreign Exchange Risk

Foreign exchange or currency risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Bank's foreign exchange exposure comprises of forward promises, foreign currency cash in hand, balances with banks abroad, foreign currency deposits, foreign currency placements with State Bank of Pakistan and other banks etc. The Bank manages its foreign exchange exposure by matching foreign currency assets and liabilities. The net open position is managed within the statutory limits as fixed by the State Bank of Pakistan.

The banks/DFIs should discuss the nature and description of their foreign exchange exposures during the year.

	December 31, 2007			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	-----Rupees in '000-----			
Pakistan Rupee	14,316,490	(10,528,853)	(155,019)	3,632,618
United States Dollar	93,238	(58,825)	164,140	198,553
Great Britain Pound	17,413	(6,257)	-	11,156
Japanese Yen	770	-	-	770
Euro	19,473	(8,812)	(9,121)	1,540
U.A.E Dirham	89	-	-	89
	<u>14,447,473</u>	<u>(10,602,747)</u>	<u>-</u>	<u>3,844,726</u>
	December 31, 2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	-----Rupees in '000-----			
Pakistan Rupee	3,964,984	(1,993,505)	5,190	1,976,669
United States Dollar	52,429	(24,785)	(3,362)	24,282
Great Britain Pound	2,745	(2,745)	-	-
Japanese Yen	1,979	-	(1,024)	955
Euro	1,943	(752)	(804)	387
U.A.E Dirham	594	-	-	594
	<u>4,024,674</u>	<u>(2,021,787)</u>	<u>-</u>	<u>2,002,887</u>

#### 40.2.2 Equity Position Risk

The Bank had no significant open exposure to equities as of the year ended December 31, 2007.

### 40.2.3 Mismatch of Profit/Yield Rate Sensitive Assets and Liabilities

		December 31, 2007										
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		
Rupees in '000												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	1,433,166	1,433,166	-	-	-	-	-	-	-	-	-
Balances with other banks	6.80%	2,577,491	2,577,491	-	-	-	-	-	-	-	-	-
Due from financial institutions	11.90%	625,037	-	625,037	-	-	-	-	-	-	-	-
Investments	10.91%	3,864,027	-	-	-	-	-	-	280,000	2,572,037	670,000	341,990
Financings	13.20%	3,962,867	294,477	264,733	117,591	343,421	115,340	599,943	1,912,028	111,385	203,949	-
Other assets	-	200,091	-	-	-	-	-	-	-	-	-	200,091
		<u>12,662,679</u>	<u>4,305,134</u>	<u>889,770</u>	<u>117,591</u>	<u>343,421</u>	<u>115,340</u>	<u>599,943</u>	<u>2,192,028</u>	<u>2,683,422</u>	<u>873,949</u>	<u>542,081</u>
Liabilities												
Bills payable	-	84,998	84,998	-	-	-	-	-	-	-	-	-
Due to financial institutions	6.70%	70,000	-	70,000	-	-	-	-	-	-	-	-
Deposits and other accounts	6.50%	9,934,282	3,820,481	800,683	366,263	1,953,041	46,620	247,224	1,295,561	-	-	1,404,409
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	130,043	-	-	-	-	-	-	-	-	-	130,043
		<u>10,219,323</u>	<u>3,905,479</u>	<u>870,683</u>	<u>366,263</u>	<u>1,953,041</u>	<u>46,620</u>	<u>247,224</u>	<u>1,295,561</u>	<u>-</u>	<u>-</u>	<u>1,534,452</u>
On-balance sheet gap		<u>2,443,356</u>	<u>399,655</u>	<u>19,087</u>	<u>(248,672)</u>	<u>(1,609,620)</u>	<u>68,720</u>	<u>352,719</u>	<u>896,467</u>	<u>2,683,422</u>	<u>873,949</u>	<u>(992,371)</u>
Total Yield/Profit Risk Sensitivity Gap			<u>399,655</u>	<u>19,087</u>	<u>(248,672)</u>	<u>(1,609,620)</u>	<u>68,720</u>	<u>352,719</u>	<u>896,467</u>	<u>2,683,422</u>	<u>873,949</u>	<u>(992,371)</u>
Cumulative Yield/Profit Risk Sensitivity Gap			<u>399,655</u>	<u>418,742</u>	<u>170,070</u>	<u>(1,439,550)</u>	<u>(1,370,830)</u>	<u>(1,018,111)</u>	<u>(121,644)</u>	<u>2,561,778</u>	<u>3,435,727</u>	<u>(992,371)</u>

		December 31, 2006										
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		
Rupees in '000												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	338,222	-	-	-	-	-	-	-	-	-	338,222
Balances with other banks	5.13%	790,709	790,709	-	-	-	-	-	-	-	-	-
Due from financial institutions	12.55%	412,131	-	412,131	-	-	-	-	-	-	-	-
Investments	8.88%	493,008	-	-	-	-	-	-	261,876	-	9,576	221,556
Financings	10.52%	959,133	11,775	15,386	165,399	376,324	102,084	111,967	102,367	56,853	16,978	-
Other assets	-	590,043	-	-	-	-	-	-	-	-	-	590,043
		<u>3,583,246</u>	<u>802,484</u>	<u>427,517</u>	<u>165,399</u>	<u>376,324</u>	<u>102,084</u>	<u>111,967</u>	<u>364,243</u>	<u>56,853</u>	<u>26,554</u>	<u>1,149,821</u>
Liabilities												
Bills payable	-	23,830	-	-	-	-	-	-	-	-	-	23,830
Due to financial institutions	6.5%	50,000	-	50,000	-	-	-	-	-	-	-	-
Deposits and other accounts	4.98%	1,778,008	937,438	365,915	25,139	27,915	200	4,600	57,991	-	-	358,810
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	169,949	-	-	-	-	-	-	-	-	-	169,949
		<u>2,021,787</u>	<u>937,438</u>	<u>415,915</u>	<u>25,139</u>	<u>27,915</u>	<u>200</u>	<u>4,600</u>	<u>57,991</u>	<u>-</u>	<u>-</u>	<u>552,589</u>
On-balance sheet gap		<u>1,561,459</u>	<u>(134,954)</u>	<u>11,602</u>	<u>140,260</u>	<u>348,409</u>	<u>101,884</u>	<u>107,367</u>	<u>306,252</u>	<u>56,853</u>	<u>26,554</u>	<u>597,232</u>
Total Yield/Profit Risk Sensitivity Gap			<u>(134,954)</u>	<u>11,602</u>	<u>140,260</u>	<u>348,409</u>	<u>101,884</u>	<u>107,367</u>	<u>306,252</u>	<u>56,853</u>	<u>26,554</u>	<u>597,232</u>
Cumulative Yield/Profit Risk Sensitivity Gap			<u>(134,954)</u>	<u>(123,352)</u>	<u>16,908</u>	<u>365,317</u>	<u>467,201</u>	<u>574,568</u>	<u>880,820</u>	<u>937,673</u>	<u>964,227</u>	<u>597,232</u>

### 40.3 Liquidity Risk

Liquidity risk is defined as inability to raise deposits at a competitive rate. It can be caused by the withdrawal of important customer deposits (including interbank deposits). A sudden surge in liability withdrawals may leave the Bank in a position of having to liquidate assets in a very short period of time and at low prices.

Under refinance risk we understand the risk of holding longer-term assets relative to liabilities. Generally this is caused by a discrepancy of the cash flows from the two sides of the balance sheet due to a faulty Asset-Liability Management (ALM) process (strongly differing maturity profiles).



The risk is minimized by broad diversification and a minimum of concentrations on both sides of the balance sheet.

An Assets-Liabilities Committee (ALCO) is formed to monitor the liquidity and market risks of the Bank.

#### 40.3.1 Maturities of Assets and Liabilities

December 31, 2007									
Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000									
<b>Assets</b>									
Cash and balances with treasury banks	1,433,166	1,433,166	-	-	-	-	-	-	-
Balances with other banks	2,577,491	2,577,491	-	-	-	-	-	-	-
Due from financial institutions	625,037	-	625,037	-	-	-	-	-	-
Investments	3,864,027	-	150,975	-	-	-	280,000	2,572,037	861,015
Financings	3,962,867	294,477	264,733	117,591	343,421	115,340	599,943	1,912,028	111,385
Other assets	801,143	201,693	436,661	-	110,518	-	52,271	-	-
Operating fixed assets	1,093,324	8,950	17,899	26,850	219,648	107,399	106,520	214,215	284,444
Deferred tax assets	90,418	-	-	-	-	-	-	-	90,418
<b>Total</b>	<b>14,447,473</b>	<b>4,515,777</b>	<b>1,495,305</b>	<b>144,441</b>	<b>673,587</b>	<b>222,739</b>	<b>707,342</b>	<b>2,350,819</b>	<b>2,897,637</b>
<b>Liabilities</b>									
Bills payable	84,998	84,998	-	-	-	-	-	-	-
Due to financial institutions	70,000	-	70,000	-	-	-	-	-	-
Deposits and other accounts	9,934,282	5,224,890	800,683	366,263	1,953,041	46,620	247,224	1,295,561	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-
Other liabilities	513,467	154,551	44,095	48,550	-	-	266,271	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>10,602,747</b>	<b>5,464,439</b>	<b>914,778</b>	<b>414,813</b>	<b>1,953,041</b>	<b>46,620</b>	<b>247,224</b>	<b>1,561,832</b>	<b>-</b>
<b>Net assets</b>	<b>3,844,726</b>	<b>(948,662)</b>	<b>580,527</b>	<b>(270,372)</b>	<b>(1,279,454)</b>	<b>176,119</b>	<b>460,118</b>	<b>788,987</b>	<b>1,439,826</b>
Share capital/Head office capital account	3,200,000								
Reserves									
Accumulated Loss	(45,377)								
Advances for issue of Share Capital	681,409								
Surplus/(Deficit) on revaluation of assets	8,694								
<b>Total</b>	<b>3,844,726</b>								
December 31, 2006									
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									
<b>Assets</b>									
Cash and balances with treasury banks	338,222	338,222	-	-	-	-	-	-	-
Balances with other banks	790,709	790,709	-	-	-	-	-	-	-
Due from financial institutions	412,131	-	412,131	-	-	-	-	-	-
Investments	493,008	221,556	-	-	-	-	261,876	-	9,576
Financings	959,133	11,775	15,386	165,399	376,324	102,084	111,967	56,853	16,978
Other assets	562,913	439,592	23,906	12,655	29,202	20,252	16,371	20,090	845
Operating fixed assets	441,428	-	-	-	-	-	-	-	441,428
Deferred tax assets	27,130	-	-	-	-	-	-	-	27,130
<b>Total</b>	<b>4,024,674</b>	<b>1,801,854</b>	<b>451,423</b>	<b>178,054</b>	<b>405,526</b>	<b>122,336</b>	<b>128,338</b>	<b>384,333</b>	<b>495,957</b>
<b>Liabilities</b>									
Bills payable	23,830	23,830	-	-	-	-	-	-	-
Due to financial institutions	50,000	-	50,000	-	-	-	-	-	-
Deposits and other accounts	1,778,008	1,296,248	365,915	25,139	27,915	200	4,600	57,991	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-
Other liabilities	169,949	169,949	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>2,021,787</b>	<b>1,490,027</b>	<b>415,915</b>	<b>25,139</b>	<b>27,915</b>	<b>200</b>	<b>4,600</b>	<b>57,991</b>	<b>-</b>
<b>Net assets</b>	<b>2,002,887</b>	<b>311,827</b>	<b>35,508</b>	<b>152,915</b>	<b>377,611</b>	<b>122,136</b>	<b>123,738</b>	<b>326,342</b>	<b>495,957</b>
Share capital/Head office capital account	2,000,000								
Reserves									
Accumulated Loss	(8,354)								
Surplus/(Deficit) on revaluation of assets	11,241								
<b>Total</b>	<b>2,002,887</b>								

#### 40.4 Operational Risk

This is the collective term for all risks which arise through inadequate or failed internal processes, employees and systems or from external events and which can only be partially quantified. In addition, legal risks fall into this category.

#### 40.5 Strategic Risk

Strategic risk arises due to wrong assumptions in strategic decision making or the failure to react correctly to long-term changes in strategic parameters.

The Bank follows a deliberate low-risk strategy. Within the general constraints of its niche market the Bank is aware of the need of reducing risk. The Bank has a well established strategic planning and evaluation process which involves all levels of management and which is subject to regular review.

#### 40.6 Systematic Risk

Systematic risk is the risk of a total or partial collapse of the financial system.

Such a collapse could be due to technical factors or market driven (psychological) reasons.

Systematic risk is reduced by the activities of both national and international regulatory authorities. The Bank actively supports these organizations through its membership of relevant banking industry association i.e. Pakistan Banks Association ("PBA"). The Bank also takes account of systematic risk by means of careful management of counter party risks in the inter-bank market.

#### 40.7 Sharia'h Non-Compliance Risk

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

This risk is covered by carrying out extensive Sharia'h training and orientation and frequent reviews by the Sharia'h department of the Bank.

#### 41. PERIOD OF FINANCIAL STATEMENTS

The Bank commenced operations from April 07, 2006 and consequently, the comparative figures for the profit and loss account have been drawn for the period from April 07, 2006 to December 31, 2006.

#### 42. DATE OF AUTHORIZATION FOR ISSUE

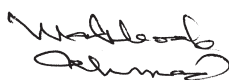
These financial statements have been approved by the Board of Directors of the Bank on March 06, 2008.

#### 43. GENERAL

43.1 Captions, as prescribed by BSD Circular No.4 of 2006 dated February 17, 2006 issued by the SBP, in respect of which there are no amounts, have not been reproduced in these financial statements, except for captions of the balance sheet and profit and loss account.

43.2 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison. However, there are no material reclassifications to report.

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



Chairman



Chief Executive Officer



Director



Director

# Consolidated Financial Statements

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of BankIslami Pakistan Limited (the Bank) and its subsidiary company, BankIslami Modaraba Investments Limited (together referred to as the Group) as at December 31, 2007 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. These consolidated financial statements include unaudited certified returns from the branches, except for seven branches, which have been audited by us. The financial statements of the subsidiary were reviewed in accordance with the International Standard on Review Engagements 2410 by another firm of chartered accountants, whose report has been furnished to us and our opinion in so far as it relates to the amounts included for the subsidiary, is based solely on the report of other auditor. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2007 and of the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

*Ford Rhodes Sidat Hyder & Co.*

Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants

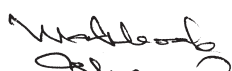
KARACHI: March 06, 2008

# CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2007

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>ASSETS</b>			
Cash and balances with treasury banks	6	1,433,166	338,222
Balances with other banks	7	2,578,089	790,709
Due from financial institutions	8	625,037	412,131
Investments	9	3,686,474	493,008
Financings	10	3,773,867	959,133
Operating fixed assets	11	1,048,602	441,428
Deferred tax assets	12	97,760	27,130
Other assets	13	906,534	562,913
		<u>14,149,529</u>	<u>4,024,674</u>
<b>LIABILITIES</b>			
Bills payable	14	84,998	23,830
Due to financial institutions	15	70,000	50,000
Deposits and other accounts	16	9,617,735	1,778,008
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	17	541,296	169,949
		<u>10,314,029</u>	<u>2,021,787</u>
<b>NET ASSETS</b>		<u>3,835,500</u>	<u>2,002,887</u>
<b>REPRESENTED BY</b>			
Share capital	18	3,200,000	2,000,000
Reserves		-	-
Accumulated loss		(53,481)	(8,354)
		<u>3,146,519</u>	<u>1,991,646</u>
Advance against future issue of share capital	19	681,409	-
Surplus on revaluation of assets - net of tax	20	7,572	11,241
		<u>3,835,500</u>	<u>2,002,887</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	21		

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

  
Chairman

  
Chief Executive Officer

  
Director

  
Director



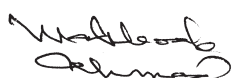
# CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2007

For the  
period from  
April 07,  
2006 to  
December  
31, 2006

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
Profit/return on financings, investments and placements earned	23	593,675	100,008
Return on deposits and other dues expensed	24	303,771	18,665
Net spread		<u>289,904</u>	<u>81,343</u>
Provision against non-performing financings	10.6	28,372	1,001
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		<u>28,372</u>	<u>1,001</u>
Net spread after provisions		<u>261,532</u>	<u>80,342</u>
<b>OTHER INCOME</b>			
Fee, commission and brokerage income		61,516	3,430
Dividend income		23,150	13,569
Income from dealing in foreign currencies		10,248	740
Gain on sale of securities	25	41,922	24,179
Unrealized loss on revaluation of investments classified as held-for-trading		-	(926)
Other income	26	7,343	3,555
Total other income		<u>144,179</u>	<u>44,547</u>
		<u>405,711</u>	<u>124,889</u>
<b>OTHER EXPENSES</b>			
Administrative expenses	27	492,731	145,526
Other provisions/write offs		-	-
Other charges	28	19,418	13,762
Total other expenses		<u>(512,149)</u>	<u>(159,288)</u>
		<u>(106,438)</u>	<u>(34,399)</u>
Extra ordinary/unusual items		-	-
LOSS BEFORE TAXATION		<u>(106,438)</u>	<u>(34,399)</u>
Taxation - Current		(5,163)	(1,021)
- Prior years		-	(266)
- Deferred		66,474	27,332
		<u>61,311</u>	<u>26,045</u>
LOSS AFTER TAXATION		<u>(45,127)</u>	<u>(8,354)</u>
Accumulated loss brought forward		(8,354)	-
Accumulated loss carried forward		<u>(53,481)</u>	<u>(8,354)</u>
Basic loss per share	30	<u>(0.16)</u>	<u>(0.04)</u>
Diluted loss per share	31	<u>(0.16)</u>	<u>(0.04)</u>

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

  
Chairman

  
Chief Executive Officer

  
Director

  
Director

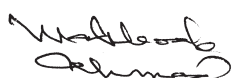


# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2007

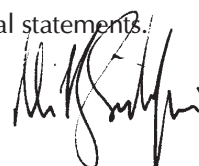
	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before taxation		(106,438)	(34,399)
Add: Deferred cost incurred - net		-	(9,257)
Less: Dividend income		(23,150)	(13,569)
		<u>(129,588)</u>	<u>(57,225)</u>
Adjustments:			
Depreciation		65,466	28,405
Amortisation		6,397	1,627
Provision against non-performing financings		28,372	1,001
Surplus/(deficit) on revaluation of investments (classified as held-for-trading)		(926)	926
Loss/(gain) on sale of fixed assets		(124)	7
Deferred cost amortized		16,080	12,062
Gain on revaluation of derivative instrument		-	(3,555)
		<u>115,265</u>	<u>40,473</u>
		(14,323)	(16,752)
(Increase)/decrease in operating assets			
Due from financial institutions		(212,906)	(412,131)
Held-for-trading securities		222,480	(222,480)
Financings		(2,843,106)	(953,944)
Others assets (excluding advance taxation and deferred cost)		(281,706)	(475,238)
		<u>(3,115,238)</u>	<u>(2,063,793)</u>
Increase/(decrease) in operating liabilities			
Bills payable		61,168	23,830
Borrowings from financial institutions		20,000	50,000
Deposits and other accounts		7,839,727	1,778,008
Other liabilities		343,823	164,829
		<u>8,264,718</u>	<u>2,016,667</u>
		5,135,157	(63,878)
Income tax paid		(11,929)	(9,553)
Net cash flow from operating activities		<u>5,123,228</u>	<u>(73,431)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net investments in available-for-sale securities		(3,415,244)	(260,213)
Investment in subsidiary		(187,817)	-
Dividend income received		24,530	13,569
Investments in operating fixed assets		(545,424)	(240,553)
Sale proceeds of property and equipment disposed-off		1,642	952
Net cash flow from investing activities		<u>(4,122,313)</u>	<u>(486,245)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issue of share capital		1,200,000	528,510
Advance against future issue of share capital - net off issue of shares		681,409	-
Net cash flow from financing activities		<u>1,881,409</u>	<u>528,510</u>
Net increase in cash and cash equivalents		<u>2,882,324</u>	<u>(31,166)</u>
Cash and cash equivalents at beginning of the year	32	<u>1,128,931</u>	<u>1,160,097</u>
Cash and cash equivalents at end of the year	32	<u>4,011,255</u>	<u>1,128,931</u>

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

  
Chairman

  
Chief Executive Officer

  
Director

  
Director

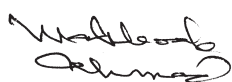


# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED DECEMBER 31, 2007

	Share capital	Accumulated loss	Total
	----- Rupees in `000 -----		
Balance as of January 01, 2006	595,025	-	595,025
Loss for the period	-	(8,354)	(8,354)
Issue of right shares during the year	1,404,975	-	1,404,975
Balance as of January 01, 2007	2,000,000	(8,354)	1,991,646
Loss for the year	-	(45,127)	(45,127)
Issue of right shares during the year	1,200,000	-	1,200,000
Balance as of December 31, 2007	<u>3,200,000</u>	<u>(53,481)</u>	<u>3,146,519</u>

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

  
Chairman

  
Chief Executive Officer

  
Director

  
Director

# CONSOLIDATED NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED DECEMBER 31, 2007

### 1. STATUS AND NATURE OF BUSINESS

#### 1.1 The Group comprise of:

Holding company  
- BankIslami Pakistan Limited

Subsidiary company  
- BankIslami Modaraba Investments Limited (Formerly JS Finance Limited)

- 1.2 BankIslami Pakistan Limited, the holding company (the Bank) was incorporated in Pakistan as a public limited company on October 18, 2004 under the Companies Ordinance, 1984 to carry out business of an Islamic Commercial Bank in accordance with the principles of Islamic Sharia'h. The registered office of the Bank is situated at 11th Floor, Dolmen City, Marine Drive, Block-4, Clifton, Karachi. The Bank commenced its operations from April 07, 2006. The shares of the Bank are quoted on the Karachi Stock Exchange. The Bank is operating with thirty six branches (2006: ten branches) as at December 31, 2007. The consolidated financial statements of the Bank for the year ended December 31, 2007 comprise the Bank and BankIslami Modaraba Investment Limited (Formerly JS Finance Limited), a wholly owned subsidiary (together referred to as the "Group").

During the year, the Bank acquired 100% equity of BankIslami Modaraba Investment Limited [formerly JS Finance Limited] (the Subsidiary) The subsidiary was incorporated in Pakistan on January 22, 1986 under the Companies Ordinance, 1984. Later on it was registered as a Modarba Company with the Registrar of Modarba Companies and Modarba (Floatation and Control) Ordinance, 1980. The principal activity of the subsidiary is to float and operate Modarba. The subsidiary is managing its Modarba with the name of MODARBA-AL-MALI. The principal place of business of the Subsidiary is situated at Tenth Floor, Progressive Square, Shahrah-e-Faisal, Karachi.

The fair values of assets acquired and liabilities assumed as of the date of acquisition are as follows:

	Fair value Rupees in 000'
<b>ASSETS</b>	
Balances with other banks	3,198
Investments	14,584
Fixed assets	315,989
Deferred tax assets	8,152
Other assets	15,932
<b>Total Assets</b>	<b>357,855</b>
<b>LIABILITIES</b>	
Borrowings from financial institutions	189,000
Other liabilities	37,072
<b>Total Liabilities</b>	<b>226,072</b>
<b>FAIR VALUE OF NET ASSETS</b>	<b>131,783</b>
<b>CONSIDERATION (cost of acquisition)</b>	
Cash paid	191,015
<b>GOODWILL ON ACQUISITION (Note 13.3)</b>	<b>59,232</b>

The financial statements of the subsidiary company have been consolidated on a line-by-line basis and the carrying value of the investments held by the holding company has been eliminated against the shareholder's equity in the subsidiary company. Intra group balances or transactions have been eliminated.

## 2. BASIS OF PRESENTATION

- 2.1 These consolidated financial statements have been prepared in accordance with the requirements of State Bank of Pakistan vide BSD Circular No.4 dated February 17, 2006.
- 2.2 The Group provides financing mainly through Sharia'h compliant financial products. Except for Murabaha transactions (which are accounted for under the Islamic Financial Accounting Standard - 1), the purchases, sales and rentals arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of rental/profit thereon. Income, if any, received which does not comply with the principles of Islamic Sharia'h is recognised as charity payable.

## 3. STATEMENT OF COMPLIANCE

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

The SBP as per BSD Circular No.10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for Banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirement of various circulars issued by SBP.

## 4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for certain financial instruments which have been stated at fair value.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Cash and cash equivalents

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

### 5.2 Investments

Investments in securities are classified as follows:

#### Held-for-trading

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

#### Held-to-maturity

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

#### Available-for-sale

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

In accordance with the requirements of the SBP, quoted securities other than those classified as held-to-maturity are stated at market value. Investments classified as held to maturity are carried at amortised costs. Unquoted securities are valued at cost less impairment, if any.

Surplus/(deficit) arising on revaluation of the Group's held-for-trading investment portfolio is taken to the profit and loss account. The surplus/(deficit) arising on revaluation of quoted securities classified as available-for-sale is kept in "Surplus/(Deficit) on Revaluation of Securities account" and is shown in the balance sheet below equity. The surplus/(deficit) arising on these securities is taken to the profit and loss account when actually realised upon disposal.

Provision for diminution in the value of securities (except debentures, sukuks, participation term certificates and term finance certificates) is made after considering impairment, if any, in their value. Provision for diminution in value of debentures, sukuks, participation term certificates and term finance certificates are made in accordance with the requirements of the Prudential Regulations issued by the SBP.

### 5.3 Trade date accounting

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

### 5.4 Financings

Financings are financial products originated by the Group and principally comprise Murabaha, Istisn'a, Ijarah, Salam, Musawamah and Diminishing Musharaka receivables. These are stated at amortised cost (except for Murabaha which is accounted for at gross receivable) net of general and specific provisions.

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

Murabaha is the sale of commodities and assets at cost plus an agreed profit mark up whereby the seller informs the purchaser of the price at which he purchases the product and also stipulates an amount of profit.

Istisn'a is an order to manufacture or construct some assets. The Group purchases marketable/exportable goods under Istisn'a mode and sells them through an agent.

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

Salam is a sale transaction where the seller undertakes to supply some specific goods to the buyer at a future date against an advance price fully paid on spot.

Musawamah is a sale transaction in which price of a commodity to be traded is bargained between seller and the purchaser without any reference to the cost incurred by the seller.

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

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

### 5.5 Operating fixed assets

#### 5.5.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment, if any. Depreciation is computed using the straight-line method by taking into consideration the estimated useful life of the related assets at the rates specified in note 11.2 to the consolidated financial statements. Depreciation on additions/deletions during the year is charged for the proportionate period for which the asset remained in use. Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements, if any, are capitalized when it is probable that future economic benefits will flow to the Group.



The carrying values of property and equipment are reviewed at each reporting date for indication that an asset may be impaired and carrying values may not be recovered. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of net selling price and value in use.

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each financial year end.

Gain and losses on disposal of assets are included in income currently.

#### 5.5.2 Goodwill

Goodwill represents the difference between the cost of acquisition and the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

#### 5.5.3 Capital work-in-progress

All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when these assets are available for use. These are stated at cost.

#### 5.5.4 Intangible assets

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

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

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

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

### 5.6 Taxation

#### 5.6.1 Current taxation

Provision for current taxation is the higher of the amount computed on taxable income at the current tax rate after taking into account tax credits/rebates, if any, and the minimum tax computed at the prescribed rate on turnover.

#### 5.6.2 Deferred taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and un-absorbed tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and un-absorbed tax losses can be utilised.

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



Deferred tax on surplus/(deficit) on revaluation of assets, if any, is charged or credited directly to the same account. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

## 5.7 Staff retirement benefits

### 5.7.1 Defined benefit plan

The Group operates a gratuity scheme for all of its permanent employees. The contribution to the scheme is made on the basis of actuarial recommendations. Actuarial valuation is carried out at each year end using the Projected Unit Credit Method. Actuarial gains and losses are recognised as income or expense over the average remaining useful lives of the employees, if the cumulative recognised actuarial gains or losses for the Scheme at the end of the previous reporting period exceed 10 percent of the higher of defined benefit obligation and the fair value of the plan assets.

### 5.7.2 Defined contribution plan

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

## 5.8 Revenue recognition

5.8.1 Income 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.

5.8.2 Income from Istisn'a, Diminishing Musharaka, Salam and Musawamah are recognised on a time proportionate basis.

5.8.3 Income from Ijarah contracts is recognised on a pattern reflecting a constant periodic return on the net investment outstanding in accordance with International Accounting Standard 17 : Leases.

5.8.4 Profit on diminishing Musharaka is recognised on an accrual basis.

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

5.8.6 Profit on classified financing is recognised on receipt basis.

5.8.7 Dividend income is recognised when the right to receive dividend is established.

5.8.8 Gains and losses on sale of investments are included in income currently.

5.8.9 Modarba management fee is recognised on accrual basis.

5.8.10 Fee on issuance of letter of credit and acceptance is recognised on receipt basis as generally the transaction consummates within an accounting period. Fee on guarantees, if considered material, is recognised over the period of guarantee.

## 5.9 Financial instruments

Financial assets and financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expire or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognised in the profit and loss account of the current period.

#### 5.10 Offsetting

Financial assets and financial liabilities are only offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 5.11 Derivatives

Derivative financial instruments are initially recognized at their fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives financial instruments are carried as asset when fair value is positive and liabilities when fair value is negative. Any change in the value of derivative financial instruments is taken to the profit and loss account.

#### 5.12 Related party transactions

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

#### 5.13 Foreign currency

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. Forward exchange promises are revalued using forward exchange rates applicable to their respective remaining maturities. Exchange gains or losses are included in income currently.

#### 5.14 Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group in the balance sheet.

#### 5.15 Provisions

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

#### 5.16 Deferred costs

These represent preliminary, formation and pre-operating cost and expenses incurred on issue of shares. These are being amortised over a period of five years.

#### 5.17 Impairment

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

#### 5.18 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing product or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The segment reporting format have been determined and prepared in conformity with the format of financial statements and guidelines, prescribed by the SBP vide BSD Circular No.4 of 2006 dated February 17, 2006.

## 5.19 Accounting judgments and estimates

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

The estimates, judgments and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The changes in estimates made during the year and impact on the consolidated financial statements are disclosed in note 10.5.1 and 11.3.1 respectively. The estimates, judgments and assumptions that have significant effect on the consolidated financial statements are as follows:

	Note
Classification of investments	5.2 & 9
Useful lives of assets and methods of depreciation	5.5 & 11
Goodwill impairment assessment	5.5.2 & 13.3
Deferred taxation	5.6 & 12
Provision against non-performing financings	5.4 & 10.6
Defined benefit plan	5.7 & 34

## 5.20 Accounting standards not yet effective

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

Standard or interpretation	Effective date (accounting periods beginning on or after)
IAS 1 Presentation of Financial Statements	January 01, 2009
IAS 23 Borrowings Costs	January 01, 2009
IAS 27 Consolidated and Separated Financial Statements	January 01, 2009
IAS 41 Agriculture	May 22, 2007
IFRS 3 Business Combinations	January 01, 2009
IFRIC 11 Group and Treasury Share Transactions	March 01, 2007
IFRIC 12 Service Concession Arrangements	January 01, 2008
IFRIC 13 Customer Loyalty Programs	July 01, 2008
IFRIC 14 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interactions	January 01, 2008
IFAS 2 Ijarah	January 01, 2008

The Group expects that, except for IFAS 2, "Ijarah", the adoption of the above standards and interpretations will have no material impact on the Group's consolidated financial statements in the period of initial application. Under IFAS 2 Ijarah transaction will be accounted for as follows:

- The Group shall present the assets subject to Ijarah in its balance sheet according to the nature of the asset, distinguish from the asset in own use.
- Costs, including depreciation on the assets given on Ijarah, incurred in earning the Ijarah income shall be recognised as an expense.
- Ijarah income shall be recognised in income on an accrual basis as and when rental returns due, unless another systematic basis is more representative of the time pattern in which the benefit of the use derived from the leased asset is diminished.

The above requirements are applicable for Ijarah contracts which commence on or after January 01, 2008.

In addition to the aforementioned, the following new standards have been issued by the IASB but have not yet been adopted by the Institute of Chartered Accountants of Pakistan or notified by the SECP and hence presently do not form part of the local financial reporting framework:

- IFRS 4 Insurance Contracts
- IFRS 7 Financial Instruments: Disclosures
- IFRS 8 Operating Segments

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>6. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
- local currency		214,050	58,373
- foreign currency		36,313	9,499
		250,363	67,872
With State Bank of Pakistan in:			
- local currency current accounts	6.1	1,123,034	252,335
- foreign currency deposit accounts	6.2	26,326	18,015
		1,149,360	270,350
With National Bank of Pakistan in:			
- local currency current accounts		33,443	-
		1,433,166	338,222

6.1 Includes Rs.618.772 million (2006: Rs.211.189 million) held against Cash Reserve Requirement and Statutory Liquidity Requirement. Balance amount is available to the Group for its operations.

6.2 Includes amounts equivalent to Rs.9.9 million (2006: Rs.3.09 million) held against Cash Reserve Requirement and Special Cash Reserves Requirement. Balance amount is available to the Group for its operations. These deposits do not carry any return.

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
<b>7. BALANCES WITH OTHER BANKS</b>			
In Pakistan			
- on current accounts		9,748	12,896
- on deposit accounts	7.1	2,520,330	750,827
		2,530,078	763,723
Outside Pakistan			
- on current accounts		48,011	26,986
		2,578,089	790,709

7.1 Represents deposits with various islamic commercial banks under Musharaka and Modaraba arrangements with maturities less than 3 months. The expected profit rates on these arrangements range between 2 percent to 9.15 percent per annum (2006: 1.5 percent to 9 percent per annum).

	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
8.			
DUE FROM FINANCIAL INSTITUTIONS			
	8.1 & 8.2	<u>625,037</u>	<u>412,131</u>
Commodity Murabaha - local currency			
8.1			
The Group has entered into commodity Murabaha agreements under which the Group purchases an underlying commodity from open market through an agent and sells it to a financial institution on credit with profit. The rate on the commodity Murabaha ranges from 9.80 percent to 11.24 percent (2006: 11.25 percent to 12.85 percent) per annum.			
	Note	December 31, 2006	December 31, 2006
----- Rupees in `000 -----			
8.2			
Murabaha sale price		3,401,162	412,131
Purchase price		3,300,000	400,000
		<u>101,162</u>	<u>12,131</u>
Deferred Murabaha income			
Opening balance		10,969	-
Deferred during the year		101,162	12,131
Recognised during the year		100,366	1,162
		<u>11,765</u>	<u>10,969</u>
Murabaha receivable			
Opening balance		412,131	-
Sales during the year		3,401,162	412,131
Received during the year		3,188,256	-
		<u>625,037</u>	<u>412,131</u>
9.			
INVESTMENTS			
9.1			
Investments by types - held by Group			
Held-for-trading securities			
- Listed companies (Ordinary shares)		9.2.1	-
			222,480
Available-for-sale			
- Sukuk Bonds (Certificates)		9.2.3	3,510,162
- Mutual Funds (Units)		9.2.4	150,000
- Modaraba Certificates		9.2.2	14,584
			-
Investments at cost		<u>3,674,746</u>	<u>482,693</u>
Deficit on revaluation of held-for-trading securities			(926)
Surplus on revaluation of available-for-sale securities		20.1	11,728
Total investments at market value		<u>3,686,474</u>	<u>493,008</u>

9.2 Investments by segments	Note	December 31, 2007	December 31, 2006
		----- Rupees in `000 -----	
Fully paid up ordinary shares/certificates:			
- Listed companies	9.2.1	-	222,480
- Modaraba certificates (related party)	9.2.2	14,584	-
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Sukuk Bonds	9.2.3	3,510,162	250,213
Other investments			
- Mutual Funds	9.2.4	150,000	10,000
Total investments at cost		<u>3,674,746</u>	<u>482,693</u>
Deficit on revaluation of held-for-trading securities		-	(926)
Surplus on revaluation of available-for-sale securities	20.1	11,728	11,241
Total investments at market value		<u><u>3,686,474</u></u>	<u><u>493,008</u></u>

9.2.1 Details of investment in listed companies	December 31, 2007		December 31, 2006	
	Number of Shares/Units	Rupees in `000	Number of Shares/Units	Rupees in `000
Fully paid-up ordinary shares of Rs.10/- each				
Held for trading securities				
Oil and Gas Development Company Limited	-	-	87,000	10,167
Pakistan Oilfield Limited	-	-	145,000	50,667
Pakistan Petroleum Limited	-	-	459,000	107,749
Pakistan State Oil Company Limited	-	-	41,000	12,080
Pakistan Telecommunication Company Limited	-	-	915,500	41,817
		<u>-</u>	<u>915,500</u>	<u>222,480</u>

### 9.2.2 Details of investment in Modaraba Certificates

Name of investee company	2007		2006		2007		2006	
	Percentage holding	Number of Certificates	Mark value (Rupees in `000)	Cost (Rupees in `000)	Percentage holding	Number of Certificates	Mark value (Rupees in `000)	Cost (Rupees in `000)
Certificates								
Modaraba Al-Mali (related party)								
2,039,677 (2006: nil) fully paid up certificates of Rs 10 each	11	-	2,039,677	-	-	-	14,584	-
			<u>13,462</u>	<u>-</u>			<u>14,584</u>	<u>-</u>

### 9.2.3 Details of investment in Sukuk

Name of investee company	Note	2007		Face Value (Rupees)	2006		2007		2006	
		Number of Certificates	Cost (Rupees in `000)		Number of Certificates	Cost (Rupees in `000)	Instrument rating	Instrument rating		
Sukuk Certificates										
First WAPDA Sukuk	9.2.3.1	50,000	50,000	5,000	250,162*	250,213	Unrated	Unrated	-	-
Second WAPDA Sukuk	9.2.3.2	134,000	-	5,000	670,000	-	Unrated	Unrated	-	-
KSEW Sukuk	9.2.3.3	38,000	-	5,000	190,000	-	Unrated	Unrated	-	-
Pak Electron Sukuk	9.2.3.4	90,000	-	5,000	450,000	-	Unrated	Unrated	-	-
Amtex Sukuk	9.2.3.5	64,000	-	5,000	320,000	-	Unrated	Unrated	-	-
Engro Chemical Sukuk	9.2.3.6	50,000	-	5,000	250,000	-	AA	AA	-	-
Security Leasing Sukuk	9.2.3.7	12,000	-	5,000	60,000	-	A-	A-	-	-
Shahmurad Sugar Mills Sukuk	9.2.3.8	250	-	1,000,000	250,000	-	A-	A-	-	-
First Sitara Chemicals Sukuk	9.2.3.9	8,000	-	5,000	50,000	-	Unrated	Unrated	-	-
Second Sitara Chemicals Sukuk	9.2.3.10	10,000	-	5,000	40,000	-	Unrated	Unrated	-	-
Sitara Energy Sukuk	9.2.3.11	6,000	-	5,000	30,000	-	Unrated	Unrated	-	-
New Allied Electronics (LG) Sukuk	9.2.3.12	29,000	-	5,000	145,000	-	A-	A-	-	-
Sui Southern Gas Company Sukuk	9.2.3.13	84,000	-	5,000	420,000	-	AA	AA	-	-
Kohat Cement Sukuk	9.2.3.14	27,000	-	5,000	135,000	-	A-	A-	-	-
Eden Housing Sukuk	9.2.3.15	50,000	-	5,000	250,000	-	A	A	-	-
					<u>3,510,162</u>	<u>250,213</u>				

\* At December 31, 2007, these had a market value of Rs.262,036 (2006 : Rs.261,876)



- 9.2.3.1 These carry profit at the rate of six months KIBOR plus 35 basis points (2006: six months KIBOR plus 35 basis points) receivable on semi-annual basis with maturity in October 2012. The principal will be repaid on maturity. The rentals are backed by Government of Pakistan's Sovereign Guarantee.
- 9.2.3.2 These carry profit at the rate of six months KIBOR minus 25 basis points (2006: Nil) receivable on semi-annual basis with maturity in July 2017. The principal will be repaid in 12 equal semi-annual installment with first installment falling due on the 54th month from the first drawdown date. The rentals are backed by Government of Pakistan's Sovereign Guarantee.
- 9.2.3.3 These carry profit at the rate of six months KIBOR plus 40 basis points (2006: Nil) receivable on semi-annual basis with maturity in November 2015. The principal will be redeemed in eight semi-annual installments starting from May 2012. The rentals are backed by Government of Pakistan's Sovereign Guarantee.
- 9.2.3.4 These carry profit at the rate of three months KIBOR plus 175 basis points (2006: Nil) receivable quarterly based on Diminishing Musharaka mechanism with maturity in September 2012. There is an early purchase option available to the issuer after 30 months from the date of issue.
- 9.2.3.5 These carry profit at the rate of three months KIBOR plus 200 basis points (2006: Nil) receivable quarterly based on Diminishing Musharaka mechanism with maturity in October 2012. There is an early purchase option available to the issuer after 2 years from the date of issue.
- 9.2.3.6 These carry profit at the rate of six months KIBOR plus 150 basis points (2006: Nil) receivable quarterly based on Diminishing Musharaka mechanism with maturity in September 2015. Upto two consecutive, equal semi-annual installments, the first such installment falling due on the 90th month from the date of the first contribution under the facility.
- 9.2.3.7 These carry profit at the rate of six months KIBOR plus 195 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in September 2012. The principal to be redeemed in eight equal semi-annual installments commencing from the 18th month from the issue date.
- 9.2.3.8 These carry profit at the rate of six months KIBOR plus 225 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in September 2012. There is an early purchase option available to the issuer after 2 years from the date of issue.
- 9.2.3.9 These carry profit at the rate of three months KIBOR plus 100 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in December 2012. There is an early purchase option available to the issuer after 3 years of disbursement with `No Early Payment Penalty.
- 9.2.3.10 These carry profit at the rate of three months KIBOR plus 170 basis points (2006: Nil) receivable quarterly based on Diminishing Musharaka mechanism with maturity in December 2012. There is an early purchase option available to the issuer after 2 years from the date of issue.
- 9.2.3.11 These carry profit at the rate of six months KIBOR plus 195 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in July 2012. The principal will be redeemed in ten equal semi-annual installments commencing from the 6th month from the date of issue.
- 9.2.3.12 These carry profit at the rate of three months KIBOR plus 220 basis points (2006: Nil) receivable semi-annually based on Diminishing Musharaka mechanism with maturity in December 2012. There is an early purchase option available to the issuer after 2 years of disbursement.



	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
10.2 Murabaha sale price		1,447,724	600,924
Purchase price		<u>1,379,461</u>	<u>547,436</u>
		<u>68,263</u>	<u>53,488</u>
Deferred murabaha income			
Opening balance		37,403	-
Deferred during the year		68,263	53,488
Recognised during the year		<u>67,622</u>	<u>16,085</u>
		<u>38,044</u>	<u>37,403</u>
Murabaha receivable			
Opening balance		359,166	-
Sales during the year		1,447,724	600,924
Received during the year		<u>1,225,385</u>	<u>241,758</u>
		<u>581,505</u>	<u>359,166</u>
10.3 Particulars of financings			
10.3.1 In local currency		3,782,820	960,134
In foreign currency		<u>20,420</u>	<u>-</u>
		<u>3,803,240</u>	<u>960,134</u>
10.3.2 Short-term (for upto one year)		962,372	568,889
Long-term (for over one year)		<u>2,840,868</u>	<u>391,245</u>
		<u>3,803,240</u>	<u>960,134</u>
10.4 Net investment in Ijarah financing			

	December 31, 2007				December 31, 2006			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
----- (Rupees in `000) -----								
Ijarah rentals receivable	522,415	964,952	-	1,487,367	103,779	215,195	-	318,974
Residual value	-	243,628	-	243,628	-	39,583	-	39,583
Minimum Ijarah payments	522,415	1,208,580	-	1,730,995	103,779	254,778	-	358,557
Financial charges for future periods	181,265	216,911	-	398,176	38,362	48,440	-	86,802
Present value of minimum ijarah payments	<u>341,150</u>	<u>991,669</u>	<u>-</u>	<u>1,332,819</u>	<u>65,417</u>	<u>206,338</u>	<u>-</u>	<u>271,755</u>

10.5 Financings include Rs.78,371 thousand (2006: Rs. Nil) which have been placed under non-performing status as follows:

Category of classification	Note	Domestic	Overseas	Total	Provision Required	Provision Held
----- (Rupees in `000) -----						
Substandard	10.5.2	75,602	-	75,602	18,900	18,900
Doubtful		2,769	-	2,769	1,385	1,385
Loss		-	-	-	-	-
		<u>78,371</u>	<u>-</u>	<u>78,371</u>	<u>20,285</u>	<u>20,285</u>

10.5.1 During the year, the SBP vide its BSD Circular No.7 dated October 12, 2007, has amended Prudential Regulation in respect of provisioning against non-performing advances. The revised regulations that are effective from December 31, 2007, prohibit consideration of forced sale value of collateral held by the Group in determining the amount of provision against non-performing financing except in case of housing finance. However, the above change in regulation does not have any impact on these consolidated financial statements.

Further, the time period for classifying personal loans under consumer financing as "loss" has been reduced from 1 year to 180 days. This change has no effect on these consolidated financial statements.

10.5.2 Included in substandard category are assets amounting to Rs.53.715 million which have been classified under subjective evaluation, resulting in a provision of Rs.13.429 million.

10.5.3 Particulars of provision against non-performing financings:

	December 31, 2007			December 31, 2006		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	20,285	9,088	29,373	-	1,001	1,001
In foreign currency	-	-	-	-	-	-
	<u>20,285</u>	<u>9,088</u>	<u>29,373</u>	<u>-</u>	<u>1,001</u>	<u>1,001</u>

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

10.6 Particulars of provisions against non-performing financings - local currency

	2007			2006		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
Opening balance	-	1,001	1,001	-	-	-
Charge for the year	20,285	8,087	28,372	-	1,001	1,001
Closing balance	<u>20,285</u>	<u>9,088</u>	<u>29,373</u>	<u>-</u>	<u>1,001</u>	<u>1,001</u>

10.7 No financings have been written off during the year.

	Note	December	December
		31, 2007	31, 2006
10.8 Particulars of financings to directors, Associated companies etc.		----- Rupees in `000 -----	

Financings due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons

Balance at beginning of year	30,061	6,190
Financing granted during the year	99,629	27,769
Repayments	(17,098)	(3,898)
Balance at end of year	<u>112,592</u>	<u>30,061</u>

11. OPERATING FIXED ASSETS

Capital work-in-progress	11.1	165,994	8,719
Property and equipment	11.2	863,719	417,890
Intangible assets	11.3	18,889	14,819
		<u>1,048,602</u>	<u>441,428</u>

11.1 Capital work-in-progress

Civil works	510	6,805
Equipments	12,698	534
Advances to suppliers and contractors	152,786	1,380
	<u>165,994</u>	<u>8,719</u>

## 11.2 Property and equipment

	2007							
	COST			DEPRECIATION			Book value at December 31, 2007	Rate of depreciation %
	Balance at January 01, 2007	Additions/ acquired from subsidiary*/ (deletions)	Balance at December 31, 2007	Balance at January 01, 2007	Charge/ acquired from subsidiary*/ (adjustment)	Balance at December 31, 2007		
	------(Rupees in '000)-----							
Building	231,756	333,696 *	565,452	7,039	12,871 1,516 *	21,426	544,026	5
Furniture and fixture	91,097	66,385 686 * (70)	158,098	5,075	11,642 669 * (2)	17,384	140,714	10
Electrical, office and computer equipments	89,263	73,307 122 * (83)	162,609	11,415	32,634 122 * (19)	44,152	118,457	25
Vehicles	37,590	41,001 (2,634)	75,957	8,287	8,319 (1,171)	15,435	60,522	20
	449,706	180,693 334,504 * (2,787)	962,116	31,816	65,466 2,307 * (1,192)	98,397	863,719	

	2006							
	COST			DEPRECIATION			Book value at December 31, 2006	Rate of depreciation %
	Balance at January 01, 2006	Additions/ acquired from subsidiary*/ (deletions)	Balance at December 31, 2006	Balance at January 01, 2006	Charge/ acquired from subsidiary*/ (adjustment)	Balance at December 31, 2006		
	------(Rupees in '000)-----							
Building	-	231,756	231,756	-	7,039	7,039	224,717	5
Furniture and fixture	-	91,097	91,097	-	5,075	5,075	86,022	10
Electrical, office and computer equipments	12,883	76,480 (100)	89,263	1,739	9,705 (29)	11,415	77,848	25
Vehicles	13,772	24,769 (951)	37,590	1,764	6,586 (63)	8,287	29,303	20
	26,655	424,102 (1,051)	449,706	3,503	28,405 (92)	31,816	417,890	

11.2.1 Includes Rs. NIL (2006: Rs.1.518 million) charged to deferred cost.

## 11.3 Intangible assets

	2007							
	COST			AMORTISATION			Book value at December 31, 2007	Rate of amortisation %
	Balance at January 01, 2007	Additions/ (deletions)	Balance at December 31, 2007	Balance at January 01, 2007	Amortisation/ (adjustment)	Balance at December 31, 2007		
	------(Rupees in '000)-----							
Computer software	16,774	11,582 (1,289)	27,067	1,955	6,397 (174)	8,178	18,889	20

	2006							
	COST			AMORTISATION			Book value at December 31, 2006	Rate of amortisation %
	Balance at January 01, 2006	Additions/ (deletions)	Balance at December 31, 2006	Balance at January 01, 2006	Amortisation/ (adjustment)	Balance at December 31, 2006		
	------(Rupees in '000)-----							
Computer software	6,395	10,379	16,774	328	1,627	1,955	14,819	10

11.3.1 During the year, effective January 01, 2007, the useful lives of the computer softwares were reviewed which resulted in the revision of depreciation rates from 10% to 20%. In the opinion of the management, the revision would result in a more accurate reflection of amortisation charge over the useful lives of the related asset. The above change has been accounted for as change in accounting estimate. Had the estimate not been revised the amortisation charge and the carrying amount would have been lower and higher by Rs.4.4 million respectively and loss for the year would have been lower by the same amount.

11.3.2 Includes Rs. Nil (2006: Rs.0.210 million) charged to deferred cost.

#### 11.4 Details of Property and equipment disposed-off

The following assets were disposed-off during the year:

	Original Cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of purchaser
	------(Rupees in '000)-----					
Vehicles						
Honda City	969	517	452	467	Group Policy	Sheba Mateen (Employee)
Honda Civic	1,070	535	535	538	Group Policy	Asad Alim (Employee)
Suzuki Cultus	595	119	476	595	Negotiation	M. Furqan (Employee)
Electrical, office and computer equipment						
Miscellaneous office equipment	75	19	56	42	Insurance Claim	Adamjee Insurance Company Ltd.
	2,709	1,190	1,519	1,642		

	Note	December 31, 2007	December 31, 2006
		----- Rupees in `000 -----	
<b>12. DEFERRED TAX ASSETS</b>			
Deferred credits arising due to			
Accelerated tax depreciation allowances		(147,317)	(59,763)
Ijarah financings		(97,837)	(19,371)
Deferred cost		(478)	-
Surplus on revaluation of assets		(4,156)	-
		(249,788)	(79,134)
Deferred debits arising in respect of			
Deferred cost		-	1,890
Unused tax losses		326,812	103,998
Tax credit against minimum tax paid		11,346	65
Provision against non-performing financings		9,390	311
		347,548	106,264
		97,760	27,130
<b>13. OTHER ASSETS</b>			
Profit/return accrued in local currency		195,693	20,547
Advances, deposits, advance rent and other prepayments		124,718	42,169
Advance against financings	13.1	132,938	305,912
Advance taxation (payments less provision)		16,005	9,239
Deferred costs	13.2	52,271	68,351
Goodwill	13.3	59,232	-
Stamps in hand		544	120
Dividend receivable		-	1,380
Receivable from broker		303,723	-
Insurance claim receivable		10,897	-
Advance for investment		-	110,600
Derivative asset		-	3,555
Other receivable		10,513	1,040
		906,534	562,913

13.1 Represents advance given in respect of Murabaha and Ijarah financings.



	Note	December 31, 2007	December 31, 2006
----- Rupees in `000 -----			
13.2	Deferred costs		
	Represents preliminary/pre-operating expenses incurred as follows:		
		68,351	71,156
	Balance at the beginning of the year		
	Incurred during the year - net	-	9,257
		<u>68,351</u>	<u>80,413</u>
	Less: Amortized during the year	16,080	12,062
		<u>52,271</u>	<u>68,351</u>

13.3 Goodwill

	As at 1st January	-	-
	Arising on acquisition	13.2.1 59,232	-
	Amortisation charge for the period	<u>-</u>	<u>-</u>
		59,232	-
	Amortisation & impairment	-	-
	Amortisation charge for the year	<u>-</u>	<u>-</u>
	Net book value as at December 31, 2007	<u>59,232</u>	<u>-</u>

Impairment testing of goodwill

Goodwill acquired through business combination has been allocated to the following cash generating unit:  
- Modaraba AI - Mali Unit

The carrying amount of goodwill allocated to the CGU is as follows:

	December 31, 2007	December 31, 2006
----- Rupees in `000 -----		
Modaraba AI - Mali	<u>59,232</u>	<u>-</u>

Key assumptions used in value in use calculation

The recoverable amount of the business operation of the cash generating unit has been determined based on a value in use calculation, using cash flow projections based on business plan approved by the management covering a five year period. The discount rate applied to cash flow projections beyond the fifth year period are extrapolated using a terminal growth rate. The following rates are used by the Company:

	December 31, 2007	December 31, 2006
Discount rate - discrete period	16.5%	-
Terminal growth rate	8.0%	-

The calculation of value in use for the business operation is most sensitive to the following assumptions:

- Management fees;
- Dividend Income;
- Discount rate.

#### Management fees

Management fees has been assumed at 10 percent, based on prevailing industry trends and anticipated market conditions.

#### Dividend Income

Dividend Income on investment in the Modaraba has been projected on the expected returns estimated on the basis of historical performance and prevailing industry trends.

#### Discount rate

Discount rate reflect management estimates of the rate of return required for the business and are calculated after taking into account the prevailing risk free rate, industry risk and business risk. Discount rates are calculated by using the weighted average cost of capital of the Company.

#### Sensitivity to changes in assumptions

Management believes that reasonable possible changes in other assumptions used to determine the recoverable amount of the entity will not result in an impairment of goodwill.

	December 31, 2007	December 31, 2006
14. BILLS PAYABLE	----- Rupees in `000 -----	
In Pakistan - local currency	<u>84,998</u>	<u>23,830</u>
15. DUE TO FINANCIAL INSTITUTIONS		
In Pakistan - local currency	<u>70,000</u>	<u>50,000</u>
15.1 Represents Musharaka contributions by the State Bank of Pakistan against Islamic Export Refinance Scheme. These carry expected profit rate of 6.5 percent (2006: 6.5 percent) per annum and are secured against collateral.		
16. DEPOSITS AND OTHER ACCOUNTS	December 31, 2007	December 31, 2006
	----- Rupees in `000 -----	
Customers		
Fixed deposits	4,929,274	811,730
Savings deposits	3,282,246	607,468
Current accounts - non-remunerative	1,372,978	336,686
Margin accounts	<u>31,431</u>	<u>22,124</u>
	9,615,929	1,778,008
Financial institutions		
Remunerative deposits	1,806	-
	<u>9,617,735</u>	<u>1,778,008</u>
16.1 Particulars of deposits		
In local currency	9,544,728	1,749,951
In foreign currencies	73,007	28,057
	<u>9,617,735</u>	<u>1,778,008</u>



	Note	December 31, 2007	December 31, 2006
		----- Rupees in `000 -----	
19. ADVANCE AGAINST FUTURE ISSUE OF SHARE CAPITAL			
Opening balance		-	876,465
Received during the year		681,409	-
Shares issued during the year		-	(876,465)
Closing balance		<u>681,409</u>	<u>-</u>
20. SURPLUS ON REVALUATION OF ASSETS			
20.1 Surplus on revaluation of available-for-sale securities			
Sukuk Bonds		11,875	11,663
Mutual Funds		975	(422)
Modaraba Certificates		(1,122)	-
		<u>11,728</u>	<u>11,241</u>
Less: Related deferred tax liability		4,156	-
		<u>7,572</u>	<u>11,241</u>
21. CONTINGENCIES AND COMMITMENTS			
21.1 Trade-related contingent liabilities			
Import letters of credit		<u>455,681</u>	<u>207,002</u>
Acceptances		<u>65,477</u>	<u>113,018</u>
21.2 Transaction-related contingent liabilities			
Guarantees favouring			
- Banks		<u>245,000</u>	<u>67,901</u>
- Government		<u>168,072</u>	<u>-</u>
- Others		<u>82,442</u>	<u>42,910</u>
21.3 Commitments in respect of forward exchange promises			
Purchase		<u>164,140</u>	<u>-</u>
Sale		<u>9,121</u>	<u>-</u>
21.4 Commitments for the acquisition of operating fixed assets		<u>146,687</u>	<u>22,560</u>
21.5 Commitments for acquisition of investments		<u>710,000</u>	<u>14,400</u>
21.6 Commitments in respect of financing		<u>4,385,126</u>	<u>172,310</u>
21.7 Other commitments			
Bills for collection		<u>109,865</u>	<u>4,159</u>

21.8 Claim against bank not acknowledged as debt

The ownership of the Group in respect of its investments in 400,000 certificates of Modaraba Al-Mali costing Rs.2,972,822/- was disputed by a person. The Group rejected this claim and filed a suit against that party in the High Court of Sindh claiming damages of Rs.20,000,000/-. The High Court granted an injunction in favour of the Group restraining the person to deal with the shares pending hearing and disposal of the suit. Meanwhile, a suit filed by the same party for the winding-up of the Group was dismissed by the High Court. After dismissal, the party has now filed a suit against the Group in the Banking Court, Karachi, claiming Rs.19,200,000/-. The management and the Group's lawyers are of the opinion that the Group has a strong case and the suit filed against the Group will also be dismissed.

22. DERIVATIVE INSTRUMENTS

Derivative instruments held by the Group mainly comprise of defined settlement contracts sold in the capital market (Arbitrage transaction). These are revalued at the difference between contract price and the closing price quoted.

	2007	For the period from April 07, 2006 to December 31, 2006
	----- Rupees in `000 -----	
23. PROFIT/RETURN ON FINANCINGS, INVESTMENTS AND PLACEMENTS EARNED		
On financings to:		
• Customers	297,124	48,518
• Financial Institutions	100,322	1,162
	<u>397,446</u>	<u>49,680</u>
On Investments in available-for-sale securities	96,080	15,619
On deposits with financial institutions	97,623	34,371
Others	2,526	338
	<u>593,675</u>	<u>100,008</u>
24. RETURN ON DEPOSITS AND OTHER DUES EXPENSED		
Deposits	297,788	18,302
Other short-term due to financial institutions	5,983	363
	<u>303,771</u>	<u>18,665</u>
25. GAIN ON SALE OF SECURITIES		
Shares - Listed	33,827	24,179
Mutual fund units	8,075	-
Sukuk bonds	90	-
	<u>41,992</u>	<u>24,179</u>
26. OTHER INCOME		
Gain on revaluation of derivative instrument	-	3,555
Gain on termination of Ijarah financing	2,043	-
Gain on disposal of property and equipment	124	-
Rent from property	3,370	-
Others	1,806	-
	<u>7,343</u>	<u>3,555</u>

		For the period from April 07, 2006 to December 31, 2006
	2007	
	----- Rupees in `000 -----	
<b>27. ADMINISTRATIVE EXPENSES</b>		
Salaries, allowances and other benefits	179,784	52,224
Charge for defined benefit plan	34.5      7,037	808
Contribution to defined contribution plan	6,330	2,687
Non-executive directors' fees, allowances and other expenses	1,430	1,375
Insurance on consumer car ijarah	15,339	2,361
Rent, taxes, insurance and electricity	56,454	14,102
Legal and professional charges	6,696	4,862
Communication	20,155	4,143
Repairs and maintenance	22,699	6,362
Stationery and printing	13,600	3,315
Advertisement and publicity	34,758	14,700
Auditors' remuneration	27.1      1,481	1,338
Depreciation	11.2      65,466	26,887
Amortisation	11.3      6,397	1,417
CDC and share registrar services	4,667	767
Entertainment expense	3,078	1,025
Security service charges	5,674	1,521
Brokerage and commission	11,436	-
Travelling and conveyance	5,631	1,872
Remuneration to Sharia'h Board	27.2      250	856
Fees and subscription	11,140	-
Vehicle running and maintenance	6,460	-
Others	6,769	2,904
	<u>492,731</u>	<u>145,526</u>
<b>27.1 Auditors' remuneration</b>		
Audit fee	700	350
Special certifications and sundry advisory services	335	565
Half yearly review	200	250
Review of Compliance with Code of Corporate Governance	50	50
Tax services	75	125
Out-of-pocket expenses	121	75
	<u>1,481</u>	<u>1,415</u>
27.1.1 Includes Rs. Nil (2006: Rs.0.077 million) charged to deferred cost.		
<b>27.2 Remuneration to Sharia'h Board</b>		
Charged to administrative expenses	250	856
Charged to deferred cost	-	213
	<u>250</u>	<u>1,069</u>
<b>28. OTHER CHARGES</b>		
Penalties imposed by State Bank of Pakistan	590	57
Deferred cost amortised	13.2      16,080	12,062
Others	2,748	1,643
	<u>19,418</u>	<u>13,762</u>



	December 31, 2007	December 31, 2006
	----- Rupees in `000 -----	
29. TAXATION		
For the year		
- Current	(5,163)	(1,021)
- Deferred	66,474	27,332
	<u>61,311</u>	<u>26,311</u>
For prior years		
- Current	-	(65)
- Deferred	-	(201)
	<u>-</u>	<u>(266)</u>
	<u>61,311</u>	<u>26,045</u>

29.1 Relationship between tax expense and accounting profit

Accounting loss for the year	<u>(106,438)</u>	<u>(34,399)</u>
Tax @ 35%	37,253	12,040
Tax effect of income under FTR	11,180	4,929
Tax effect of permanent differences	12,878	9,342
Prior year taxation	-	(266)
Tax charge	<u>61,311</u>	<u>26,045</u>

29.2 During the year the Seventh Schedule (the Schedule) to the Income Tax Ordinance, 2001 has been introduced for taxation of banks in Pakistan. Rules of the schedule inter alia provide that all provision for classified advances and off balance sheet items created under the SBP Prudential Regulations except for provisions falling under the category of "sub-standard" will be allowed as claimed in the consolidated financial statements. The Schedule is applicable for the year ending December 31, 2008 and does not contain any transitory provision. Currently, provisions for classified advances and off balance sheet items are allowed as deduction if they fulfill the criteria set out in Section 29 of Income Tax Ordinance, 2001. The matter of introduction of such transitory provisions has been taken up with Federal Board of Revenue by Pakistan Banks Association and based on discussions to date the Group's management is confident that such provisions will be enacted in the Schedule. Accordingly, the deferred tax calculation assumes that the Group would be able to get the benefit of the asset so recognized on such provisions that have not been allowed as a deduction for tax purposes in the past.

	December 31, 2007	December 31, 2006
30. BASIC LOSS PER SHARE		
Loss for the year	<u>(45,127)</u>	<u>(8,354)</u>
Weighted average number of ordinary shares	<u>280,979,452</u>	<u>188,979,486</u>
Basic loss per share	<u>Re.(0.16)</u>	<u>Re. (0.04)</u>
31. DILUTED LOSS PER SHARE		
Loss for the year	<u>(45,127)</u>	<u>(8,354)</u>
Weighted average number of ordinary shares	280,979,452	188,979,486
Adjustment for advance against future issue of share capital	<u>1,493,499</u>	<u>-</u>
	<u>282,472,951</u>	<u>188,979,486</u>
Diluted loss per share	<u>Re.(0.16)</u>	<u>Re. (0.04)</u>

	December 31, 2007	December 31, 2006
32. CASH AND CASH EQUIVALENTS	----- Rupees in `000 -----	
Cash and balances with treasury banks	1,433,166	338,222
Balances with other banks	2,578,089	790,709
	<u>4,011,255</u>	<u>1,128,931</u>
33. STAFF STRENGTH		
Permanent	346	168
Temporary/on contractual basis	221	66
Group's own staff strength at the end of the year	<u>567</u>	<u>234</u>
Outsourced	-	2
Total staff strength	<u>567</u>	<u>236</u>
34. DEFINED BENEFIT PLAN		
34.1 General description		
<p>The Group has a gratuity scheme for its employees (members of the scheme). The scheme entitles the members to lump sum payment at the time of retirement, resignation or death. Permanent staff are eligible for such benefits after 3 years of service.</p>		
	December 31, 2007	December 31, 2006
34.2 Principal actuarial assumptions		
Discount rate	10%	10%
Expected rate of increase in salaries	10%	10%
	----- Rupees in `000 -----	
34.3 Reconciliation of payable against defined benefit plan		
Present value of defined benefit obligations	10,150	3,669
Net actuarial losses not recognized	(629)	(1,185)
	<u>9,521</u>	<u>2,484</u>
34.4 Movement in payable against defined benefit plan		
Opening balance	2,484	1,174
Charge for the year	7,037	1,310
Closing balance	<u>9,521</u>	<u>2,484</u>
34.5 Charge for defined benefit plan		
Current service cost	6,619	1,251
Cost of funds	367	112
Transitional liability recognized	-	(53)
Actuarial gains and losses	51	-
	<u>7,037</u>	<u>1,310</u>

December 31, 2007      December 31, 2006  
----- Rupees in `000 -----

34.6 Movement in present value of defined benefit obligation

Opening balance	3,669	1,174
Current service cost	6,619	1,251
Cost of funds	367	112
Transitional liability recognized	-	(53)
Actuarial gain on obligation	(505)	-
Closing balance	10,150	2,484

34.7 Annual actuarial losses

Experience loss on obligation	51	-
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35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President/Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	----- (Rupees in `000) -----					
Fees	-	-	1,350	1350	-	-
Managerial remuneration	6,250	5,675	-	-	41,888	16,547
Bonus	-	-	-	-	2,215	-
Charge for defined benefit plan	521	473	-	-	-	-
Salary in lieu of provident fund	625	568	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	4,189	1,655
Rent and house maintenance	270	270	-	-	10,524	3,750
Utilities	625	568	-	-	4,189	1,655
Medical	625	568	-	-	4,189	1,655
	8,916	8,122	1,350	1,350	67,194	25,262
Number of persons	1	1	4	4	60	15

35.1 In addition to the above, an amount of Rs.3 million has been paid to the President/Chief Executive as bonus pertaining to the period the Group was not operational and has been charged to the current year profit and loss account.

35.2 The Group's President/Chief Executive and certain executives are provided with free use of Group's maintained cars.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

36.1 On-balance sheet financial instruments

	December 31, 2007		December 31, 2006	
	Book value	Fair value	Book value	Fair value
	----- Rupees in `000 -----			
<b>Assets</b>				
Cash and balances with treasury banks	1,433,166	1,433,166	338,222	338,222
Balances with other banks	2,578,089	2,578,089	790,709	790,709
Due from financial institutions	625,037	625,037	412,131	412,131
Investments	3,786,474	3,786,474	482,693	493,008
Financings	3,773,867	3,773,867	959,133	910,761
Other assets	654,308	654,308	485,323	485,323
	12,850,941	12,850,941	3,468,211	3,430,154
<b>Liabilities</b>				
Bills payable	84,998	84,998	23,830	23,830
Due to financial institutions	70,000	70,000	50,000	50,000
Deposits and other accounts	9,617,735	9,617,735	1,778,008	1,778,008
Other liabilities	541,296	541,296	121,237	121,237
	10,314,029	10,314,029	1,973,075	1,973,075

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

### 36.2 Off-balance sheet financial instruments

	December 31, 2007		December 31, 2006	
	Book value	Fair value	Book value	Fair value
Forward promise for purchase of foreign exchange	164,140	164,140	-	-
Forward promise for sale of foreign exchange	9,121	9,121	-	-

### 37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
December 31, 2007									
Total income	-	369,438	147,429	220,987	-	-	-	-	-
Total expenses	-	564,015	79,920	200,357	-	-	-	-	-
Net income/(loss)	-	(194,577)	67,509	20,630	-	-	-	-	-
Segment assets (gross)	-	9,749,503	1,291,075	3,138,323	-	-	-	-	-
Segment non performing loans	-	-	40,978	37,393	-	-	-	-	-
Segment provision required	-	-	9,088	20,285	-	-	-	-	-
Segment liabilities	-	6,779,682	1,102,065	2,432,282	-	-	-	-	-
Segment return on net assets (ROA) (%)	-	(6.6)	35.7	2.9	-	-	-	-	-
Segment cost of funds (%)	-	3.84	3.84	3.84	-	-	-	-	-
December 31, 2006									
Total income	-	90,367	3,929	50,258	-	-	-	-	-
Total expenses	-	81,253	13,576	58,079	-	-	-	-	-
Net income/(loss)	-	9,114	(9,647)	(7,821)	-	-	-	-	-
Segment assets (gross)	-	2,532,949	204,940	1,287,786	-	-	-	-	-
Segment non performing loans	-	-	-	-	-	-	-	-	-
Segment provision required	-	1,001	-	-	-	-	-	-	-
Segment liabilities	-	1,065,409	198,479	757,899	-	-	-	-	-
Segment return on net assets (ROA) (%)	-	0.36%	(4.71%)	(0.61%)	-	-	-	-	-
Segment cost of funds (%)	-	1.26%	1.26%	1.26%	-	-	-	-	-

### 38. RELATED PARTY TRANSACTIONS

The related parties of the Group comprise related group companies, principal shareholders, key management personnel, companies where directors of the Group also hold directorship, directors and their close family members and staff retirement funds.

The details of transactions with related parties during the year other than those which have been disclosed elsewhere in these consolidated financial statements are as follows:

	2007	2006
----- Rupees in `000 -----		
<b>ASSOCIATES</b>		
Deposits:		
At January 1	98,350	-
Deposit during the year	863,096	485,913
Withdrawal during the year	(924,797)	(387,563)
At December 31	36,649	98,350
Transactions, income and expenses:		
Return on deposits expensed	9,069	764
Rent expense	-	396
Modarba Management fee	564	-
Private Placements of TFCs	177,669	-

	2007	2006
	----- Rupees in `000 -----	
<b>KEY MANAGEMENT</b>		
Financings:		
At January 1	3,526	3,719
Disbursed during the year	40,939	-
Repaid during the year	(4,236)	(193)
At December 31	<u>40,229</u>	<u>3,526</u>
Deposits:		
At January 1	431	-
Deposit during the year	23,480	1,620
Withdrawal during the year	(23,706)	(1,189)
At December 31	<u>205</u>	<u>431</u>
Transactions, income and expenses:		
Profit earned on financing	553	72
Return on deposits expensed	20	4
<b>OTHER RELATED PARTIES</b>		
Financings:		
At January 1	26,330	1,541
Disbursed during the year	58,691	27,809
Repaid during the year	(12,861)	(3,020)
At December 31	<u>72,160</u>	<u>26,330</u>
Deposits:		
At January 1	10,350	-
Deposit during the year	517,532	68,502
Withdrawal during the year	(500,565)	(58,152)
At December 31	<u>27,317</u>	<u>10,350</u>
Transactions, income and expenses:		
Profit earned on financing	1,382	266
Return on deposits expensed	3,673	40
Principles share holders:		
Share capital issued	675,806	529,975
Purchase of shares in subsidiary	191,015	-

### 39. CAPITAL ADEQUACY

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

The SBP through its BSD Circular No.6 dated October 28, 2006 requires the minimum paid up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs.6 billion by the year ending December 31, 2009. The increase is to be achieved in a phased manner requiring Rs.4 billion paid up capital (net of losses) by the end of the financial year 2007. The paid up capital of the Bank as at the year ended December 31, 2007 stood at Rs.3.2 billion. As disclosed in the note 18.2.1, the Bank has raised the capital to the minimum requirement of the State Bank of Pakistan subsequent to the year end.

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

	December 31, 2007	December 31, 2006
----- Rupees in `000 -----		
Regulatory Capital Base		
Tier I Capital		
Shareholders Capital	3,200,000	2,000,000
Advance For issue Of Share Capital	681,409	-
Accumulated loss	<u>(53,481)</u>	<u>(8,354)</u>
	3,827,928	1,991,646
Less: Goodwill	<u>(59,232)</u>	<u>-</u>
	3,768,696	1,991,646
Tier II Capital		
General provisions subject to 1.25% of total risk weighted assets	9,088	1,001
Revaluation reserve (upto 50%)	-	-
Total Tier II Capital	9,088	1,001
Eligible Tier III Capital	-	-
Total Regulatory Capital	(a) <u><u>3,777,784</u></u>	<u><u>1,992,647</u></u>

#### Risk-Weighted Exposures

	2007		2006	
	Book value	Risk Adjusted Value	Book value	Risk Adjusted Value
----- Rupees in `000 -----				
Credit Risk				
Balance sheet items:				
Cash and other liquid assets	4,011,255	522,306	1,128,931	158,142
Due from financial institutions	625,037	289,081	412,131	412,131
Investments	3,686,474	2,564,437	493,008	231,132
Financings	3,773,867	3,571,668	959,133	927,872
Fixed assets	1,048,602	1,048,602	441,428	441,428
Other assets	<u>922,863</u>	<u>867,363</u>	<u>590,043</u>	<u>542,366</u>
	14,068,098	8,863,457	4,024,674	2,713,071
Off balance sheet items				
Loan repayment guarantees	65,477	65,477	113,018	113,018
Performance bonds etc	474,844	237,422	109,880	54,940
Stand by Letters of Credit	444,994	222,497	185,809	92,905
Outstanding foreign exchange contracts				
- Purchase	164,140	985	-	-
- Sale	9,121	55	-	-
	<u>1,158,576</u>	<u>526,436</u>	<u>408,707</u>	<u>260,863</u>
Credit risk-weighted exposures		9,389,893		2,973,934
Market Risk				
Specific market risk	4,618	<u>57,720</u>	19,896	<u>248,695</u>
Market risk-weighted exposures		57,720	-	248,695
Total Risk-Weighted exposures	(b) <u><u>9,447,613</u></u>		(b) <u><u>3,222,629</u></u>	
Capital Adequacy Ratio [(a) / (b) x 100]		39.99		61.83



#### 40. RISK MANAGEMENT

The Board has set a clear policy of broad diversification in terms of geography, product mix, service range, delivery options by spreading the Group's credit, trade financing, investment and service activities over a wide range of customers and instruments with the emphasis on secured business operations. The Group realizes that being an Islamic Bank taking pride in delivery of authentic Sharia'h financial solutions, it carries a significant reputational risk. It is the Group's policy not to deal in products and/or services which are not cleared by its own Sharia'h Board under any situation whatsoever.

The Group has established a Risk Management Section that issues risk management directives from time to time according to guidelines given by Group's Board of Directors and State Bank of Pakistan, as well as, taking into consideration the local conditions and risk characteristics. Risk Management deals with "risk" in various ways, which encompass the full disclosure of all relevant risk categories, the quantification of the Group's risk appetite, the implementation of operating limits within the defined risk appetite, the comprehensive and accurate quantification of the Group's risk exposure, the limit approval and control process, the segregation of duties and the protection of the Group's reputation.

The broad term "risk" can be broken down into following main categories. i.e. credit risk market risk, currency risk, rate of return risk, liquidity and re-finance risk, operational risk, strategic risk, systematic risk and Sharia'h non-compliance risk.

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

##### 40.1 Credit Risk

Credit risk arises due to the risk of a borrower defaulting on his commitment either in part or as a whole. The term Credit Risk has certain sub-categories as follows:

###### i) Price risk

There is a risk that the asset repossessed due to default of the leasee may be sold or leased out to another party at a price lower than the original contract price.

###### ii) Counter party risk

The risk that the counter-party defaults during the term of a transaction (Murabaha, Ijarah etc.).

###### iii) Settlement risk

The risk that the counter-party does not meet its commitments at the maturity of the transaction after the Group has already met its commitments.

###### iv) Country risk

The risk that a country in its function as contracting partner defaults during the term of a transaction and/or the risk that the cross-border transfer of funds could be restricted or completely blocked, i.e. that a country issues legislation to prohibit free transfer rights of funds including foreign exchange restrictions and/or the risk that country's specific economic and political factors precipitate the default of private sector counterparties (social unrest, civil war etc.)

The Group places a strong emphasis on long-term stability before high returns. It is the Group's strategy to keep risks to a minimum through broad diversification in terms of geography and product mix and to spread the Group's credit and trade financing activities over a wide range of customers. Financing should as a rule be secured and self liquidating.

#### 40.1.1 Segmental information

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

##### 40.1.1.1 Segments by class of business

	December 31, 2007					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agriculture, Forestry, Hunting and Fishing	-	-	335,753	3.5%	-	-
Mining and Quarrying	-	-	301,114	3.1%	-	-
Textile	801,379	21.1%	24,957	0.3%	1,115,470	17.0%
Chemical and Pharmaceuticals	95,561	2.5%	7,522	0.1%	220,951	3.4%
Cement	88,564	2.3%	15,551	0.2%	491,475	7.5%
Sugar	309,780	8.1%	1,847	0.0%	35,888	0.5%
Footwear and Leather garments	168,042	4.4%	16,602	0.2%	75,151	1.1%
Automobile and transportation equipment	18,889	0.5%	384	0.0%	435,577	6.6%
Education	2,020	0.1%	111,786	1.2%	-	-
Electronics and electrical appliances	7,703	0.2%	3,835	0.0%	54,495	0.8%
Production and transmission of energy	-	-	10,004	0.1%	-	-
Construction	348,307	9.2%	1,877,152	19.5%	105,342	1.6%
Power (electricity), Gas, Water, Sanitary	63,740	1.7%	566,673	5.9%	93,498	1.4%
Wholesale and Retail Trade	143,277	3.8%	49,740	0.5%	193,164	2.9%
Exports/Imports	6,391	0.2%	2,429	0.0%	20,000	0.3%
Transport, Storage and Communication	226,578	6.0%	36,753	0.4%	814,517	12.4%
Financial	43,397	1.1%	116,410	1.2%	1,439,619	21.9%
Insurance	-	-	32,160	0.3%	-	-
Services	394,774	10.4%	-	-	216,196	3.3%
Individuals	155,625	4.1%	2,136,095	22.2%	92,269	1.4%
Others	929,213	24.4%	3,970,968	41.3%	1,157,199	17.6%
	<u>3,803,240</u>	<u>100.0%</u>	<u>9,617,735</u>	<u>100.0%</u>	<u>6,560,811</u>	<u>100.0%</u>

	December 31, 2006					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agriculture, Forestry, Hunting and Fishing	-	-	-	-	-	-
Mining and Quarrying	-	-	-	-	-	-
Textile	16,733	1.7%	32,018	1.8%	43,596	6.8%
Chemical and Pharmaceuticals	10,095	1.1%	-	-	-	-
Cement	116,656	12.2%	1,339	0.1%	280	0.0%
Sugar	19,976	2.1%	-	-	-	-
Footwear and Leather garments	105,204	11.0%	-	-	12,783	2.0%
Automobile and transportation equipment	79,906	8.3%	25,989	1.5%	173,817	27.0%
Education	-	-	-	-	-	-
Electronics and electrical appliances	-	-	119,196	6.7%	-	-
Production and transmission of energy	-	-	-	-	-	-
Construction	-	-	-	-	80,637	12.5%
Power (electricity), Gas, Water, Sanitary	30,537	3.2%	79,798	4.5%	26,968	4.2%
Wholesale and Retail Trade	-	-	-	-	-	-
Exports/Imports	2,897	0.3%	-	-	46,215	7.2%
Transport, Storage and Communication	-	-	-	-	16,398	2.6%
Financial	20,096	2.1%	347,680	19.6%	14,400	2.2%
Services	282,515	29.4%	-	-	127,065	19.7%
Individuals	227,690	23.7%	687,487	38.7%	-	-
Others	47,829	5.0%	484,501	27.3%	102,101	15.8%
	<u>960,134</u>	<u>100.0%</u>	<u>1,778,008</u>	<u>100.0%</u>	<u>644,260</u>	<u>100.0%</u>

All those business classes should be disclosed in which concentration is equal to or exceeds 10 percent of exposure. The above classes of business are for reference purposes only and other classes can be included or deleted.

#### 40.1.1.2 Segments by sector

	December 31, 2007					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/Government	-	-	514,536	5%	168,072	2.5%
Private	3,803,240	100%	9,103,199	95%	6,392,739	97.5%
	<u>3,803,240</u>	<u>100%</u>	<u>9,617,735</u>	<u>100%</u>	<u>6,560,811</u>	<u>100%</u>
	December 31, 2006					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/Government	-	-	-	-	-	-
Private	960,134	100%	1,778,008	100%	644,260	100%
	<u>960,134</u>	<u>100%</u>	<u>1,778,008</u>	<u>100%</u>	<u>644,260</u>	<u>100%</u>

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

	2007		2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in '000-----			
Wholesale and retail trade *	29,493	7,373	-	-
Chemical and pharmaceuticals *	7,900	1,975	-	-
Power (electricity), gas, water, sanitary	16,323	4,081	-	-
Individuals	24,655	6,856	-	-
	<u>78,371</u>	<u>20,285</u>	<u>-</u>	<u>-</u>

\* Provision has been made under subjective evaluation.

#### 40.1.1.4 Geographical segment analysis

	December 31, 2007			
	Profit/(loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	(106,438)	14,149,529	3,835,500	6,560,811
	December 31, 2006			
	Profit/(loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	(34,399)	4,024,674	2,002,887	644,260

#### 40.2 Market Risk

Market risk encompasses the risk of losses due to adverse movements in markets for instruments carrying a fixed rate, foreign exchange rates, securities, precious metals or other commodities.

The strategy of Group is to keep market risks to the minimum in that the Group does not enter into any speculative transaction. In general the Group ensures that an adequate hedging mechanism is in place before it enters into financial markets for trading.

Moreover, since the Group does not deal in interest based products, the impact of the above risks will be very minimal. The Group does not have positions or forward exchange contracts giving mismatches of maturity unless such risks have been taken care of through some other mechanism.

#### 40.2.1 Foreign Exchange Risk

Foreign exchange or currency risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Group's foreign exchange exposure comprises of forward promises, foreign currency cash in hand, balances with Groups abroad, foreign currency deposits, foreign currency placements with State Bank of Pakistan and other banks etc. The Group manages its foreign exchange exposure by matching foreign currency assets and liabilities. The net open position is managed within the statutory limits as fixed by the State Bank of Pakistan.

The Groups/DFIs should discuss the nature and description of their foreign exchange exposures during the year.

	December 31, 2007			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	-----Rupees in '000-----			
Pakistan Rupee	14,018,546	(10,240,135)	(155,019)	3,623,392
United States Dollar	93,238	(58,825)	164,140	198,553
Great Britain Pound	17,413	(6,257)	-	11,156
Japanese Yen	770	-	-	770
Euro	19,473	(8,812)	(9,121)	1,540
U.A.E Dirham	89	-	-	89
	<u>14,149,529</u>	<u>(10,314,029)</u>	<u>-</u>	<u>3,835,500</u>
	December 31, 2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	-----Rupees in '000-----			
Pakistan Rupee	3,964,984	(1,993,505)	5,190	1,976,669
United States Dollar	52,429	(24,785)	(3,362)	24,282
Great Britain Pound	2,745	(2,745)	-	-
Japanese Yen	1,979	-	(1,024)	955
Euro	1,943	(752)	(804)	387
U.A.E Dirham	594	-	-	594
	<u>4,024,674</u>	<u>(2,021,787)</u>	<u>-</u>	<u>2,002,887</u>

#### 40.2.2 Equity Position Risk

The Group had no significant open exposure to equities as of year end 2007.



### 40.2.3 Mismatch of Profit/Yield Rate Sensitive Assets and Liabilities

		December 31, 2007										
Effective Yield/Profit Rate	Total	Exposed to Yield/Profit risk								Above 10 Years	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			
Rupees in '000												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury Banks	-	1,433,166	1,433,166	-	-	-	-	-	-	-	-	-
Balances with other Banks	6.80%	2,578,089	2,578,089	-	-	-	-	-	-	-	-	-
Due from financial institutions	11.90%	625,037	-	625,037	-	-	-	-	-	-	-	-
Investments	10.91%	3,686,474	-	-	-	-	-	280,000	2,572,037	670,000	164,437	-
Financings	13.20%	3,773,867	294,477	264,733	117,591	343,421	115,340	599,943	1,723,028	111,385	203,949	-
Other assets	-	906,534	-	-	-	-	-	-	-	-	-	906,534
		<u>13,003,167</u>	<u>4,305,732</u>	<u>889,770</u>	<u>117,591</u>	<u>343,421</u>	<u>115,340</u>	<u>599,943</u>	<u>2,003,028</u>	<u>2,683,422</u>	<u>873,949</u>	<u>1,070,971</u>
Liabilities												
Bills payable	-	84,998	84,998	-	-	-	-	-	-	-	-	-
Due to financial institutions	6.70%	70,000	-	70,000	-	-	-	-	-	-	-	-
Deposits and other accounts	6.50%	9,617,735	3,503,934	800,683	366,263	1,953,041	46,620	247,224	1,295,561	-	-	1,404,409
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	541,296	-	-	-	-	-	-	-	-	-	541,296
		<u>10,314,029</u>	<u>3,588,932</u>	<u>870,683</u>	<u>366,263</u>	<u>1,953,041</u>	<u>46,620</u>	<u>247,224</u>	<u>1,295,561</u>	<u>-</u>	<u>-</u>	<u>1,945,705</u>
On-balance sheet gap		<u>2,689,138</u>	<u>716,800</u>	<u>19,087</u>	<u>(248,672)</u>	<u>(1,609,620)</u>	<u>68,720</u>	<u>352,719</u>	<u>707,467</u>	<u>2,683,422</u>	<u>873,949</u>	<u>(874,734)</u>
Total Yield/Profit Risk Sensitivity Gap			<u>716,800</u>	<u>19,087</u>	<u>(248,672)</u>	<u>(1,609,620)</u>	<u>68,720</u>	<u>352,719</u>	<u>707,467</u>	<u>2,683,422</u>	<u>873,949</u>	<u>(874,734)</u>
Cumulative Yield/Profit Risk Sensitivity Gap			<u>716,800</u>	<u>735,887</u>	<u>487,215</u>	<u>(1,122,405)</u>	<u>(1,053,685)</u>	<u>(700,966)</u>	<u>6,501</u>	<u>2,689,923</u>	<u>3,563,872</u>	<u>(874,734)</u>

		December 31, 2006										
Effective Yield/Profit Rate	Total	Exposed to Yield/Profit risk								Above 10 Years	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			
Rupees in '000												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury Banks	-	338,222	-	-	-	-	-	-	-	-	-	338,222
Balances with other Banks	5.13%	790,709	790,709	-	-	-	-	-	-	-	-	-
Due from financial institutions	12.55%	412,131	-	412,131	-	-	-	-	-	-	-	-
Investments	8.88%	493,008	-	-	-	-	-	-	261,876	-	9,576	221,556
Financings	10.52%	959,133	11,775	15,386	165,399	376,324	102,084	111,967	102,367	56,853	16,978	-
Other assets	-	590,043	-	-	-	-	-	-	-	-	-	590,043
		<u>3,583,246</u>	<u>802,484</u>	<u>427,517</u>	<u>165,399</u>	<u>376,324</u>	<u>102,084</u>	<u>111,967</u>	<u>364,243</u>	<u>56,853</u>	<u>26,554</u>	<u>1,149,821</u>
Liabilities												
Bills payable	-	23,830	-	-	-	-	-	-	-	-	-	23,830
Due to financial institutions	6.5%	50,000	-	50,000	-	-	-	-	-	-	-	-
Deposits and other accounts	4.98%	1,778,008	937,438	365,915	25,139	27,915	200	4,600	57,991	-	-	358,810
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	169,949	-	-	-	-	-	-	-	-	-	169,949
		<u>2,021,787</u>	<u>937,438</u>	<u>415,915</u>	<u>25,139</u>	<u>27,915</u>	<u>200</u>	<u>4,600</u>	<u>57,991</u>	<u>-</u>	<u>-</u>	<u>552,589</u>
On-balance sheet gap		<u>1,561,459</u>	<u>(134,954)</u>	<u>11,602</u>	<u>140,260</u>	<u>348,409</u>	<u>101,884</u>	<u>107,367</u>	<u>306,252</u>	<u>56,853</u>	<u>26,554</u>	<u>597,232</u>
Total Yield/Profit Risk Sensitivity Gap			<u>(134,954)</u>	<u>11,602</u>	<u>140,260</u>	<u>348,409</u>	<u>101,884</u>	<u>107,367</u>	<u>306,252</u>	<u>56,853</u>	<u>26,554</u>	<u>597,232</u>
Cumulative Yield/Profit Risk Sensitivity Gap			<u>(134,954)</u>	<u>(123,352)</u>	<u>16,908</u>	<u>365,317</u>	<u>467,201</u>	<u>574,568</u>	<u>880,820</u>	<u>937,673</u>	<u>964,227</u>	<u>597,232</u>

### 40.3 Liquidity Risk

Liquidity risk is defined as inability to raise deposits at a competitive rate. It can be caused by the withdrawal of important customer deposits (including interbank deposits). A sudden surge in liability withdrawals may leave the Group in a position of having to liquidate assets in a very short period of time and at low prices.

Under refinance risk we understand the risk of holding longer-term assets relative to liabilities. Generally this is caused by a discrepancy of the cash flows from the two sides of the balance sheet due to a faulty Asset-Liability Management (ALM) process (strongly differing maturity profiles).

The risk is minimized by broad diversification and a minimum of concentrations on both sides of the balance sheet.

An Assets-Liabilities Committee (ALCO) is formed to monitor the liquidity and market risks of the Group.

#### 40.3.1 Maturities of Assets and Liabilities

December 31, 2007										
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000-										
<b>Assets</b>										
Cash and balances with treasury Banks	1,433,166	1,433,166	-	-	-	-	-	-	-	-
Balances with other Banks	2,578,089	2,578,089	-	-	-	-	-	-	-	-
Due from financial institutions	625,037	-	625,037	-	-	-	-	-	-	-
Investments	3,686,474	-	164,437	-	-	-	-	280,000	2,572,037	670,000
Financings	3,773,867	294,477	264,733	117,591	343,421	115,340	599,943	1,723,028	111,385	203,949
Other assets	906,534	206,206	507,126	-	140,931	-	-	52,271	-	-
Operating fixed assets	1,048,602	8,778	17,557	26,335	218,544	105,399	105,399	102,262	203,028	261,300
Deferred tax assets	97,760	-	-	-	-	-	97,760	-	-	-
	<u>14,149,529</u>	<u>4,520,716</u>	<u>1,578,890</u>	<u>143,926</u>	<u>702,896</u>	<u>220,739</u>	<u>803,102</u>	<u>2,157,561</u>	<u>2,886,450</u>	<u>1,135,249</u>
<b>Liabilities</b>										
Bills payable	84,998	84,998	-	-	-	-	-	-	-	-
Due to financial institutions	70,000	-	70,000	-	-	-	-	-	-	-
Deposits and other accounts	9,617,735	4,908,343	800,683	366,263	1,953,041	46,620	247,224	1,295,561	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	541,296	174,091	52,384	48,550	-	-	-	266,271	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	<u>10,314,029</u>	<u>5,167,432</u>	<u>923,067</u>	<u>414,813</u>	<u>1,953,041</u>	<u>46,620</u>	<u>247,224</u>	<u>1,561,832</u>	<u>-</u>	<u>-</u>
<b>Net assets</b>	<u>3,835,500</u>	<u>(646,716)</u>	<u>655,823</u>	<u>(270,887)</u>	<u>(1,250,145)</u>	<u>174,119</u>	<u>555,878</u>	<u>595,729</u>	<u>2,886,450</u>	<u>1,135,249</u>
Share capital/Head office capital account	3,200,000									
Reserves										
Accumulated Loss	(53,481)									
Advances for issue of Share Capital	681,409									
Surplus/(Deficit) on revaluation of assets	7,572									
	<u>3,835,500</u>									

December 31, 2006										
	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-										
<b>Assets</b>										
Cash and balances with treasury banks	338,222	338,222	-	-	-	-	-	-	-	-
Balances with other banks	790,709	790,709	-	-	-	-	-	-	-	-
Due from financial institutions	412,131	-	412,131	-	-	-	-	-	-	-
Investments	493,008	221,556	-	-	-	-	-	261,876	-	9,576
Financings	959,133	11,775	15,386	165,399	376,324	102,084	111,967	102,367	56,853	16,978
Other assets	562,913	439,592	23,906	12,655	29,202	20,252	16,371	20,091	-	844
Operating fixed assets	441,428	-	-	-	-	-	-	-	-	441,428
Deferred tax assets	27,130	-	-	-	-	-	-	-	-	27,130
	<u>4,024,674</u>	<u>1,801,854</u>	<u>451,423</u>	<u>178,054</u>	<u>405,526</u>	<u>122,336</u>	<u>128,338</u>	<u>384,334</u>	<u>56,853</u>	<u>495,956</u>
<b>Liabilities</b>										
Bills payable	23,830	23,830	-	-	-	-	-	-	-	-
Due to financial institutions	50,000	-	50,000	-	-	-	-	-	-	-
Deposits and other accounts	1,778,008	1,296,248	365,915	25,139	27,915	200	4,600	57,991	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Other liabilities	169,949	169,949	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	<u>2,021,787</u>	<u>1,490,027</u>	<u>415,915</u>	<u>25,139</u>	<u>27,915</u>	<u>200</u>	<u>4,600</u>	<u>57,991</u>	<u>-</u>	<u>-</u>
<b>Net assets</b>	<u>2,002,887</u>	<u>311,827</u>	<u>35,508</u>	<u>152,915</u>	<u>377,611</u>	<u>122,136</u>	<u>123,738</u>	<u>326,343</u>	<u>56,853</u>	<u>495,956</u>
Share capital/Head office capital account	2,000,000									
Reserves										
Accumulated Loss	(8,354)									
Surplus/(Deficit) on revaluation of assets	11,241									
	<u>2,002,887</u>									

#### 40.4 Operational Risk

This is the collective term for all risks which arise through inadequate or failed internal processes, employees and systems or from external events and which can only be partially quantified. In addition, legal risks fall into this category.

#### 40.5 Strategic Risk

Strategic risk arises due to wrong assumptions in strategic decision making or the failure to react correctly to long-term changes in strategic parameters.



The Group follows a deliberate low-risk strategy. Within the general constraints of its niche market the Group is aware of the need of reducing risk. The Group has a well established strategic planning and evaluation process which involves all levels of management and which is subject to regular review.

#### 40.6 Systematic Risk

Systematic risk is the risk of a total or partial collapse of the financial system.

Such a collapse could be due to technical factors or market driven (psychological reasons).

Systematic risk is reduced by the activities of both national and international regulatory authorities. The Group actively supports these organizations through its membership of relevant banking industry association i.e. Pakistan Banks Association ("PBA"). The Group also takes account of systematic risk by means of careful management of counter party risks in the inter-bank market.

#### 40.7 Sharia'h Non-Compliance Risk

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

This risk is covered by carrying out extensive Sharia'h training, and orientation and frequent reviews by the Sharia'h department of the Group.

#### 41. PERIOD OF CONSOLIDATED FINANCIAL STATEMENTS

The Group commenced operations from April 07, 2006 and consequently, the comparative figures for the profit and loss account have been drawn for the period from April 07, 2006 to December 31, 2006.

#### 42. DATE OF AUTHORIZATION FOR ISSUE

These consolidated financial statements have been approved by the Board of Directors of the Bank on March 06, 2008.

#### 43. GENERAL

43.1 Captions, as prescribed by BSD Circular No.4 of 2006 dated February 17, 2006 issued by the SBP, in respect of which there are no amounts, have not been reproduced in these consolidated financial statements, except for captions of the balance sheet and profit and loss account.

43.2 Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison. However, there are no material reclassifications to report.

43.3 The figures in the consolidated financial statements are rounded off to the nearest thousand of rupees.

  
Chairman

  
Chief Executive Officer

  
Director

  
Director

## PATTERN OF SHARE HOLDING

No. of Shareholders	Shareholdings		Share Held	Total Shares Held
	From	To		
99	1	100	8,365	0.00%
22920	101	500	11,385,250	3.56%
3384	501	1,000	3,004,675	0.94%
2165	1,001	5,000	5,403,053	1.69%
323	5,001	10,000	2,634,814	0.82%
90	10,001	15,000	1,159,997	0.36%
54	15,001	20,000	989,315	0.31%
60	20,001	25,000	1,430,647	0.45%
37	25,001	30,000	1,063,697	0.33%
18	30,001	35,000	588,512	0.18%
12	35,001	40,000	456,900	0.14%
4	40,001	45,000	176,500	0.06%
37	45,001	50,000	1,832,165	0.57%
4	50,001	55,000	214,300	0.07%
4	55,001	60,000	232,798	0.07%
4	60,001	65,000	253,100	0.08%
6	65,001	70,000	410,700	0.13%
5	70,001	75,000	368,500	0.12%
2	75,001	80,000	156,500	0.05%
3	80,001	85,000	247,800	0.08%
1	85,001	90,000	87,500	0.03%
12	95,001	100,000	1,196,500	0.37%
5	100,001	105,000	517,500	0.16%
3	105,001	110,000	325,500	0.10%
1	115,001	120,000	120,000	0.04%
1	120,001	125,000	125,000	0.04%
1	130,001	135,000	133,000	0.04%
3	140,001	145,000	426,500	0.13%
5	145,001	150,000	750,000	0.23%
1	150,001	155,000	151,500	0.05%
1	155,001	160,000	160,000	0.05%
1	160,001	165,000	164,000	0.05%
2	165,001	170,000	339,800	0.11%
1	175,001	180,000	176,250	0.06%
1	180,001	185,000	184,500	0.06%
1	185,001	190,000	186,625	0.06%
2	190,001	195,000	386,300	0.12%
8	195,001	200,000	1,599,375	0.50%
1	205,001	210,000	210,000	0.07%
1	225,001	230,000	228,800	0.07%
1	230,001	235,000	230,500	0.07%
1	235,001	240,000	236,100	0.07%
2	245,001	250,000	498,500	0.16%
1	250,001	255,000	252,500	0.08%
2	255,001	260,000	515,350	0.16%
3	275,001	280,000	832,500	0.26%
5	295,001	300,000	1,500,000	0.47%
1	345,001	350,000	350,000	0.11%

No. of Shareholders	Shareholdings		Share Held	Total Shares Held
	From	To		
2	375,001	380,000	759,500	0.24%
1	385,001	390,000	387,700	0.12%
1	395,001	400,000	400,000	0.13%
1	410,001	415,000	412,500	0.13%
1	420,001	425,000	423,668	0.13%
1	445,001	450,000	450,000	0.14%
2	495,001	500,000	1,000,000	0.31%
1	515,001	520,000	519,084	0.16%
1	545,001	550,000	550,000	0.17%
1	575,001	580,000	579,500	0.18%
1	595,001	600,000	600,000	0.19%
1	600,001	605,000	600,500	0.19%
1	620,001	625,000	624,000	0.20%
1	645,001	650,000	645,500	0.20%
1	685,001	690,000	686,500	0.21%
1	745,001	750,000	749,500	0.23%
1	800,001	805,000	801,975	0.25%
1	820,001	825,000	824,500	0.26%
1	855,001	860,000	859,500	0.27%
1	895,001	900,000	900,000	0.28%
1	975,001	980,000	980,000	0.31%
1	1,195,001	1,200,000	1,199,000	0.37%
1	1,205,001	1,210,000	1,208,000	0.38%
1	1,275,001	1,280,000	1,277,000	0.40%
1	1,400,001	1,405,000	1,400,500	0.44%
1	1,470,001	1,475,000	1,475,000	0.46%
1	1,520,001	1,525,000	1,520,560	0.48%
1	1,795,001	1,800,000	1,800,000	0.56%
1	1,905,001	1,910,000	1,906,000	0.60%
1	2,000,001	2,005,000	2,000,200	0.63%
1	2,795,001	2,800,000	2,800,000	0.88%
1	2,800,001	2,805,000	2,801,000	0.88%
1	3,495,001	3,500,000	3,500,000	1.09%
1	3,950,001	3,955,000	3,950,525	1.23%
1	4,000,001	4,005,000	4,005,000	1.25%
1	4,105,001	4,110,000	4,106,850	1.28%
1	4,685,001	4,690,000	4,686,500	1.46%
2	4,995,001	5,000,000	10,000,000	3.13%
1	5,030,001	5,035,000	5,031,600	1.57%
1	5,080,001	5,085,000	5,081,000	1.59%
1	5,700,001	5,705,000	5,702,050	1.78%
1	7,645,001	7,650,000	7,647,600	2.39%
1	9,245,001	9,250,000	9,246,000	2.89%
2	29,995,001	30,000,000	60,000,000	18.75%
2	59,995,001	60,000,000	120,000,000	37.50%
29,349			320,000,000	100.00%

## CATEGORIES OF SHAREHOLDERS

AS AT DECEMBER 31, 2007

Particulars	Shareholders	Shareholding	Percentage
Directors, Chief Executive officer, and their spouse and minor children	4	60,131,600	18.79%
Associated Companies, undertakings and related parties	2	120,000,000	37.50%
Banks, Development Financial Institutions and Non Banking Financial Institutions	10	6,383,900	1.99%
Insurance Companies	3	5,079,100	1.59%
Modaraba and Mutual Funds	18	25,489,800	7.97%
General Public:			
a. Local	29,163	61,244,998	19.14%
b. Foreign	16	13,101,334	4.09%
Others	133	28,569,268	8.93%
<b>Total</b>	<b>29,349</b>	<b>320,000,000</b>	<b>100.00%</b>

### ADDITIONAL INFORMATION

AS AT DECEMBER 31, 2007

Particulars	Shareholders	Shareholding	Percentage
Associated Companies & Shareholders with more than 10% shareholding			
Jahangir Siddiqui & Co.Ltd.	1	60,000,000	18.75%
Dubai Bank PJSC	1	60,000,000	18.75%
NIT & ICP			
National Bank Of Pakistan Limited	1	387,700	0.12%
Directors, Chief Executive officer, and their spouse and minor children			
Ahmed G. M. Randeree	1	30,000,000	9.38%
Shabir Ahmed Randeree	1	30,000,000	9.38%
Chief Justice (R) Mahboob Ahmed	1	80,800	0.03%
Hasan A. Bilgrami	1	50,800	0.02%
Public Sector Companies, Corporations, Banks, DFI's, NBFIs, Insurance Companies, Modaraba, Mutual Funds and other Organizations	163	65,134,368	20.35%
General Public	29,179	74,346,332	23.22%
<b>Total</b>	<b>29,349</b>	<b>320,000,000</b>	<b>100.00%</b>

## CORRESPONDENT BANKING NETWORK

COUNTRY	NAME OF BANK
AUSTRALIA	COMMONWEALTH BANK OF AUSTRALIA KEB AUSTRALIA LIMITED
BAHRAIN	KOREA EXCHANGE BANK
BANGLADESH	STANDARD CHARTERED BANK
BELARUS	JOINT-STOCK SAVINGS BANK BELARUSBANK
BELGIUM	HABIB BANK LIMITED
BRAZIL	BANCO KEB DO BRASIL S.A.
CANADA	HABIB CANADIAN BANK KOREA EXCHANGE BANK OF CANADA
CHINA	CHINA EVERBRIGHT BANK KOREA EXCHANGE BANK STANDARD CHARTERED BANK WUXI CITY COMMERCIAL BANK YANGZHOU CITY COMMERCIAL BANK
FRANCE	KOREA EXCHANGE BANK UNION DE BANQUES ARABES ET FRANCAISES – UBAF
GERMANY	AMERICAN EXPRESS BANK BAYERISCHE HYPO UND VEREINSBANK AG. COMMERZ BANK AG DRESDNER BANK AG KOREA EXCHANGE BANK (DEUTSCHLAND) AG
HONG KONG	AMERICAN EXPRESS BANK COMMONWEALTH BANK OF AUSTRALIA HBZ FINANCE LIMITED HONGKONG AND SHANGHAI BANKING CORP. KOREA EXCHANGE BANK MASHREQ BANK NATIONAL BANK OF PAKISTAN UNION DE BANQUES ARABES ET FRANCAISES – UBAF
INDIA	AMERICAN EXPRESS BANK STANDARD CHARTERED BANK UNION BANK OF INDIA
INDONESIA	KOREA EXCHANGE BANK DANAMON STANDARD CHARTERED BANK
IRAN	BANK MELLI IRAN BANK MILLAT BANK SADERAT IRAN
ITALY	BANCA UBAE SPA

JAPAN	AMERICAN EXPRESS BANK COMMONWEALTH BANK OF AUSTRALIA KOREA EXCHANGE BANK STANDARD CHARTERED BANK UNION DE BANQUES ARABES ET FRANCAISES – UBAF
KENYA	GULF AFRICAN BANK LIMITED KENYA COMMERCIAL BANK LIMITED STANDARD CHARTERED BANK
KOREA	AMERICAN EXPRESS BANK KOREA EXCHANGE BANK UNION DE BANQUES ARABES ET FRANCAISES – UBAF
MALAYSIA	BANK MUAMALAT MALAYSIA BERHAD EON BANK BERHAD STANDARD CHARTERED BANK MALAYSIA BERHAD
NETHERLANDS	HABIB BANK LIMITED KOREA EXCHANGE BANK
PAKISTAN	ALBARAKA ISLAMIC BANK B.S.C. (E.C.) ALLIED BANK LIMITED ARIF HABIB BANK LIMITED ASKARI BANK LIMITED ATLAS BANK LIMITED BANK AL HABIB LIMITED BANK ALFALAH LIMITED BANK OF KHYBER (THE) BANK OF PUNJAB (THE) DAWOOD ISLAMIC BANK LIMITED DUBAI ISLAMIC BANK PAKISTAN LIMITED EMIRATES GLOBAL ISLAMIC BANK LIMITED HABIB BANK LIMITED HABIB METROPOLITAN BANK LIMITED KASB BANK LIMITED MASHREQ BANK MCB BANK LIMITED MEEZAN BANK LIMITED NATIONAL BANK OF PAKISTAN NIB BANK LIMITED STANDARD CHARTERED BANK (PAKISTAN) LIMITED UNITED BANK LIMITED
PANAMA	KOREA EXCHANGE BANK
PHILIPPINE	KOREA EXCHANGE BANK
QATAR	QATAR ISLAMIC BANK
ROMANIA	ROMANIAN INTERNATIONAL BANK SA
SAUDI ARABIA	ALRAJHI BANKING & INVESTMENT CORPORATION NATIONAL COMMERCIAL BANK SAUDI HOLLANDI BANK





SINGAPORE	AMERICAN EXPRESS BANK COMMONWEALTH BANK OF AUSTRALIA KOREA EXCHANGE BANK STANDARD CHARTERED BANK UNION DE BANQUES ARABES ET FRANCAISES – UBAF
SOUTH AFRICA	HBZ BANK LIMITED
SPAIN	BANCO ESPANOL DE CREDITO CAJA DE AHORROS DEL MEDITERRANEEED
SRI LANKA	HATTON NATIONAL BANK LIMITED STANDARD CHARTERED BANK
SWEDEN	SVENSKA HANDELSBANKEN
SWITZERLAND	CREDIT SUISSE KOREA EXCHANGE BANK (SCHWEIZ) AG UNITED BANK A.G.
TAIWAN	AMERICAN EXPRESS BANK STANDARD CHARTERED BANK
THAILAND	KOREA EXCHANGE BANK STANDARD CHARTERED BANK
TURKEY	HABIB BANK LIMITED TEKSTIL BANKASI S.A.
U.K.	COMMONWEALTH BANK OF AUSTRALIA HABIB BANK AG ZURICH HABIB – UK PLC HABIBSONS BANK LIMITED ISLAMIC BANK OF BRITAIN PLC KOREA EXCHANGE BANK MASHREQ BANK STANDARD CHARTERED BANK
U.S.A.	AMERICAN EXPRESS BANK COMMONWEALTH BANK OF AUSTRALIA HABIB AMERICAN BANK KEB NY FINANCIAL CORPORATION MASHREQ BANK SAEHAN BANK, LOS ANGELES STANDARD CHARTERED BANK
UAE	ABU DHABI COMMERCIAL BANK ABU DHABI ISLAMIC BANK DUBAI BANK PJSC HABIB BANK AG ZURICH MASHREQ BANK STANDARD CHARTERED BANK
VIETNAM	ASIA COMMERCIAL BANK KOREA EXCHANGE BANK VIETNAM ASIA COMMERCIAL JOINT-STOCK BANK VINASIAM BANK

# PROXY FORM

## 4th ANNUAL GENERAL MEETING

The Company Secretary,  
BankIslami Pakistan Limited,  
11th Floor, Executive Tower,  
Dolmen City, Marine Drive,  
Block-4, Clifton,  
Karachi, Pakistan.

I/We \_\_\_\_\_ of \_\_\_\_\_ being a member(s) of  
BankIslami Pakistan Limited and holder of \_\_\_\_\_ ordinary shares as  
per Share Register Folio No. \_\_\_\_\_ and/or CDC Participant  
I.D. No. \_\_\_\_\_ and Sub Account No. \_\_\_\_\_ do hereby  
appoint \_\_\_\_\_ of \_\_\_\_\_ or failing  
him/her \_\_\_\_\_ of \_\_\_\_\_ as my/our proxy to vote and act for  
me/us on my/our behalf at the 4th Annual General Meeting of BankIslami Pakistan Limited, to be held on  
Saturday, March 29, 2008 at 8:00 a.m. at Regent Plaza Hotel, Shakra-e-Faisal, Karachi, and at any adjournment  
thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2008.

Witness:

Name: \_\_\_\_\_

Please affix  
Rupees five  
revenue  
stamp

Signature of Member(s)

Address: \_\_\_\_\_

CNIC or Passport No. \_\_\_\_\_

### NOTES:

1. Proxies in order to be effective, must be received by the company not less than 48 hours before the meeting.
2. CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy form before submission to the company.

Please affix  
correct  
postage

The Company Secretary

BankIslami Pakistan Limited  
11th Floor, Executive Tower,  
Dolmen City, Marine Drive,  
Block-4, Clifton,  
Karachi, Pakistan.

# Our Growing Network

36 Branches in 23 Cities

## Corporate Headquarters

BankIslami Pakistan Limited  
11th Floor, Executive Tower One  
Drumbeat City, Marine Drive  
Block 4, Clifton, Karachi, Pakistan  
UAN: (021)-111-BIP-111 (111-247-111)  
Fax: (021)-5378373

## Our Branches

### South Region

**Main Branch, Karachi**  
6th Floor, Executive Tower  
Drumbeat City, Block-4  
Clifton, Karachi, Pakistan  
Telephone: (021) 5378666  
Fax: (021) 5378373

**SITE Branch, Karachi**  
2 & 3, Ground Floor  
Anam Trade Centre  
Near Ghazi Chowang  
S.I.T.E. Karachi, Pakistan  
Telephone: (021) 2527651-62  
Fax: (021) 2527510

**Korangi Branch, Karachi**  
Plot No. 519-B Sector 10  
Korangi Industrial Area  
Karachi, Pakistan  
Telephone: (021) 5114488-91  
Fax: (021) 5114484

**26th Street Branch, D.H.A. Karachi**  
21-C, Bader Commercial Street No. 1  
Phase V, D.H.A.  
Karachi, Pakistan  
Telephone: (021) 5349244-45  
Fax: (021) 5349243

**Shaheed-e-Millat Road Branch, Karachi**  
Shop No. 15 & 16 Adam Arcade  
Sharf Muslim Cooperative Housing Society  
Shaheed-e-Millat Road, Karachi, Pakistan  
Telephone: (021) 4145365-19  
Fax: (021) 4145311

**Rashid Minhas Road Branch, Karachi**  
Plot No. FL-3/134, 14, Block 5  
Near Rashid Minhas Road  
Gulshan-e-Iqbal, Karachi, Pakistan  
Telephone: (021) 481827-28  
Fax: (021) 4818133

**North Nazimabad Road Branch, Karachi**  
House # D-5, Block L  
North Nazimabad, Karachi  
Telephone: (021) 6676474-76  
Fax: (021) 6676488

**Gulshan-e-Maymar Branch, Karachi**  
Azeba Heaven  
BB-3, Block M-II  
Gulshan-e-Maymar, Karachi, Pakistan  
Telephone: (021) 6633358-59  
Fax: (021) 6633445

**Super Highway Branch, Karachi**  
51, Dohar, Base Medical University  
Super Highway, (North Bound), Gaddap  
Near Toll Plaza, Karachi, Pakistan  
Telephone: (021) 4525610  
Fax: (021) 4419220

**Karachi Stock Exchange Branch**  
Room No. 520, 3rd Floor  
Karachi Stock Exchange Building  
Karachi  
Telephone: (021) 2462861-67  
Fax: (021) 2462490

**Jodia Gassar Branch, Karachi**  
Ejazhan Market, Jodia Gassar  
Near Daryal Lal Street  
Karachi  
Telephone: (021) 2462482-80, (021) 2462831 & 34  
Fax: (021) 2462832

**Cloth Market Branch, Karachi**  
Shop No. 3, Bunder Road Quarters  
Cloth Market, Karachi  
Telephone: (021) 2469330-30

**Station Road Branch, Sukkur**  
Liner Yielding Stone  
Station Road, Sukkur  
Telephone: (071) 5617321-25, 5617328-29  
Fax: (071) 5617327

**Auto Bahan Road Branch, Hyderabad**  
Plot # C-10-3 & 10-6, Block 'C'  
Auto Bahan Road, Hyderabad  
Telephone: (022) 520301-7  
Fax: (022) 520305

**Bank Square Road Branch, Larkana**  
Bank Square Road  
Larkana  
Telephone: (074) 4056833-36 / 4055894-97

**Mirpurkhas Road Branch, Tando Allah Yaar**  
Plot #21-22, Mirpurkhas Road  
Near Bus Stop, Tando Allah Yaar  
Telephone: (022) 2660011-3692424  
Fax: (022) 2662443

**Mosjid Road Branch, Nawabshah**  
Mosjid Road  
Nawabshah  
Telephone: (0244) 330920-28

**New Town Branch, Mirpurkhas**  
City Survey No. 465, Ward 'A'  
New Town, Station Road, Mirpurkhas  
Telephone: (0233) 874287,  
(0233) 876728  
Fax: (0233) 875802

**Jinnah Road Branch, Quetta**  
Khara # 47, Municipal # 2-1-B  
Jinnah Road, Quetta, Pakistan  
Telephone: (081) 282174a & 49  
Fax: (081) 2821600

**Main Road Branch, Pishin**  
Band Road, Main Bazar  
Pishin  
Telephone: (0826) 421361-6, 421388  
Fax: (0826) 421387

**Trench Road Branch, Chaman**  
Trench Road  
Chaman  
Telephone: (0826) 618032-8  
Fax: (0826) 618039

**Muslim Bagh Branch**  
Muslim Bagh  
Telephone: (0823) 666223-29  
Fax: (0823) 666834

**Qila Saifullah Branch**  
Main Junction Road  
Qila Saifullah  
Telephone: (0823) 610845-09, 610804-05  
Fax: (0823) 610806

### North Region

**Blue Area , Islamabad**  
Blue Area Branch  
5-6, Chenzab Center, Block-104-E  
F-7G-7, Jinnah Avenue  
Blue Area, Islamabad  
Telephone: (051) 3504271-74  
Fax: (051) 2804275

**Mall Road Branch, Wah Cantt**  
A-12, Shah Wali  
Mall Road  
Wah Cantt  
Telephone: (051) 4538048-47,  
(051) 4541692-93  
Fax: (051) 4538044

**Mirpur Branch, Azad Kashmir**  
Plot No. 2, B/S Side Sector A/2  
Azad Muhammad Road  
Mirpur - Azad Kashmir  
Telephone: (05810) 58701-04  
Fax: (05810) 98706

**University Road Branch, Peshawar**  
University Road (Jamrud)  
Peshawar  
Telephone: (091) 5711482-8  
Fax: (091) 5711489

### Central Region

**Jail Road Branch, Lahore**  
Plot No. 5 A House # 5  
New EPU House  
Jail Road, Lahore  
Telephone: (042) 5790571-58  
Fax: (042) 5790573

**DHA Branch, Lahore**  
153 Block 'T'  
DHA, Lahore  
Telephone: (042) 5692430, 5692446  
Fax: (042) 5692448

**Circular Road Branch, Lahore**  
Circular Road, Outside Meech Okwala  
Lahore  
Telephone: (042) 7374028-15  
Fax: (042) 7374015

**Nawab Shahr Branch, Multan**  
Machallah Kahl Nawan Khan  
Nawab Shahr, Multan  
Telephone: (051) 4500355-59  
Fax: (051) 450033

**Kotwali Road Branch, Faisalabad**  
Shop #F-16, Ward No. 5, Khairuzi 3769  
Khayra 4081411, Kotwali Road, Faisalabad  
Telephone: (041) 2412123-29  
Fax: (041) 2412130

**SIE-1 Branch, Gujrat**  
Danish Metal Work  
SIE-1, Gujrat  
Telephone: (051) 3538010-15  
Fax: (051) 3538016

**G.T Road Branch, Gujranwala**  
GT Road  
Gujranwala  
Telephone: (055) 3282610-17  
Fax: (055) 3282517

**Model Town Branch, Rahimyar Khan**  
21-A, Model Town  
Rahim Yar Khan  
Telephone: (048) 5868071-76



**We are Growing fast...  
to serve you better**

**'Target for 2008  
100 Branches'**

**'December 2007  
36 Branches'**

**'April 2006  
1st Branch'**



## **BankIslami Pakistan Limited**

11th Floor, Executive Tower, Dolmen City, Marine Drive, Clifton Block-4, Karachi.

Tel: (92-21) 111-247-111(111-BIP-111). Fax: (92-21) 5978373

[www.bankislami.com.pk](http://www.bankislami.com.pk)