

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
الْحَمْدُ لِلَّهِ الَّذِي
خَلَقَ السَّمَوَاتِ وَالْأَرْضَ
وَالَّذِي يُضَوِّتُ النَّجْمَ
وَالَّذِي يُرْسِلُ الرِّيَّاحَ
وَالَّذِي يُنَزِّلُ الْمَطَرَ
وَالَّذِي يُحْيِي الْمَوْتَى
وَالَّذِي يُحْيِي الْمَوْتَى
وَالَّذِي يُحْيِي الْمَوْتَى

VISION

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

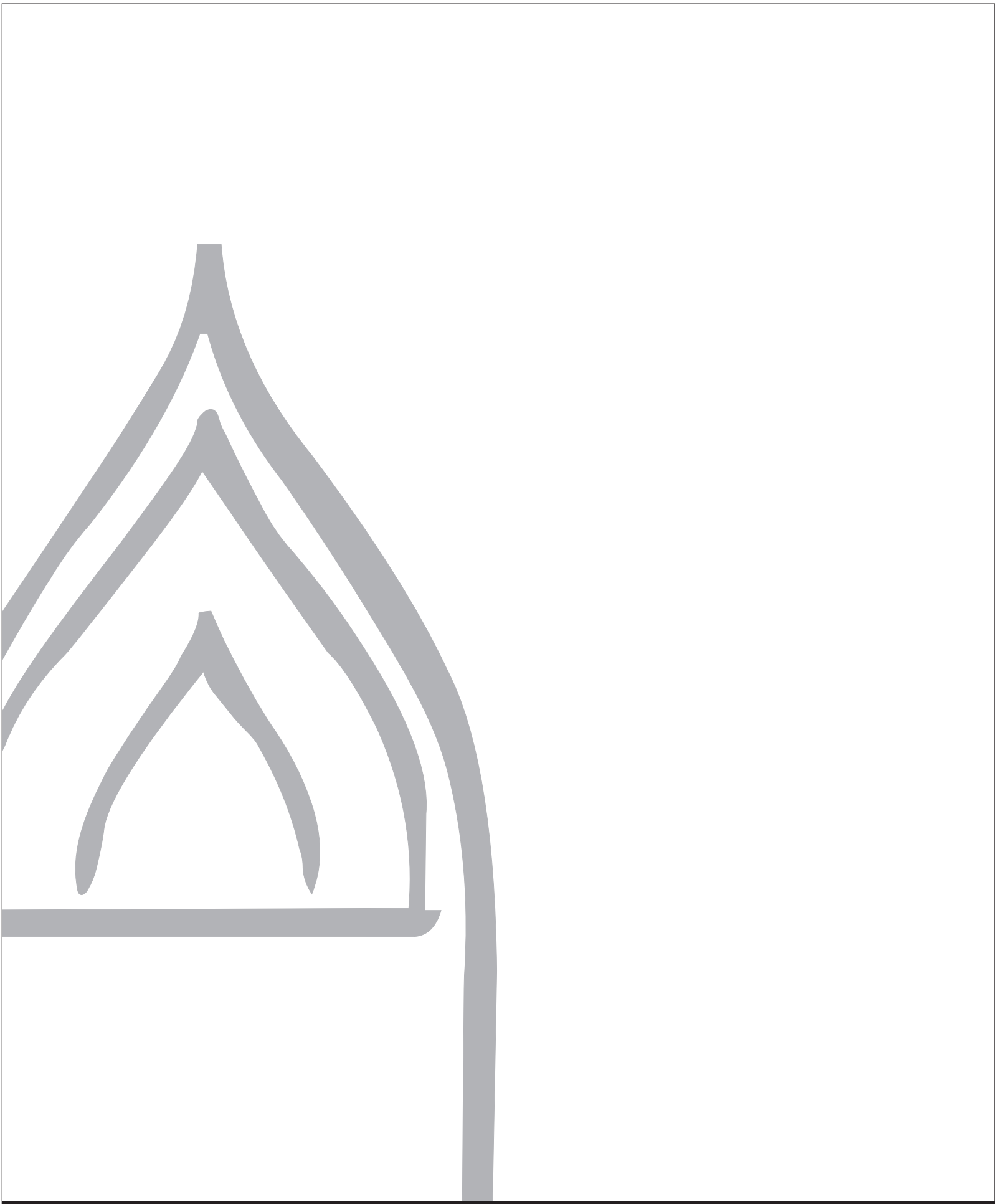
MISSION

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



Table of Contents

Corporate Information	01
Directors' Report	02
Financial Summary	07
Statement of Internal Control	08
Statement of Compliance with the best practices of Code of Corporate Governance	09
Auditors' Review Report to the Members on Statement of Compliance with the best Practices of Code of Corporate Governance	11
Shariah Advisor's Report	12
Auditors' Report to the Members	14
Statement of Financial Position	16
Profit and Loss Account	17
Statement of Comprehensive Income	18
Statement of Changes in Equity	19
Cash Flow Statement	20
Notes to the Financial Statements	21
Pattern of Share Holding	63
Branch Network	65
Notice of Annual General Meeting	66
Proxy Form	



Corporate Information

Board of Directors	Mr. Khaled Mohammed Al-Aboodi Mr. Shehab M. Gargash Mr. Adel Yousef Al-Saqabi Mr. Azam Essof Kolia Mr. Basheer A. Choudry Mr. Jamil Ahmed Qureshi Mr. Mohammed Tariq Mr. Nicolas Edouard Martin Mr. Pervez Said	Chairman Vice Chairman / Director Director Director Director Director Director Director President / CEO
Company Secretary	Ms. Wajiha M. Mehdi	
Audit Committee	Mr. Jamil Ahmed Qureshi Mr. Azam Essof Kolia Mr. Bashir A. Choudry	Chairman Member Member
Risk Management Committee	Mr. Adel Yousef Al-Saqabi Mr. Jamil Ahmed Qureshi Mr. Pervez Said	Chairman Member Ex-Officio Member
Human Resource Committee	Mr. Bashir A. Choudry Mr. Jamil Ahmed Qureshi Mr. Pervez Said	Chairman Member Ex-Officio Member
Shariah Advisor	Prof. Mufti Munib-ur-Rehman	
Legal Advisor	M/s. Mohsin Tayebaly & Co. Advocates & Corporate Legal Consultants	
Management Team	Mr. Pervez Said Mr. Aamir Ali Brig (R) Asif Alvi Mr. Ayaz Wasay Mr. Ihsan Ullah Ihsan Mr. Mushtaq Riaz Mirza Mr. Saifuddin Shafi Ms. Seemin Shafi Mr. Sohail Sikandar Mr. Taimur Afzal	President & CEO Head of Compliance Head of Administration, Security & Fraud Control Head of Treasury & Financial Institution Chief Risk Officer Head of Corporate & SME Head of Operation & IT Head of Human Resources Chief Financial Officer Head of Consumer Banking
Auditors	M/s. A. F. Ferguson & Co. Chartered Accountants	
Share Registrar	F.D. Registrar Services (SMC-Pvt) Ltd. 1700-A, Saima Trade Center, I. I. Chundrigar Road, Karachi	
Registered Office / Head Office	Trade Center, I. I. Chundrigar Road, Karachi	

DIRECTORS' REPORT TO THE SHAREHOLDERS FINANCIAL STATEMENTS FOR THE YEAR 2010

The Board of Directors of Dawood Islamic Bank Limited ("the Bank") is pleased to present the Fourth Annual Report along with the audited financial statements and Auditors' report thereon for the year ended December 31, 2010.

Economic Review:

While still recovering from the financial crisis transpired during the 2nd half of 2008, Pakistan's economy received another significant shock when it was hit by unprecedented floods which affected 20 million people and caused extensive damage to infrastructure and crops. The resultant damage, estimated at US \$10bn or 6% of GDP, compelled the Government to revisit their annual targets set for Fiscal Year 2011. Hence inflation rate is revised to 14.5% against a target of 11.5% whereas budgetary deficit has been revised upward from the initial estimates of 4% to 4.7%.

Notwithstanding, the capital market showed some signs of resilience against adverse economic developments as the KSE 100-Index increased by more than 28% from 9,386 points to close at 12,022 points towards end of the year. The KSE 100 Index breached the psychological barrier of 12,000 points, the highest level over the last 30 months, which is indicative of the confidence posed in the economy by investors and further reinforced by the foreign portfolio investment which recorded a net inflow of US \$526 million (Rs.44.7 billion). It was also noticed that Shariah based KMI- 30 Index outperformed the KSE – 100 by recording an appreciation of 39%.

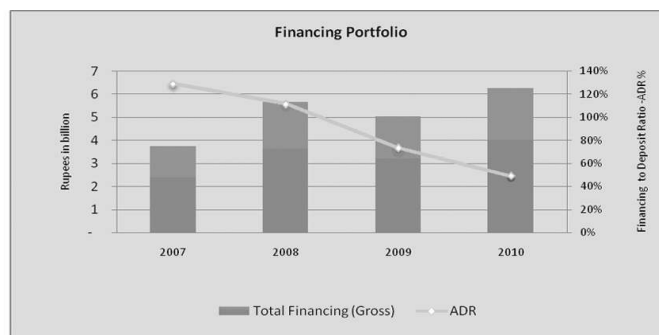
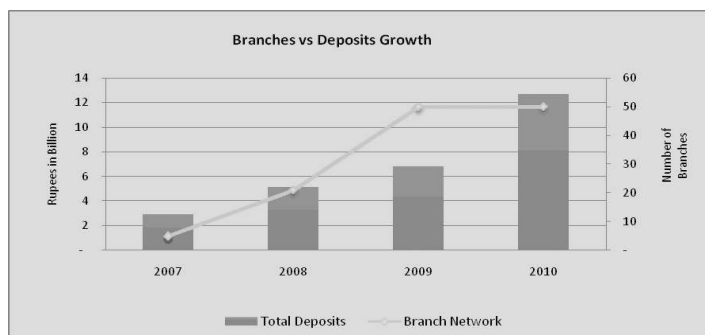
During the year overall banking sector performance remained under pressure due to difficult business environment arising out of factors like flood, slow economic activity, power shortages, security concerns and high interest rates. These factors not only squeezed profit margins but also adversely affected the repayment capacity of borrowers causing Non Performing Loans to grow by 12%. Besides, no visible improvement could be witnessed in fiscal situation and substantial banking resources were diverted from private sector credit to public sector for budgetary support, financing needs of Public Sector Enterprises and commodity operations.

Financial Highlights of the Bank:

Summary of the comparative financial performance is given below:

Particulars	December 31,		Growth
	2010	2009	
	Rupees in million		%
Deposits	12,636	6,785	86%
Financings (including advance against financings)	7,432	5,091	46%
Investments – net	5,051	2,862	76%
Total Assets	17,676	13,009	36%
Capital Adequacy Ratio (CAR)	38.44%	50.98%	
Loss after tax	(536)	(293)	

In the face of multipronged challenges, the bank continued to be responsive to the changing business environment by realigning short term business strategies with an aim to best safeguard the interests of its stakeholders and add long term shareholder value. During the year 2010, the Bank primarily focused on building on its balance sheet footing which yielded results by remarkably enhancing its deposit base from Rs.6.7 billion to Rs.12.6 billion, a growth of 86%. The achievement is more commendable considering that the cost of deposits has also been reduced substantially. Furthermore, the bank has successfully broadened the deposit base by reducing concentration and avoiding reliance on large depositors. As a corollary, total assets of the bank witnessed a growth of 36% from Rs.13.01 billion as at December 31, 2009 to Rs.17.68 billion as at December 31, 2010. Despite the cautious approach towards increasing financing portfolio, in view the uncertainties as highlighted above, the bank achieved a net growth of 46% over the previous year in Financings by underwriting quality credits. This not only improved the earning stream of the bank but also improved the overall rating of the financings portfolio. On the other side, the bank utilized surplus liquidity generated from deposits in an efficient manner in investment in GoP Ijarah Sukuks at the time of primary auction by the SBP. Because of the foregoing, the investment portfolio of the bank increased by 76% during the year.



While structural imbalances in the various asset classes were addressed, the difficult economic environment, as noted above, severely constrained the bank's ability to realize meaningful improvement in delinquent accounts. During the year, Non-performing Financings (NPFs) increased by 58%, however, sufficient provisions have been made against them to cater to any adverse eventuality. The management is confident that not only the rising NPF trend be arrested, but recoveries will also be made from these accounts due to the focus being afforded to them. It may be, however, noted that all NPF accounts pertain to disbursements made in the years 2007 and 2008.

Predominantly as result of beefing up of human capital to meet business needs and expenses on additional 29 new branches the full year cost impact of which reflected in the year 2010. Hence, operating expenses increased by 49% when compared to the last year. Another major expense during the year was to create provision of Rs. 382 million against NPFs. Consequently, Bank sustained a loss after tax of Rs 535.52 million during the year.

Minimum Capital Requirement

The State Bank of Pakistan (SBP) vide BSD Circular No. 7 of 2009 dated April 15, 2009 has revised the Minimum Capital Requirement (MCR) for the Banks. As per this circular the Bank was required to have a minimum issued, subscribed and paid-up capital (net of losses) of Rs. 7 billion by December 31, 2010. The Board of Directors in their meeting held on February 17, 2011 has decided to inject an additional capital amounting to Rs. 1.8 billion in the Bank through issuance of right shares. The Bank also wrote to the SBP seeking exemption in meeting minimum capital requirement beyond Rs. 6 billion. The SBP vide its letter no. BSD/BAI-3/608/2654/2011 dated March 4, 2011 has granted extension to the Bank in meeting MCR till June 30, 2011 provided that the Bank completes all formalities of the proposed right issue and raise its capital (net of losses) to Rs. 6 billion by June 30, 2011. SBP has further specified that it can consider facilitating the Bank by granting suitable relaxation in meeting the MCR of Rs. 10 billion provided the Bank achieves the target of Rs. 6 billion (net of losses) by June 30, 2011. The issue of right shares at a discount price of Rs. 7.5 per share was approved by the Board in its meeting held on March 6, 2011. The Bank expects that the process of issuance of right shares will be completed by June 30, 2011.

Business Development & New Initiatives

During the year 2010, the Bank primarily focused on existing products and services with a blend of superior Shari'ah Quality in all respects, both on asset & liability sides, to satisfy all core banking needs of its existing & prospective customers. The fundamental objective is to fabricate unique Shari'ah compliant efficient products & services, rather being disciple of conventional banking products. A lot of work is being done on existing and new liability side products catering to financial needs & demand of all walk of society which is in finalization stage. A new product viz. 'Istisna' is planned to be launched shortly along with modification in existing product from 'Murabaha cum Modaraba' to 'Murabaha cum Wakalah'. Consumer and SME products are being revisited for launch in the year 2011. Specialized product namely 'Fleet Financing' to meet corporate needs based on Ijarah structure has been introduced. The Bank has also set up an Equity Desk in Treasury to accrue the benefits of investment in high yielding, blue chip Shari'ah compliant stocks to improve overall profitability for the bank. ALHAMDULILLAH, the launch went successful and the Bank made visible profits out of investments in the stock market.

Furthermore, the Bank entered into an agreement with Pak Qatar Takaful to sell banca takaful products through bank's counters. An official launch will be made in the first quarter of the year 2011. The objective is to utilize the product as a cross sell tool for selling our own products and acquire customers. This will also help the bank in addressing the needs of all customer segments viz. mass market, affluent and premier.

Internal Control Framework

While the Board of Directors is responsible to give overall guidelines and strategic direction to the management through policy framework, the management is responsible for establishing and maintaining a sound system of internal controls. We are pleased to inform that, as per Internal Control Guidelines issued by SBP in 2004; the Bank has reviewed the Internal Control over Financial Reporting (ICFR) of the Bank through a reputable professional firm which identified the gaps in the internal controls in comparison with International best practices. After addressing of the identified gaps a testing exercise by Compliance arm of the Bank was carried out. During this exercise appropriate trainings to the relevant staff have also been imparted at different tiers (head office level to branch level) and at several stages i.e. from designing to implementation for smooth sailing and keeping the users abreast with the regulatory requirements as well as educating them to induce the control culture. A separate statement to this effect has been formed part of this Annual Report.

Performance of Operation Group

The Operations department is responsible for complete back-office support to the business functions including Branch banking, Trade Finance, Financing, Treasury and Capital Markets. The primary function of the Operations department is to ensure that all transactions are accurately processed in line with SBP regulations, the Bank's Shariah guidelines and all related legal requirements.

During the year a number of key Operation related functions have been centralized to achieve improved and efficient processing capability, enhanced controls, better service quality and reduction in probability of errors and audit gaps.

Rating for Shari'ah Quality

The board takes immense pleasure to note that the Islamic International Rating Agency (IIRA) has maintained the 'AA' rating in respect of Shari'ah Quality in DIBL. The rating reflects, in IIRA's opinion, that the DIBL conforms to very high standards of Shari'ah compliance in all aspects of Shari'ah Quality analysis.

Credit Rating

JCR-VIS a credit rating company has revised medium to long term entity rating of DIBL from A- (Single A minus) to BBB+ (Triple B Plus) and the short term rating from A-2 (A Two) to A-3 (A Three). Outlook on the assigned ratings is "Stable".

Human Resource Training and Development

The bank endeavors to provide a professional work environment to its employees with the aim to provide them with proper career paths and not mere jobs. The HRD is actively involved in ensuring that policies, procedures, training, induction are all geared towards building

a motivated team and strengthening compliance and control to develop a high performance team of well informed and efficient Islamic Bankers. During 2010, many initiatives were made by HRD which included, inter-alia, conducting an employee satisfaction survey, revamping HR policies, introduction of health takaful coverage for employees and their dependants, on-line learning and testing module, improved performance appraisal system and introduction of a quarterly newsletter.

Risk Management

Being of prime importance, the bank has put a proper governance structure in place to manage the risks associated with different spheres of activities. While the Board Risk Management Committee is functional at the highest level, the Management Finance Committee, Investment Committee and Asset & Liability Committee are in place and actively working. With well defined mandates and roles, these committees evaluate, monitor and control the overall risk profile of the bank emanating from financing (credit), market and operational risk amongst others.

Financing (credit) Risk

Financing risk is the risk that a customer may not be able to meet its payment obligations in time. In order to assess this risk, the bank has developed rating models for evaluating Corporate, SMEs and Consumer financing. The Board has further defined tolerance limits for counterparty and group exposures driven by the risk rating of such clients/groups. Furthermore, risk appetites for different sectors of the economy have been defined to avoid concentration risk and over exposure in a single sector. It has been noted that with the expansion in financing portfolio through booking of new accounts with better risk profile and focused strategy to deal with problem accounts, the overall health of the financing portfolio has substantially improved from previous year's level.

Market Risk

Market risk is the risk of losses arising from fluctuation in the market value of trading and non trading portfolios. The other sources of market risk are fluctuation in the profit rates and foreign exchange rates. As mentioned earlier, the Bank has recently established equity investment desk, housed within treasury, to accrue potential benefits of Shari'ah compliant equity instruments. Activities of equity desk are being controlled/ monitored with defined limits and parameters. However, with the objective to effectively utilize the excess liquidity generated through enhanced deposit base, the bank has taken exposure in GoP Ijarah Sukuks at attractive yields and acceptable market risk parameters. These instruments can also be used to thwart any unforeseen liquidity pressures.

Operational Risk

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes, people or system or from external events. The bank has recently set up a separate unit within the overall risk management group to monitor and control operational risk. The unit is currently working on developing policies and procedures for identifying and controlling operational risk losses.

Corporate Governance:

The Bank has complied with the requirements of the Code of Corporate Governance relevant for the year ended December 31, 2010. A prescribed statement together with the Auditors Review Report thereon is annexed.

Financial Reporting:

1. The financial statements prepared by the management of the Bank present a fair state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied, in preparation of financial statements and accounting estimates. Approved Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed.
4. No dividend / bonus shares have been declared for the year.
5. The system of internal control is sound in design and has been effectively implemented and monitored on the best possible efforts basis.
6. There are no doubts upon the Bank's ability to continue as a going concern.
7. There has been no material departure from best practices of corporate governance, as detailed in the listing regulations.
8. Key operating and financial data for the last four years has been given in (Table 1) attached with the Directors' Report as this is the 4th year of Bank's operations.
9. There is no overdue statutory payment on account of taxes, duties, levies and charges.

Employee Benefits Scheme

Value of investments of Employees' Provident Fund for the year ended December 31, 2010 (Unaudited) is PKR 39.466 million.

Trading of shares of the Bank

No trades in the shares of the Bank were carried out by the CEO, CFO, Company Secretary their spouses and minor children during the year 2010. Trades in the shares carried out by the Directors along with their holding are annexed as Annexure 'A'.

Pattern of Shareholding

The pattern of shareholding as on December 31, 2010 along with disclosures required under the Code of Corporate Governance is annexed to the Report.

Directors

The 4th Annual General Meeting of the Bank was held on April 6th, 2010 for the election of Directors. The Board wishes to place on record its appreciation of the services rendered by the retiring directors and welcome all newly elected directors on the Board.

With respect to the new Board, we would like to welcome Mr. Khaled Mohammed Al-Aboodi as a Chairman of the Board and Mr. Nicolas Edouard Martin and Mr. Bashir A. Choudry as Directors.

Board of Directors Meetings

Six Board of Directors meetings were held during the financial year. Information about the attendance is as under:

Name of Directors	No. of meetings attended
Mr. Khaled Mohammed Al-Aboodi (appointed on 30-12-10)	-
Mr. Mohammed Tariq	6
Mr. Jamil A. Qureshi	6
Mr. Pervez Said	6
Mr. Adel Yousef-Al-Saqabi	4
Mr. Azam Essof Kolia	6
Mr. Shehab M. Gargash	5
Mr. Aamir Hussain Khan (resigned w.e.f. 31-12-10)	3
Mr. Bashir A. Choudry	4
Mr. Nicolas Edouard Martin	3
Mr. Rafique Dawood*	2
Mr. Ayaz Dawood*	2
Mr. Raymond Clive Seamer (resigned w.e.f. 28-09-10)	2
Mr. Thameem Ghouse*	1
Mr. Majid Al Refai (resigned w.e.f. 08-07-10)	-

*Did not offer themselves for elections held on April 6th, 2010.

Auditors

Present auditors, M/s. A. F. Ferguson & Co., Chartered Accountants, member firm of Price Water House Coopers, retired and offered themselves for reappointment. On the recommendation of the Audit Committee of your Bank, the Board has agreed to recommend the appointment of M/s. A. F. Ferguson & Co., Chartered Accountants, to function as Bank's statutory auditors for the year ending December 31, 2011.

Future Outlook

The Board views the economy as a major challenge facing the country in general and the banking sector in particular. The effects of floods, war on terror, political outlook and other related elements are expected to continue to affect the performance of country's economy. However, the Bank has prepared a plan to face the challenges and steer to sustainable profitability during the year 2011.


While an SME Cluster Financing program has already been introduced, INSHALLAH consumer products will be launched in the first half of 2011 that will position the bank in line with the best in the market place. As for the consumer segment, the Bank will primarily focus on auto financing with a cautious approach towards house financing. The Bank will also test market an agri-finance related product that will be secured and risk rated. Banca Takaful is a relatively new product introduced by some of the Islamic banks; however, our launch of the product in co-operation with Pak Qatar Takaful is expected to positively contribute to profitability and the menu of products of the bank.

The bank also aims to rationalize its technology platform that will improve controls and assist us in providing better customer service. The bank plans to re-brand itself and will use this opportunity to be in the media that will have a positive impact on its market perception. The greater role of ICD as a sponsor will add to its image enhancement.

The Board appreciates the State Bank of Pakistan and other regulatory bodies for their guidance and efforts to strengthen the banking system of the country. The Board also extends sincere gratitude to all our employees for their efforts, loyalty and significant contribution to the growth and success of the bank. In the end, the Board is most grateful to all its clients and shareholders for their continued support and trust in the bank's ability to provide best possible services.

For & on behalf of Board of Directors

Khaled Mohammed Al-Aboodi
Chairman



Dubai
March 06, 2011

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

Name	Designation	No. of Shares as at Jan 01, 2010	Shares (sold)/ Purchased during the year	No. of Shares as at Dec 31, 2010
Mr. Azam Essof Kolia	Director	26,667,516	(5,000)	26,662,516
Mr. Muhammad Jamil Qureshi	Director	0	5,000	5,000

FINANCIAL SUMMARY

Table 1

	December 31,			
	2007	2008	2009	2010
	Rupees in '000			
OPERATIONAL RESULTS				
Total Income	258,601	901,647	1,188,691	1,327,721
Operating Expenses	166,579	434,160	686,002	996,829
Profit/(Loss) before Income Tax and Provisions	34,116	63,986	(148,063)	(395,433)
Profit/(Loss) before Income Tax	32,259	60,111	(405,152)	(824,560)
Profit/(Loss) after Taxation	51,031	32,727	(292,627)	(535,522)
BALANCE SHEET				
Shareholders' Equity	3,665,888	4,074,810	4,841,780	4,325,983
Total Assets	6,850,534	9,481,137	13,008,675	17,675,686
Financings-net of provisions	3,723,752	5,639,877	4,763,622	5,616,202
Investment-net of provisions	1,318,657	2,045,146	2,861,751	5,050,878
Deposits and other accounts	2,888,762	5,063,393	6,784,750	12,636,083
OTHERS				
Imports	1,099,771	2,567,557	1,461,854	2,530,861
Exports	107,712	1,208,643	321,312	1,020,077
RATIOS				
Capital Adequacy	51.80%	45.15%	50.98%	38.44%
Profit before Tax ratio (PBT/Gross mark up income)	12.92%	7%	-36%	-65%
Gross spread ratio (Net mark up income/gross mark up income)	77%	53%	43%	43%
Income/Expense ratio	1.14	1.07	0.89	0.76
Return on Average Equity (ROE)	1.39%	0.85%	-6.56%	-11.68%
Return on Average Assets (ROA)	0.74%	0.54%	-2.60%	-3.49%
Financings/Deposits Ratio	129%	111%	70%	44%
Book value per share excluding revaluation of Assets	10.14	10.21	9.583	8.514
Book value per share including revaluation of Assets	10.18	10.18	9.663	8.634
Basic Earnings per share	0.17	0.08	(0.60)	(1.07)
No. of employees (other than outsourced)	89	220	449	473

STATEMENT OF INTERNAL CONTROL

The management of DIBL being cognizant of the significance of robust risk management framework and strong corporate governance practices towards achieving organizational objectives, and being committed to nurturing an institutional culture of compliance has continuously been striving to maintain and implement a vibrant system of internal controls in the bank – a system primarily targeting to:

- ensure efficiency and effectiveness of its operations,
- ensure reliability, completeness and timeliness of financial as well management information, and
- ensure compliance with the policies, procedures, regulations and laws.

In broader terms; besides senior management, the bank's Board of Directors duly acknowledges its responsibility and has played active role in providing strategic guidance through policy framework and ensured existence of an adequate and effective internal controls system in the bank.

In view of dynamic nature of internal controls system and this being an ongoing process, the senior management and Board of Directors, besides their endeavors to ensure its existence, have been periodically reviewing its components as well as the entire system to ensure its adequacy, maintenance and effective implementation within the bank.

As mentioned earlier the evaluation of internal controls is an ongoing process and this statement of internal controls is based on the processes designed and placed in the form of Risk Management, Internal Audit and Compliance & Internal Control functions in the bank to evaluate the various components of internal controls system and identify significant risks in achieving the bank's objectives. The DIBL's internal controls system had been subjected to continuous reinforcement and realignment in the light of evaluation process throughout the year 2010.

Going towards detailed evaluation of the prevailing internal controls system of the bank, its basic components – control environment; risk recognition & assessment; control activities; accounting, information & communication systems; assessment & monitoring; have been ensured to be embedded in the bank's policies, plans, processes, tasks, behaviors etc. The management of DIBL, being committed to achieve its organizational objectives, has always been proactive to strengthen the controls. Further, being responsive to the identified gaps, the management has been successful in bringing significant improvement in internal controls of the bank; a few of such improvements are mentioned below.

- The project for implementation of Internal Controls over Financial Reporting, in compliance with SBP Guidelines on Internal Controls, has been completed with assistance of a reputable advisory firm,
- Internal Control Unit has been established within Compliance & Control Group with focus and responsibility to continuously review the bank's internal controls system and undertake evaluations leading to reinforcement of its various components,
- Centralized Processing Unit is taking care of centralized account opening, centralized clearing and centralized mail management all have been established at Operations Group,
- Operational Risk Management Unit has been established within Risk Management Division and the same shall increase the bank's capacity to recognize, assess and mitigate the operational risk of the bank.

In addition, a number of initiatives targeting the internal controls strengthening are in progress completion of which shall add to the profile of bank's internal controls system.

Further; on behalf of the Board of Directors, Internal Audit Group closely monitors the effectiveness of systems and controls placed by the management across the bank as per audit programs approved by the Board Audit Committee.

The internal controls system is designed to manage and minimize various risks rather than to entirely eliminate those risks which may not be possible under the changing environment. The control functions of the bank can only provide reasonable assurance and not the absolute assurance against material misstatement or loss. However, the management of DIBL feels confident that the bank's internal controls system is adequately designed, maintained and effectively implemented at a satisfactory level and the Board of Directors endorses the management's evaluation towards its adequacy and efficacy.

For and on behalf of the Board



Pervez Said
President & CEO

Dubai
March 06, 2011

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

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

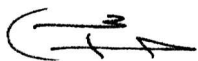
The bank has applied the principles contained in the Code in the following manner:

1. At present the Board comprises of nine directors, out of which three directors are non-executive directors. Currently the Board does not have any independent non-executive director.
2. The directors have submitted details to the State Bank of Pakistan that none of them is serving as a director in more than ten listed companies, including this bank. The bank is taking steps to obtain a formal declaration to this effect.
3. All the resident directors of the bank are registered as taxpayer and none of them has defaulted in payment of any loan to a banking company, or a DFI, or an NBFI, or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange. The directors of the bank are individuals of repute and integrity with vast diversified experience of the corporate affairs.
4. Three casual vacancies occurred on the Board during the financial year ended December 2010. Out of three, one casual vacancy was filled after obtaining approval from the State Bank of Pakistan. The Board is taking steps to fill remaining vacancies by inducting independent non-executive directors.
5. The bank has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the employees of the bank. The Bank is taking steps to get the statement signed by the directors.
6. The Board has formulated 'Vision Statement' and 'Mission Statement'. Corporate strategies and significant policies of the bank have been made with appropriate delegation of authorities and responsibilities to various levels of the management. A complete record of particulars of 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 and conditions of employment of the Chief Executive Officer have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board meetings were held at least once in a quarter with the exception of 2nd quarter when the meeting was not held due to unavoidable circumstances. Written notices of the Board meetings along with agenda and working papers, were circulated atleast seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Directors of the bank are professionally qualified and experienced persons and are well aware of their duties and responsibilities. The management of the bank circulates 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 under clause (xiv) of the Code i.e. with respect of '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 has approved the appointment of the CFO, Company Secretary and the Head of Internal Audit, including their remuneration and terms and conditions of employment, as recommended by CEO.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the bank were duly endorsed by the Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the bank other than that disclosed in the pattern of shareholdings.
14. The bank has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members, of whom two are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter except that no meeting was held in the 2nd quarter of the year. The meetings for approval of the interim financial statements of 1st and 3rd quarter could not be held due to unavoidable circumstances. 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 effective internal audit function. The staff of Internal Audit Department is suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the bank.
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 International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. The statutory auditors of the bank 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 the IFAC guidelines in this regard.
20. The related party transactions have been placed before the audit committee and approved by the Board of Directors.
21. We confirm that except for the matters highlighted above all the other material principles contained in the Code have been duly complied with.

For and on behalf of the Board

Khaled Mohammed Al- Aboodi
Chairman



Dubai
March 06, 2011

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Dawood Islamic Bank Limited ('the Bank') to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan.

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

As part of our audit of the 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.

The Code of Corporate Governance requires the Bank to place before the board of directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the above requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2010.



Chartered Accountants

Date: March 08, 2011

Karachi

SHARI'AH ADVISOR'S REPORT

FOR THE FINANCIAL YEAR-2010

الحمد لله رب العلمين والصلوة والسلام على خاتم الانبياء والمرسلين سيدنا محمد وآله وصحبه اجمعين

To
The Shareholders
Dawood Islamic Bank Ltd

السلام عليكم ورحمة الله وبركاته

The year under review is the 4th financial year of Dawood Islamic Bank Limited (DIBL).

During the year 2010, the Shari'ah Division/Internal Shari'ah Supervisory Committee held several meetings to review various products, structures, process flows/modus operandi, concepts, and transactions for opinion on Shari'ah compliance, referred by several departments of DIBL. To further strengthen capacity, Islamic banking trainings were made mandatory for the staff of DIBL in order to improve Shari'ah compliant business culture.

As part of the Shari'ah compliance framework a full-fledged Shari'ah Division is working under my supervision for Shari'ah Compliance & Control and Shari'ah Audit functions. During the year, the bank focused on already developed Islamic banking products and services, which were approved by the undersigned with an aim of maintaining superior Shari'ah Quality.

Following are the major developments that took place during the year under review;

1. MAINTAINING OF AA RATING FOR SHARI'AH QUALITY

Islamic International Rating Agency (IIRA) has maintained Shari'ah Quality Rating of AA (SQR) for DIBL. The rating reflects IIRA's opinion that the DIBL conforms to the very high standards of Shari'ah requirements in all aspects of Shari'ah Quality analysis.

2. TRANSACTION APPROVAL SYSTEM

All financing transactions including funded (Murabaha, Murabaha cum Mudarabah, Ijarah and Diminishing Musharakah) and non-funded (Letter of Credit, Guarantees etc.) were duly examined and scrutinized by the Shari'ah Division as per approved Standard Operating Procedure prior to execution to ensure Shari'ah compliance. In this way, any Shari'ah non-compliance was checked and rectified before occurrence. The Shari'ah Division has now developed a program for online Shari'ah review of each class of transactions for the Northern Region (Lahore & Faisalabad stations) to efficiently scrutinize transactions while ensuring Shari'ah compliance on pre-consummation basis.

3. TRAINING & DEVELOPMENT:

Several in-house functional-level Islamic banking orientations & trainings were held in coordination with HRD at Head Office and other stations of DIBL during the year. Online Shari'ah Finance training modules were also developed by the HRD with the coordination of Shari'ah Division, for the employees of DIBL. Special trainings have also been conducted during Shari'ah Compliance & Shari'ah Audit visits to branches.

To create awareness among the staff of DIBL about Islam & Islamic finance, a comprehensive program of lectures has also been conducted on alternate days at Head Office of DIBL and the summary of selected lectures is being circulated among all staff via e-mails. A book named "Sarmaya Kari Ke Sharai Ahkam", was compiled by the Senior Shari'ah Coordinator and sponsored by the bank, which has also been included in the training material of DIBL for the training purpose.

SUMMARY OF SHARI'AH ADVISOR'S REVIEW:

LIABILITY SIDE:

On the liability side, the Bank offered different Shari'ah compliant deposit products based on the underlying Shari'ah modes of Al-Qard for Current Account and Mudarabah for Saving & Term deposit accounts.

ASSETS SIDE:

On the asset side, DIBL focused mainly on Corporate & SME customers during the year while the consumer financing program is on the anvil for 2011. DIBL has successfully fulfilled the working capital requirements and the capital budgeting/expenditure requirements of its customers through various products based on Murabaha, Ijarah, Diminishing Musharakah and Mudarabah modes. However, Murabaha transactions, including Islamic Export Refinance Scheme, have remained the major financing portfolio of DIBL as compared to the other financings. In addition, Ijarah based product to meet vehicle fleet financing needs of corporate customers was successfully introduced by the bank with full Shari'ah compliance.

NEW INVESTMENT AVENUE:

During the year Treasury function of DIBL has started its Equity desk for investment in stock market securities. Shari'ah Division has reviewed and approved investment in KMI-30 index companies.

SHARI'AH AUDIT & COMPLIANCE REVIEWS:

To ensure that all the products and services being offered by the bank strictly adhere to conjunctions of Shari'ah guidelines, Shari'ah Division actively monitored majority of activities of the Bank throughout the year.

During the year, Financing Approvals, restructuring of financing facilities, customer specific Modus Operandi/process flows of various transactions, contents of

Letters of Guarantee (LGs), Opening of LCs, security documents and various agreements were reviewed to ensure Shari'ah compliance while offering financing facilities to the customers.

Profit-sharing ratios, profit weightages, pool working, asset & deposit allocation for deposit products were monitored periodically by Shari'ah Division. During the year, Shari'ah Audits of the departments and selected branches were also conducted in order to ensure and evaluate the overall Shari'ah compliance of the bank's activities as per the guidelines given by Shari'ah Division/Shari'ah Advisor and the SBP.

CHARITY MOVEMENT:

As far as Shari'ah rulings are concerned, CHARITY, in Islamic Banks, has two sources and two applications:

- i. The charity which is collected from late/default in payments from customer on due dates, according to Shari'ah it is NAZR-UN-LILLAH, it comes under the head of SADAQAT-E-WAJIBAH i.e. Obligatory to pay once it is intended by the NAZIR (the customer who undertakes to pay).
- ii. Whereas the other source of CHARITY is a VOID Transaction / non purified income (in this case, profit of the VOID Transaction/non-purified income is declared Charity)

Usage of the above both types of Charity are in different manner:

- i. The Charity which is collected on default/late in payments on maturity dates, must be distributed among those who are specified in the Verse 60 of Surah Al-Taubah.
- ii. While the other source of CHARITY, there is no such restrictions. Shari'ah Division is actively looking both types of charity and distribute according to its nature (if required).

The charity received by DIBL was kept in separate charity account of DIBL. An Approval Procedure for Distribution of Charity has been designed and a committee has been formed for effective utilization and scrutiny of the deserving individuals/charitable institutions with the approval of Shari'ah Adviser in compliance with the instructions of the State Bank of Pakistan.

In the year 2010, charity of PKR 19,474,000/- was collected on account of overdue financing/default in payments and PKR. 12,099,000/- has been distributed to the institutions/individuals as per the Charity Policy already approved by BOD of DIBL. (Details of the charity distribution can be referred in the notes to the financial statements.

We did our utmost to review almost all financing transactions prior to the disbursement in order to avoid any negligence that may result in the transactions becoming Void (Faasid). Al-Hamdu Lillah! In this financial year no such transaction took place.

Waiver/Exemptions of Charity Requests:

In some cases, where the clients requested for the waiver of charity due to unavoidable circumstances, it was communicated to them that according to Shari'ah rulings no one is allowed to waive NAZR-UN-LILLAH once it is intended by the NAZIR. Therefore, they were advised that if they were exempted on special grounds from depositing their charity in DIBL charity account, their liability will not extinguish unless they pay their charity in the way of Allah Al-Mighty on their own and according to their convenience. However, exemptions have been allowed from depositing charity in DIBL's charity account after ascertaining the genuineness of such requests. It is also intimated to the client that it must not be considered as a general practice and must not be taken as precedence for future. They were also informed that this charity amount must not be adjusted in their ZAKAT or any other obligatory SADAQAT. The Shari'ah division has also designed an SOP for entertaining such requests of charity reversal/ exemption/waiver.

OBSERVATIONS & RECOMMENDATIONS:

With the objective to maintain the high Shari'ah Quality Rating of AA (SQR) for observing very high Shari'ah compliance status assigned by Islamic International Rating Agency (IIRA), and to cater to the anticipated growth in business volume, the management of DIBL has agreed to provide additional resources to the Division upon suggestions of the Shari'ah Division. This will help in retaining and improvement of DIBL's Shari'ah rating in future.

Notwithstanding the fact, the conventional benchmark of KIBOR is still prevalent in Pakistan. However, the matter of usage of conventional benchmark remains a matter of concern for Shari'ah Advisers.

During the year under review the share of Rabb-ul-Maal/depositors was enhanced in order to improve their returns and at the same time DIBL minimize the usage of hiba for giving higher returns to Rabb-ul-Maal/depositors.

Several workshops/seminars were held for the employees of the bank and it is further recommended that such events should also be conducted for larger audiences and general public in order to improve awareness and understanding of Islamic banking.

Due to continuous increase in employees, the focus on training and development needs to be further enhanced in the coming years.

CONCLUSION:

Based on the reviews of almost all transactions of DIBL, the relevant documentations & procedures adopted, the allocation of funds, weightages, profit sharing ratios and all other activities & affairs the undersigned has reasonable grounds to believe that the business of DIBL is being carried out in accordance with rules and principles of Shari'ah, SBP regulations and guidelines related to Shari'ah compliance and other rules as well as with specific Fatawa issued from time to time.

وَصَلَّى اللهُ عَلَى خَيْرِ خَلْقِهِ سَيِّدِنَا مُحَمَّدٍ وَآلِهِ وَصَحْبِهِ أَجْمَعِينَ

Munib ur Rehman

Prof. Mufti Munib-ur-Rehman
Shariah Advisor
Dawood Islamic Bank Ltd

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of Dawood Islamic Bank Limited as at December 31, 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the un-audited certified returns from the branches except for four branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in the case of 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 statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the bank's business; and

- (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the bank and the transactions of the bank which have come to our notice have been within the powers of the bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2010, and its true balance of loss, its comprehensive 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.

Emphasis of matter paragraph

We draw attention to note 18.4 to the accompanying financial statements which describe the matter relating to shortfall in minimum capital requirement of the Bank as at December 31, 2010 and the State Bank of Pakistan's extension in this regard till June 30, 2011. Our opinion is not qualified in respect of this matter.

The financial statements of the bank for the year ended December 31, 2009 were audited by another firm of Chartered Accountants. Their audit report dated February 24, 2010 contained an emphasis of matter paragraph on the same issue as described above.



Chartered Accountants

Audit Engagement Partner: Salman Hussain

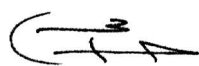
Date: March 08, 2011

Karachi

DAWOOD ISLAMIC BANK LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010

	Note	2010	2009 (Restated)	2008 (Restated)
Rupees in '000				
ASSETS				
Cash and balances with treasury banks	6	1,324,461	675,988	418,948
Balances with other banks	7	400,468	577,349	255,703
Due from financial institutions	8	2,679,753	2,857,942	250,040
Investments	9	5,050,878	2,861,751	2,045,146
Financings	10	5,616,202	4,763,622	5,639,877
Operating fixed assets	11	646,645	600,626	417,364
Deferred tax assets	12	393,116	106,269	-
Other assets	13	1,564,163	565,128	454,059
		17,675,686	13,008,675	9,481,137
LIABILITIES				
Bills payable	14	86,867	58,263	20,138
Due to financial institutions	15	287,291	1,094,375	50,704
Deposits and other accounts	16	12,636,083	6,784,750	5,063,393
Sub-ordinated loans		-	-	-
Liabilities against assets subject to finance lease		-	-	-
Deferred tax liabilities		-	-	8,612
Other liabilities	17	339,462	229,507	263,480
		13,349,703	8,166,895	5,406,327
NET ASSETS		4,325,983	4,841,780	4,074,810
REPRESENTED BY				
Share capital	18	5,010,458	5,010,458	4,001,333
Reserves		16,751	16,751	16,751
Accumulated (loss) / profit		(761,142)	(225,620)	67,007
		4,266,067	4,801,589	4,085,091
Surplus on revaluation of assets - net	19	59,916	40,191	(10,281)
		4,325,983	4,841,780	4,074,810
CONTINGENCIES AND COMMITMENTS	20			

The annexed notes 1 to 40 form an integral part of these financial statements.



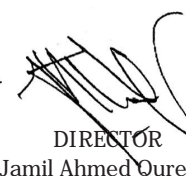
CHAIRMAN
Khaled Mohammed Al-Aboodi



PRESIDENT AND CHIEF EXECUTIVE OFFICER
Pervez Said



DIRECTOR
Nicolas Edouard Martin

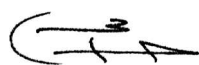


DIRECTOR
Jamil Ahmed Qureshi

DAWOOD ISLAMIC BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010 Rupees in '000	2009
Profit / return earned	21	1,263,461	1,131,873
Profit / return expensed	22	(726,325)	(650,752)
Net spread earned		<u>537,136</u>	<u>481,121</u>
Provision against non-performing financings	10.7	(382,826)	(232,089)
Provision for diminution in the value of investments	9.8	(23,453)	(25,000)
Bad debts written off directly		-	-
		<u>(406,279)</u>	<u>(257,089)</u>
Net spread after provisions		<u>130,857</u>	<u>224,032</u>
Other income			
Fee, commission and brokerage Income		19,815	18,772
Dividend income		275	9,250
Income from dealing in foreign currencies		17,593	21,850
Gain on sale of securities	23	2,215	-
Unrealized loss on revaluation of investments classified as held-for-trading	9.9	(50)	-
Other Income	24	24,412	6,946
Total other income		<u>64,260</u>	<u>56,818</u>
		195,117	280,850
Other expenses			
Administrative expenses	25	(986,592)	(685,677)
Other provisions / write-offs	13.3	(22,848)	-
Other charges	26	(10,237)	(325)
Total other expenses		<u>(1,019,677)</u>	<u>(686,002)</u>
Extra ordinary / unusual items		-	-
Loss before taxation		<u>(824,560)</u>	<u>(405,152)</u>
Taxation	27		
Current		-	(6,822)
Prior years		-	-
Deferred		289,038	119,347
		<u>289,038</u>	<u>112,525</u>
Loss after taxation		<u>(535,522)</u>	<u>(292,627)</u>
Accumulated (loss) / profit brought forward		<u>(225,620)</u>	<u>67,007</u>
Accumulated loss carried forward		<u>(761,142)</u>	<u>(225,620)</u>
		..... (Rupees)	
Basic / diluted earnings per share	28	<u>(1.069)</u>	<u>(0.604)</u>

The annexed notes 1 to 40 form an integral part of these financial statements.



CHAIRMAN
Khaled Mohammed Al-Aboodi



PRESIDENT AND CHIEF EXECUTIVE OFFICER
Pervez Said



DIRECTOR
Nicolas Edouard Martin

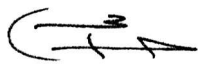


DIRECTOR
Jamil Ahmed Qureshi

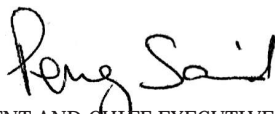
DAWOOD ISLAMIC BANK LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
	..... Rupees in '000	
Loss after taxation for the year	(535,522)	(292,627)
Components of comprehensive income not reflected in equity:		
Surplus on revaluation of available for sale investments - net of tax	19,725	50,472
Total comprehensive income for the year	(515,797)	(242,155)

The annexed notes 1 to 40 form an integral part of these financial statements.



CHAIRMAN
Khaled Mohammed Al-Aboodi



PRESIDENT AND CHIEF EXECUTIVE OFFICER
Pervez Said



DIRECTOR
Nicolas Edouard Martin

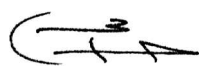


DIRECTOR
Jamil Ahmed Qureshi

DAWOOD ISLAMIC BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

	Share capital	Statutory reserve	Accumulated Profit / (Loss)	Total
	..... Rupees in '000			
Balance as at January 01, 2009	4,001,333	16,751	67,007	4,085,091
Issue of right shares	1,009,125	-	-	1,009,125
Loss after taxation for the year - transferred from Statement of Comprehensive Income	-	-	(292,627)	(292,627)
Balance as at December 31, 2009	5,010,458	16,751	(225,620)	4,801,589
Loss after taxation for the year - transferred from Statement of Comprehensive Income	-	-	(535,522)	(535,522)
Balance as at December 31, 2010	5,010,458	16,751	(761,142)	4,266,067

The annexed notes 1 to 40 form an integral part of these financial statements.



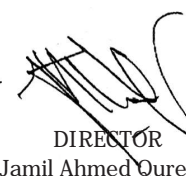
CHAIRMAN
Khaled Mohammed Al-Aboodi



PRESIDENT AND CHIEF EXECUTIVE OFFICER
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DIRECTOR
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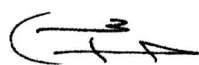


DIRECTOR
Jamil Ahmed Qureshi

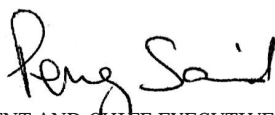
DAWOOD ISLAMIC BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		Rupees in '000	(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(824,560)	(405,152)
Less: Dividend income		(275)	(9,250)
		(824,835)	(414,402)
Adjustments for non-cash and other items:			
Depreciation - Own assets		110,855	77,327
Depreciation - Ijarah assets		49,495	28,656
Amortization		57,780	54,775
Provision against non performing financings		382,826	232,089
Provision for diminution in the value of investments		23,453	25,000
Provision against other assets		22,848	-
Unrealized loss on revaluation of investments classified as held for trading		50	-
Gain on sale of operating fixed assets		(242)	(798)
Gain on sale of securities		(2,215)	-
		644,850	417,049
		(179,985)	2,647
(Increase) / decrease in operating assets			
Due from financial institutions		178,189	(2,607,902)
Net investment in held-for-trading securities		(200,054)	-
Financings		(1,284,901)	615,510
Other assets (excluding advance taxation and deferred cost)		(1,015,117)	(117,955)
		(2,321,883)	(2,110,347)
Increase / (decrease) in operating liabilities			
Bills payable		28,604	38,125
Due to financial institutions		(807,084)	1,043,671
Deposits and other accounts		5,851,333	1,721,356
Other liabilities		109,955	(33,973)
		5,182,808	2,769,179
		2,680,940	661,479
		(13,354)	(6,524)
		2,667,586	654,955
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investment in available-for-sale securities		(2,113,725)	(786,667)
Dividend income received		275	9,250
Proceeds from sale of investments		125,280	-
Investment in operating fixed assets		(214,143)	(317,027)
Proceeds from sale of operating fixed assets		6,319	9,050
Net cash used in investing activities		(2,195,994)	(1,085,394)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of right shares		-	1,009,125
Net cash flow from financing activities		-	1,009,125
		471,592	578,686
Increase in cash and cash equivalents		1,253,337	674,651
Cash and cash equivalents at beginning of the year			
Cash and cash equivalents at end of the year	29	1,724,929	1,253,337

The annexed notes 1 to 40 form an integral part of these financial statements.



CHAIRMAN
Khaled Mohammed Al-Aboodi



PRESIDENT AND CHIEF EXECUTIVE OFFICER
Pervez Said



DIRECTOR
Nicolas Edouard Martin



DIRECTOR
Jamil Ahmed Qureshi

DAWOOD ISLAMIC BANK LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1 STATUS AND NATURE OF BUSINESS

- 1.1 Dawood Islamic Bank Limited (the Bank) was incorporated in Pakistan as a public limited company on August 29, 2005 under the Companies Ordinance, 1984 to carry out business of an Islamic Commercial Bank in accordance with the principles of Islamic Shariah. The head office of the Bank is situated at Trade Center, I.I Chundrigar Road, Karachi.
- 1.2 State Bank of Pakistan (SBP) issued a "Scheduled Islamic Commercial Bank" license to the Bank on March 16, 2007 and granted approval for commencement of Islamic Banking Business on April 09, 2007. The Bank is principally engaged in commercial, consumer and investment activities. At present the Bank has been operating through its fifty branches including eight sub branches (2009: fifty branches including eight sub branches).

2 BASIS OF PRESENTATION

The Bank provides financing mainly through Murabaha, Ijarah, and other Islamic modes. Under Murabaha the goods are purchased and are then sold to the customers on credit. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of profit thereon. The income on such financing is recognized in accordance with the principles of Islamic Shariah. However income, if any, received which does not comply with the principles of Islamic Shariah is recognised as charity payable if so directed by the Shariah Advisor.

3 STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board and Islamic Financial Accounting Standards (IFASs) 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 the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the directives issued by the SECP and SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.
- 3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 'Financial Instruments: Disclosures' through its notification S.R.O 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.
- 3.3 SBP through its BSD Circular No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised) 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, the Surplus / (Deficit) on revaluation of Available-for Sale Securities (AFS) only may be included in the 'Statement of Comprehensive Income' but will continue to be shown separately in the Statement of Financial Position. Accordingly, the above requirements have been adopted in the preparation of these financial statements.
- 3.4 IFRS 8 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the Bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by SBP.

3.5 New and amended standards and interpretations that are effective in the current year:

The following new and amended standards and interpretations have been published and are mandatory for the first time for the financial year beginning January 1, 2010:

- (a) IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.
- (b) IAS 7 (amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Bank's financial statements.
- (c) IAS 36 (amendment), 'Impairment of assets', effective January 1, 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The amendment is not expected to have any impact on the Bank's financial statements.
- (d) IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', (effective from January 1, 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The Bank has adopted the aforementioned amendments from January 1, 2010. The management of the Bank believes that this amendment does not have any impact on the Bank's financial statements.
- (e) IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale' (effective on or after January 1, 2010). The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.
- (f) IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after July 1, 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.
- (g) IFRIC 18, 'Transfer of assets from customers', effective for transfer of assets received on or after July 1, 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The management of the Bank believes that presently this interpretation does not have any impact on the Bank's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are, therefore, not disclosed in these financial statements.

3.6 New and amended standards and interpretations that are not yet effective:

The following standards and amendments to existing standards and interpretations have been published and are mandatory

for the Bank's accounting period beginning on or after January 1, 2011.

IAS 1, Presentation of financial statements (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The Bank is currently in the process of assessing the impact of the aforementioned amendment on the disclosure requirements.

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank is currently in the process of assessing the impact, if any, of the revised standard on the related party disclosures.

IFRIC 14 (amendment), 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning January 1, 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Bank currently does not operate any defined benefit scheme.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2011 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

3.7 Early adoption of standards

The Bank has not early adopted new or amended standard in 2010.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

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

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

4.2 Critical accounting estimates and judgements

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

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

- i) classification and provisioning against investments (notes 5.2 and 9)
- ii) classification and provisioning against financings (notes 5.3 and 10)
- iii) current and deferred taxation (notes 5.7, 12 and 27)
- iv) determination of useful lives and depreciation / amortisation (notes 5.4 and 11)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Cash and cash equivalents

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

5.2 Investments

5.2.1 Classification

Investments of the Bank, other than investments in associates are classified as follows:

(a) Held-for-trading

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

(b) Held-to-maturity

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

(c) Available-for-sale

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

5.2.2 Regular way contracts

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

5.2.3 Initial recognition and measurement

Investments other than those categorised as 'held for trading' are initially recognised at fair value which, in the case of investments other than "held-for-trading", includes transaction cost associated with the investments. Investments classified as 'held for trading' are initially recognised at fair value and transaction costs are expensed in the profit and loss account.

5.2.4 Subsequent measurement

Subsequent to initial recognition investments are valued as follows:

(a) Held-for-trading

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

(b) Held-to-maturity

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

(c) Available for sale

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

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

(d) Investments in associates

Investments in associate are valued using equity method of accounting.

5.2.5 Impairment

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

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

5.3 Financings

These are financial products originated by the Bank and principally comprise of Murabaha, Modaraba, Ijarah and Diminishing Musharika receivables. These are stated net of specific and general provision against non-performing financings, if any.

Specific provision

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

General provision

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

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

5.3.1 Ijarah Financings

Ijarah financings executed on or before December 31, 2008 have been accounted for under finance method, thereafter all Ijarah financings are accounted for under IFAS-2.

- (a) Under finance method, the present value of minimum Ijarah payments have been recognized and shown under financings. The unearned income i.e. the excess of aggregate Ijarah rentals over the cost of the asset and documentation charges under Ijarah facility is deferred and then amortised over the term of the Ijarah, so as to produce a constant rate of return on net investment in the Ijarah. Gains / losses on termination of Ijarah contracts are recognised as income on a receipt basis. Income on Ijarah is recognised from the date of delivery of the respective assets to the mustajir (lessee).
- (b) Under IFAS-2 method, assets underlying Ijarah financings have been carried at cost less accumulated depreciation and impairment, if any, and are shown under financings. Rentals accrued from Ijarah financings net of depreciation charged are taken to the profit and loss account. Depreciation on Ijarah assets is charged by applying the straight line method over the Ijarah period which is from the date of delivery of respective assets to mustajir upto the date of maturity / termination of Ijarah agreement.

5.4 Operating fixed assets

5.4.1 Capital work in progress

Capital work in progress is stated at cost less impairment losses, if any.

5.4.2 Property and equipment

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

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

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

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

5.4.3 Intangible assets

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

5.5 Impairment

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

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

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

5.6 Deferred costs

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

5.7 Taxation

Current

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

Deferred

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

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

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

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

5.8 Staff retirement benefits

Defined Contribution Plan

The Bank operates a recognised contributory provident fund scheme for all its permanent employees. Equal monthly contributions are made, both by the Bank and the employees, to the fund at the rate of 10% of basic salary. The Bank has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

5.9 Funds due to financial institutions / deposits and their cost

- a) Funds due to financial institutions / deposits are recorded at the proceeds received.
- b) Funds due to financial institutions / deposit costs are recognised as an expense in the period in which these are incurred using effective profit rate method to the extent that they are not directly attributable to the acquisition of or construction of qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) is capitalised as part of the cost of that asset.

5.10 Provisions and contingent assets and liabilities

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

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

5.11 Revenue Recognition

- 5.11.1 Profit from Murabaha is accounted for on culmination of Murabaha transaction. However, the profit on that portion of Murabaha not due for payment is deferred by accounting for "Deferred Murabaha Income" with a corresponding credit to "Unearned Murabaha Income" which is recorded as a liability. The same is then recognised on a time proportion basis.
- 5.11.2 Income from Ijarah financings under both finance and IFAS-2 method is recognised on an accrual basis.
- 5.11.3 Profit on Diminishing Musharika and Modaraba are recognised on an accrual basis.
- 5.11.4 Fee, commission and brokerage income including commission income on letters of credit and letters of guarantees are accounted for on receipt basis.
- 5.11.5 Profit on investments in Sukuks is recognised on an accrual basis. Where debt securities (excluding held-for-trading securities) are purchased at a premium or discount, those premiums / discounts are amortised through the profit or loss account over the remaining maturity, using the effective yield method.
- 5.11.6 Dividend income is recognised when the Bank's right to receive dividend is established.

5.12 Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most

acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

5.13 Foreign Currencies

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

Forward contracts relating to the foreign currency deposits are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contracts. Exchange gains and losses are included in income currently.

Commitments

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

5.14 Offsetting

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

5.15 Financial instruments

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

5.16 Dividend and appropriation to reserves

Dividend and appropriation to reserves, except appropriations which are required under the law, after the date of Statement of Financial Position, are recognised as a liability in the Bank's financial statements in the year in which these are approved.

5.17 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

5.18 Segment reporting

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

(a) Business segments

The business segments within the Bank have been categorized into the following classifications of business segments in accordance with the requirements specified by the State Bank of Pakistan.

Corporate finance

Corporate Banking includes investment banking, syndications, IPO related activities (excluding investments), secondary private placements, underwriting and securitization.

Trading and sales

It includes equity, foreign exchanges, commodities, own securities and placements.

Retail Banking

It includes retail financings, deposits and banking services offered to its retail customers and small and medium enterprises.

Commercial banking

It includes project finance, export finance, trade finance, Ijarah, guarantees and bills of exchange relating to its corporate customers.

(b) Geographical segments

The operations of the Bank are currently based only in Pakistan.

6	CASH AND BALANCES WITH TREASURY BANKS	Note	2010 Rupees in '000	2009
	In hand			
	- Local currency		338,100	196,420
	- Foreign currencies		68,438	45,148
	With State Bank of Pakistan in			
	- Local currency current account	6.1	694,544	377,882
	- Foreign currency current account		141,152	2,343
	- Foreign currency deposit account			
	Cash reserve account	6.2	17,127	6,318
	Special cash reserve account	6.3	20,553	7,582
	With National Bank of Pakistan in			
	- Local currency current account		44,547	40,295
			<u>1,324,461</u>	<u>675,988</u>

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

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

6.3 Special cash reserve of 6% is required to be maintained with State Bank of Pakistan on FE-25 deposits as specified in BSD Circular No. 15 dated June 21, 2008. During the year this deposit was not remunerated (2009: Nil).

7	BALANCES WITH OTHER BANKS	Note	2010 Rupees in '000	2009
	In Pakistan			
	- On current account		902	1,520
	- On deposit account	7.1	301,513	315,513
	Outside Pakistan			
	- On current account		98,053	260,316
			<u>400,468</u>	<u>577,349</u>

7.1 This represents saving deposits carrying profit at the rates ranging from 5.01% to 7.92% (2009: 5% to 8.05%) per annum.

8. DUE FROM FINANCIAL INSTITUTIONS	Note	2010	2009 (Restated)	2008 (Restated)
		Rupees in '000		
Commodity Murabaha	8.1, 8.2 & 39	2,679,753	2,857,942	150,040
Modaraba		-	-	100,000
		<u>2,679,753</u>	<u>2,857,942</u>	<u>250,040</u>

8.1 This represents placements made with various financial institutions under commodity murabaha agreement and carry return at the rates ranging from 12.15% to 13.75% (2009: 12.10% to 12.40%) and have a maturity period upto March 24, 2011 (2009: January 09, 2010).

8.2 Particulars of amount due from financial institutions with respect to currencies

In local currency	2,679,753	2,857,942	250,040
In foreign currencies	-	-	-
	<u>2,679,753</u>	<u>2,857,942</u>	<u>250,040</u>

9. INVESTMENTS

9.1 Investments by types

	Note	2010			2009		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
		Rupees in '000					
Held-for-trading securities							
Fully paid up ordinary shares - Listed		1,559	-	1,559	-	-	-
Sukuk Bonds		198,495	-	198,495	-	-	-
		<u>200,054</u>	<u>-</u>	<u>200,054</u>	<u>-</u>	<u>-</u>	<u>-</u>
Available-for-sale securities							
Fully paid up ordinary shares - Listed		85,229	-	85,229	-	-	-
Sukuk Bonds / certificates		4,432,624	-	4,432,624	2,492,094	-	2,492,094
Units of open-end mutual funds		314,901	-	314,901	350,000	-	350,000
		<u>4,832,754</u>	<u>-</u>	<u>4,832,754</u>	<u>2,842,094</u>	<u>-</u>	<u>2,842,094</u>
Investments at cost		<u>5,032,808</u>	<u>-</u>	<u>5,032,808</u>	<u>2,842,094</u>	<u>-</u>	<u>2,842,094</u>
Less: Provision for diminution in the value of investments	9.8	(48,453)	-	(48,453)	(25,000)	-	(25,000)
Investments (net of provisions)		<u>4,984,355</u>	<u>-</u>	<u>4,984,355</u>	<u>2,817,094</u>	<u>-</u>	<u>2,817,094</u>
Deficit on revaluation of held-for-trading securities	9.9	(50)	-	(50)	-	-	-
Surplus on revaluation of available-for-sale securities	19	66,573	-	66,573	44,657	-	44,657
Total investments at market value		<u>5,050,878</u>	<u>-</u>	<u>5,050,878</u>	<u>2,861,751</u>	<u>-</u>	<u>2,861,751</u>

	Note	2010 Rupees in '000	2009
9.2 Investments by segments:			
Federal Government Securities:			
Sukuk Bonds	9.4	3,298,495	1,000,000
Fully paid up ordinary shares / Units:			
Listed companies / mutual funds	9.5	401,689	350,000
Bonds:			
Sukuk certificates - Unlisted	9.6	1,332,624	1,492,094
Total investments at cost		<u>5,032,808</u>	<u>2,842,094</u>
Less: Provision for diminution in the value of investments	9.8	(48,453)	(25,000)
Investments (net of provisions)		<u>4,984,355</u>	<u>2,817,094</u>
Deficit on revaluation of held-for-trading securities	9.9	(50)	-
Surplus on revaluation of available-for-sale securities	19	66,573	44,657
Total investments at market value		<u><u>5,050,878</u></u>	<u><u>2,861,751</u></u>

9.3 Investments include certain approved / government securities which are held by the Bank to comply with the Statutory Liquidity Reserve requirement determined on the basis of the Bank's demand and time liabilities as set out under section 29 of the Banking Companies Ordinance, 1962.

9.4 Particulars of Federal Government Securities - Unquoted, Secured

Face value of Rs. 100 each unless otherwise stated.

Particulars	Profit Rate	Profit payment	2010 Nominal Value Rupees in '000	2009
GOP IJARAH - I 2,000,000 (2009: 2,000,000) certificates Maturity date: September 26, 2011	6 months T-Bill plus 0.45%	Semi-annually	200,000	200,000
GOP IJARAH - IV 8,000,000 (2009: 8,000,000) certificates Maturity date: September 17, 2012	6 months T-Bill minus 0.05%	Semi-annually	800,000	800,000
GOP IJARAH - V 11,000,000 (2009: Nil) certificates Maturity date: November 15, 2013	6 months T-Bill	Semi-annually	1,100,000	-
GOP IJARAH - VI 12,000,000 (2009: Nil) certificates Maturity date: December 20, 2013	6 months T-Bill	Semi-annually	1,198,495	-
			<u><u>3,298,495</u></u>	<u><u>1,000,000</u></u>

9.5 Particulars of investments in listed companies / mutual funds:

2010	2009		Note	2010	2009
Number of shares/units				Rupees in '000	
		Listed companies - Fully paid up ordinary shares of Rs. 10 each			
200,000	-	Lotte Pakistan PTA Limited		2,430	-
100,000	-	Fauji Fertilizer Bin Qasim Limited		3,426	-
100,000	-	Lucky Cement Limited		7,487	-
50,000	-	Pakistan State Oil Company Limited		14,324	-
50,000	-	Pakistan Petroleum Limited		10,232	-
100,000	-	Fauji Fertilizer Company Limited		11,275	-
50,000	-	Pakistan Oil Fields Limited		13,512	-
100,000	-	Oil and Gas Development Company Limited		16,471	-
150,000	-	Pakistan Telecommunication Company Limited		2,953	-
150,000	-	D.G. Khan Cement Company Limited		4,678	-
		Mutual funds - Face value of Rs. 100 each			
2,500,000	2,908,318	Dawood Islamic Fund	9.5.1	214,901	250,000
1,000,000	1,000,000	KASB Islamic Income Opportunity Fund (Formerly: KASB Islamic Income Fund)		100,000	100,000
				<u>401,689</u>	<u>350,000</u>

9.5.1 During the year this investment has been declassified from Strategic Investment as per approval obtained from State Bank of Pakistan.

9.6 Particulars of Sukuk Certificates - Unquoted, Secured

Face value of Rs. 5,000 each unless otherwise stated.

Particulars	Profit Rate	Profit payment	2010	2009
			Nominal Value	
			Rupees in '000	
WAPDA II 20,000 (2009: 20,000) certificates Maturity date: July 13, 2017	6 months KIBOR minus 0.25%	Semi-annually	100,000	100,000
Karachi Shipyard & Engineering Works Limited 20,000 (2009: 20,000) certificates Maturity date: February 04, 2016	6 months KIBOR plus 0.40%	Semi-annually	100,000	100,000
Sui Southern Gas Company limited 110,000 (2009: 110,000) certificates Maturity date: December 31, 2012	3 months KIBOR plus 0.2%	Quarterly	440,000	550,000
House Building Finance Corporation 10,000 (2009: 10,000) certificates Maturity date: May 07, 2014	6 months KIBOR plus 1%	Semi-annually	35,000	45,000
Engro Fertilizers Limited 30,000 (2009: 20,000) certificates Maturity date: September 05, 2015	6 months KIBOR plus 1.50%	Semi-annually	150,000	100,000
Sitara Chemical Industries Limited 20,000 (2009: 20,000) certificates Maturity date: January 02, 2013	3 months KIBOR plus 1%	Quarterly	75,000	100,000
Sitara Energy Limited 3,235 (2009: 4,835) certificates Maturity date: July 23, 2012	6 months KIBOR plus 1.95%	Semi-annually	16,177	24,177

			2010	2009
Name of Companies	Profit Rate	Profit payment	Nominal Value Rupees in '000	
Security Leasing Corporation Limited 6,000 (2009: 6,000) certificates Maturity date: March 18, 2014	6%	Monthly	18,281	22,500
Century Paper and Board Mills Limited 5,000 (2009: 5,000) certificates Maturity date: September 25, 2014	6 months KIBOR plus 1.35%	Semi-annually	20,000	25,000
Shahmurad Sugar Mills Limited 25 (2009: 25) certificates of Rs. 100,000 each Maturity date: September 27, 2012	6 months KIBOR plus 2.25%	Semi-annually	16,667	25,000
Amtex Limited 10,000 (2009: 10,000) certificates Maturity date: October 11, 2012	3 months KIBOR plus 2%	Quarterly	37,500	50,000
Maple Leaf Cement Factory Limited - Sukuk I 10,000 (2009: 10,000) certificates Maturity date: December 03, 2018	3 months KIBOR plus 1%	Quarterly	49,957	50,000
Maple Leaf Cement Factory Limited - Sukuk II 375 (2009: Nil) certificates Maturity date: March 03, 2012	3 months KIBOR plus 1%	Quarterly	1,875	-
Al-Zamin Leasing Modaraba 20,000 (2009: 20,000) certificates Maturity date: November 11, 2013	6 months KIBOR plus 1.9%	Monthly	79,167	97,917
K.S. Sulemanji Esmailji and Sons (Pvt) Limited 6,000 (2009: 6,000) certificates Maturity date: June 30, 2014	3 months KIBOR plus 1.4%	Quarterly	28,500	28,500
Eden Builders Limited 4,800 (2009: 4,800) certificates Maturity date: March 08, 2014	3 months KIBOR plus 2.3%	Quarterly	19,500	24,000
Quetta Textile Mills Limited 30,000 (2009: 30,000) certificates Maturity date: September 26, 2015	6 months KIBOR plus 1.5%	Semi-annually	145,000	150,000
			<u>1,332,624</u>	<u>1,492,094</u>

9.7 Quality of Available for Sale Securities

	2010	2009	2010	2009
	Long / Medium Term Rating (Where available)		Rupees in '000	
Sukuk Bonds / Certificates - (at cost)				
GOP Ijarah Sukuk - I	Unrated	Unrated	200,000	200,000
GOP Ijarah Sukuk - IV	Unrated	Unrated	800,000	800,000
GOP Ijarah Sukuk - V	Unrated	Unrated	1,100,000	-
GOP Ijarah Sukuk - VI	Unrated	Unrated	1,000,000	-
WAPDA II	Unrated	Unrated	100,000	100,000
Karachi Shipyard & Engineering Works Limited	Unrated	Unrated	100,000	100,000
Sui Southern Gas Company Limited	AA	AA	440,000	550,000
House Building Finance Corporation Limited	A+	A+	35,000	45,000
Engro Fertilizers Limited	AA	AA	150,000	100,000
Sitara Chemical Industries Limited	AA-	AA-	75,000	100,000
Sitara Energy Limited	Unrated	Unrated	16,177	24,177
Security Leasing Corporation Limited	Unrated	Unrated	18,281	22,500
Century Paper and Board Mills Limited	A+	A+	20,000	25,000
Shahmurad Sugar Mills Limited	A-	A-	16,667	25,000
Amtex Limited	D	A	37,500	50,000
Maple Leaf Cement Factory Limited	BBB-	-	51,832	50,000
Al-Zamin Leasing Modaraba	Unrated	Unrated	79,167	97,917
K.S. Sulemanji Esmailji and Sons (Pvt) Limited	Unrated	Unrated	28,500	28,500
Eden Builders Limited	A	A	19,500	24,000
Quetta Textile Mills Limited	BBB+	BBB+	145,000	150,000
			4,432,624	2,492,094
Ordinary shares - listed (at market value)				
Lotte Pakistan PTA Limited	Unrated	-	2,740	-
Fauji Fertilizer Bin Qasim Limited	Unrated	-	3,573	-
Lucky Cement Limited	Unrated	-	7,579	-
Pakistan State Oil Company Limited	Unrated	-	14,759	-
Pakistan Petroleum Limited	Unrated	-	10,858	-
Fauji Fertilizer Company Limited	Unrated	-	12,586	-
Pakistan Oilfields Limited	AA+	-	14,798	-
Oil and Gas Development Company Limited	AAA	-	17,083	-
Pakistan Telecommunication Company Limited	Unrated	-	2,913	-
D.G. Khan Cement Company Limited	Unrated	-	3,017	-
			89,906	-
Units of open-end mutual funds (at market value)				
Dawood Islamic Fund	Unrated	Unrated	279,563	296,842
KASB Islamic Income Opportunity Fund (Formerly: KASB Islamic Income Fund)	Unrated	Unrated	97,234	97,815
			376,797	394,657
			4,899,327	2,886,751
Less: Provision for diminution in the value of investments			(48,453)	(25,000)
			<u>4,850,874</u>	<u>2,861,751</u>

9.8 Particulars of provision for diminution in the value of investments Note

Opening balance		25,000	-
Charge for the year		43,078	25,000
Reversals		(19,625)	-
		23,453	25,000
Closing balance	9.8.1	<u>48,453</u>	<u>25,000</u>

9.8.1 Particulars of provision for diminution in the value of investments by type and segment

Unlisted Sukuk certificates - available-for-sale investments		<u>48,453</u>	<u>25,000</u>
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9.9 Unrealised gain / (loss) on revaluation of held-for-trading securities:

Investee company	Unrealised gain / (loss)		Cost	
	2010	2009	2010	2009
----- Rupees in '000 -----				
D.G. Khan Cement Company Limited	(50)	-	1,559	-

10. FINANCINGS	Note	2010	2009
----- Rupees in '000 -----			
In Pakistan			
- Murabaha	10.1 & 10.2	3,238,039	1,521,565
- Diminishing Musharika		2,121,343	2,256,847
- Net investment in Ijarah	10.3	497,059	579,840
- Modaraba		294,155	582,065
- Staff finance	10.4	86,253	61,126
Financings - gross		6,236,849	5,001,443
Provision against non-performing financings	10.6 & 10.7	(620,647)	(237,821)
Financings - net of provision		5,616,202	4,763,622

10.1 Murabaha sale price	6,835,200	3,518,391
Purchase price	6,366,180	3,180,062
	469,020	338,329

10.1.1 Deferred Murabaha income			
Opening balance		78,126	120,250
Arising during the year		469,020	338,329
Recognised during the year		(367,159)	(380,453)
		179,987	78,126

10.1.2 Murabaha receivable			
Opening balance		1,521,565	2,419,839
Sales during the year		6,835,200	3,518,391
Received during the year		(5,118,726)	(4,416,665)
		3,238,039	1,521,565

10.2 This includes financings amounting to Rs. 379.257 million (2009: Rs. 94.380 million) against Murabaha under Islamic Export Refinance Scheme.

	Note	2010	2009
----- Rupees in '000 -----			
10.3 Net Investment in Ijarah			
- Ijarah under Finance Method	10.3.1	257,666	508,087
- Ijarah accounted for under IFAS-2	10.3.2	239,393	71,753
		497,059	579,840

Brief description of the ijarah arrangements

Ijarah contracts entered into by the Bank essentially represent arrangements whereby the Bank (being the owner of assets) transfers its usufruct to its customers for an agreed period at an agreed consideration. The significant ijarah contracts entered into by the Bank are with respect to vehicles, plant and machinery and equipment and are for periods ranging from 3 to 5 years.

10.3.1 Net investment in Ijarah - Ijarah under finance method

	2010				2009			
	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	77,736	206,787	-	284,523	254,361	277,033	-	531,394
Residual value	38,673	20,071	-	58,744	6,349	58,723	-	65,072
Minimum ijarah payments	116,409	226,858	-	343,267	260,710	335,756	-	596,466
Less: Profits for future periods	16,257	69,344	-	85,601	50,826	37,553	-	88,379
Present value of minimum ijarah payments	100,152	157,514	-	257,666	209,884	298,203	-	508,087

10.3.2 Net investment in Ijarah - Ijarah accounted for under IFAS-2

		2010	2009
	Note	Rupees in '000	
Movement in net book value of ijarah assets			
Asset under Ijarah			
Opening Balance		99,956	-
Ijarah disbursed during the year		216,272	99,956
Closing Balance		316,228	99,956
Accumulated depreciation			
Opening Balance		28,203	-
Charged during the year		48,632	28,203
Closing Balance		76,835	28,203
Net Investment in Ijarah - accounted for under IFAS-2	10.3.3	<u>239,393</u>	<u>71,753</u>

10.3.3 Net investment in Ijarah - accounted for Ijarah under IFAS-2

	2010				2009			
	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	<u>105,301</u>	<u>134,092</u>	-	<u>239,393</u>	<u>51,187</u>	<u>20,566</u>	-	<u>71,753</u>

		2010	2009
	Note	Rupees in '000	
10.4 Staff Finance			
Staff Ijarah under Finance Method	10.4.1	458	2,206
Staff Ijarah accounted for under IFAS-2	10.4.2	3,968	5,049
Staff Housing Finance under diminishing musharika		81,827	53,871
		<u>86,253</u>	<u>61,126</u>

10.4.1 Staff Finance - Ijarah under finance method

	2010				2009			
	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	187	303	-	490	630	1,753	-	2,383
Residual value	-	-	-	-	-	-	-	-
Minimum ijarah payments	187	303	-	490	630	1,753	-	2,383
Less: Profits for future periods	19	13	-	32	88	89	-	177
Present value of minimum ijarah payments	<u>168</u>	<u>290</u>	-	<u>458</u>	<u>542</u>	<u>1,664</u>	-	<u>2,206</u>

10.4.2 Staff Finance- Ijarah accounted for under IFAS-2

		2010	2009
Movement in net book value of ijarah assets	Note	Rupees in '000	
Assets under Ijarah			
Opening Balance		5,502	-
Ijarah disbursed during the year		2,264	
Disposals during the year		(2,482)	5,502
Closing Balance		5,284	5,502
Accumulated depreciation			
Opening Balance		453	-
Charged during the year		863	453
Closing Balance		1,316	453
	10.4.3	3,968	5,049

10.4.3 Staff Finance- Ijarah accounted for under IFAS-2

	2010				2009			
	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	1,319	2,649	-	3,968	1,222	3,827	-	5,049

10.5 Particulars of financings

	2010	2009
	Rupees in '000	
In local currency	6,236,849	5,001,443
In foreign currencies	-	-
	6,236,849	5,001,443
Short Term	3,532,194	2,043,883
Long Term	2,704,655	2,957,560
	6,236,849	5,001,443

10.6 Financings include Rs.1,153.118 million (2009: Rs. 731.748 million) which have been placed under non-performing status as detailed below:-

Category of Classification	2010								
	Classified Financings		Provision Required		Provision Held				
	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	
	Rupees in '000								
Substandard	216,716	-	216,716	33,149	-	33,149	33,149	-	33,149
Doubtful	475,524	-	475,524	206,262	-	206,262	206,262	-	206,262
Loss	460,878	-	460,878	378,352	-	378,352	378,352	-	378,352
	1,153,118	-	1,153,118	617,763	-	617,763	617,763	-	617,763

Category of Classification	2009								
	Classified Financings		Provision Required		Provision Held				
	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas	
	Rupees in '000								
Substandard	395,850	-	395,850	78,397	-	78,397	78,397	-	78,397
Doubtful	188,349	-	188,349	61,983	-	61,983	61,983	-	61,983
Loss	147,549	-	147,549	94,557	-	94,557	94,557	-	94,557
	731,748	-	731,748	234,937	-	234,937	234,937	-	234,937

10.6.1 As per instructions of the State Bank of Pakistan a restructured facility amounting to Rs. 342.412 million (2009: Nil) allowed to a customer has been placed under the 'Special Mention Category'.

10.6.2 The State Bank of Pakistan vide BSD circular No. 10 of 2009 dated October 20, 2009 has allowed banks to avail the benefit of 40% of the forced sales values of certain collaterals mortgaged with them while determining provisioning requirement against non-performing financings. However, as per the circular the Banks may avail the benefit of provisioning subject to the condition that it shall not be available for the payment of cash or stock dividend. As allowed under the circular the Bank has availed benefit of forced sale values amounting to Rs. 168.433 million (2009: Rs. 132.101 million) in determining the provisioning against non-performing financings as at December 31, 2010.

10.7 Particulars of provision against financings

	2010			2009		
	Specific	General	Total	Specific	General	Total
	..... Rupees in '000					
Opening balance	234,937	2,884	237,821	2,848	2,884	5,732
Charge for the year	460,822	-	460,822	232,089	-	232,089
Reversals	(77,996)	-	(77,996)	-	-	-
	382,826	-	382,826	232,089	-	232,089
Closing balance	617,763	2,884	620,647	234,937	2,884	237,821

10.7.1 General provision is held against consumer finance portfolio calculated in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

10.7.2 Particulars of provisions against financings with respect to currencies

	2010			2009		
	Specific	General	Total	Specific	General	Total
	..... Rupees in '000					
In local currency	617,763	2,884	620,647	234,937	2,884	237,821
In foreign currencies	-	-	-	-	-	-
	617,763	2,884	620,647	234,937	2,884	237,821

10.7.3 Although the Bank has made provision against its non-performing portfolio as per the category of classification of the financing, the Bank holds enforceable collateral in the event of recovery through litigation. These securities comprise of charge against various tangible assets of the finnee including land, building and machinery, stock in trade etc.

10.8 Particulars of financings to Directors, executives, associated companies, etc.

Due from directors, executives or officers of the Bank or any of them either severally or jointly with any other persons	Note	2010	2009
		..... Rupees in '000	
Balance at beginning of year		61,126	64,528
Disbursements during the year		57,047	11,079
Repayments		(31,920)	(14,481)
Balance at end of the year		86,253	61,126

11 OPERATING FIXED ASSETS

Capital work-in-progress	11.1	40,151	27,315
Property and equipment	11.2	568,396	495,214
Intangible assets	11.3	38,098	78,097
		646,645	600,626

11.1 Capital work-in-progress

Civil works	24,208	16,223
Advance for computer hardware	7,093	7,474
Advance for computer software	8,850	385
Advance for vehicles	-	3,233
	40,151	27,315

11.2 Property and equipment

	2010							
	Cost			Depreciation			Book value	
	as at January 1, 2010	Additions/ (Disposals) during the year	as at December 31, 2010	as at January 1, 2010	Charge for the year	as at December 31, 2010	as at December 31, 2010	Rate of Depreciation %
	Rupees in '000							
Leasehold improvements	311,343	44,574	355,917	36,635	34,141	70,776	285,141	10
Furniture and fixtures	51,391	13,062 (443)	64,010	6,293	6,220 (37)	12,476	51,534	10
Office equipment	53,964	18,099	72,063	6,356	7,078	13,434	58,629	10
Computer equipment	149,742	56,434 (273)	205,903	82,694	47,678 (141)	130,231	75,672	33.33
Vehicles	78,265	57,945 (11,000)	125,210	17,513	15,738 (5,461)	27,790	97,420	20
	644,705	190,114 (11,716)	823,103	149,491	110,855 (5,639)	254,707	568,396	

	2009							
	Cost			Depreciation			Book value	
	as at January 1, 2009	Additions/ (Disposals) during the year	as at December 31, 2009	as at January 1, 2009	Charge for the year	as at December 31, 2009	as at December 31, 2009	Rate of Depreciation %
	Rupees in '000							
Leasehold improvements	162,362	148,981	311,343	15,223	21,412	36,635	274,708	10
Furniture and fixtures	27,947	23,586 (142)	51,391	2,463	3,876 (46)	6,293	45,098	10
Office equipment	27,974	25,990	53,964	2,655	3,701	6,356	47,608	10
Computer equipment	100,595	50,049 (902)	149,742	44,961	38,518 (785)	82,694	67,048	33.33
Vehicles	62,230	30,198 (14,163)	78,265	13,699	9,820 (6,006)	17,513	60,752	20
	381,108	278,804 (15,207)	644,705	79,001	77,327 (6,837)	149,491	495,214	

11.2.1 The cost of fully depreciated assets still in use amounts to Rs. 66.532 million (2009: Rs. 40.430 million).

11.3 Intangible Assets	2010							
	Cost			Amortisation			Book value	
	as at January 1, 2010	Additions/ (Disposals) during the year	as at December 31, 2010	as at January 1, 2010	Charge for the year	as at December 31, 2010	as at December 31, 2010	Rate of Amortisation %
Computer Software	174,256	11,193	185,449	96,159	51,192	147,351	38,098	33.33

	2009							
	Cost			Amortisation			Book value	
	as at January 1, 2009	Additions/ (Disposals) during the year	as at December 31, 2009	as at January 1, 2009	Charge for the year	as at December 31, 2009	as at December 31, 2009	Rate of Amortisation %
Computer Software	132,353	41,903	174,256	47,972	48,187	96,159	78,097	33.33

11.3.1 The cost of fully amortised assets still in use amounts to Rs. 107.083 million (2009: 14.523 million).

11.4 Details of disposal of fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or above are as follows:

Description	Cost	Accumulated Depreciation	Net Book Value	Sale Proceeds	Mode of Disposal	Particulars of Purchasers
	..... Rupees in '000					
Furniture and Fixtures						
Items having cost of less than Rs. 1,000,000 or book value of less than Rs. 250,000	443	37	406	401	Bank's Policy	Various
Office Equipment						
Items having cost of less than Rs. 1,000,000 or book value of less than Rs. 250,000	273	141	132	159	Insurance Claim	Various
Vehicles						
Honda City	915	404	511	522	Bank's Policy	Imran Haider Naqvi (Ex Employee)
Honda City	916	469	447	469	Bank's Policy	Kanwar Shehzad (Ex Employee)
Honda Civic	1,390	366	1,024	1,200	Bank's Policy	Omar Bangash (Ex Employee)
Suzuki Cultus	662	182	480	480	Bank's Policy	Habib Ur Rehman (Employee)
Honda City	1,061	655	406	405	Bank's Policy	Ashfaq Ahmed (Ex Employee)
Honda City	1,026	622	404	403	Bank's Policy	Mustajab ur rab khan (Employee)
Honda City	916	513	403	403	Bank's Policy	Syed Ali Asad (Ex Employee)
Honda City	1,036	641	395	395	Bank's Policy	Shaikh Masood (Employee)
Honda City	1,076	346	730	730	Bank's Policy	Muhammad Saeed (Ex Employee)
Toyota Corolla	1,024	646	378	391	Bank's Policy	S. M. Riaz ul Hasan (Employee)
Honda City	978	617	361	361	Bank's Policy	Syed M. Azhar (Employee)
	<u>11,000</u>	<u>5,461</u>	<u>5,539</u>	<u>5,759</u>		
	<u>11,716</u>	<u>5,639</u>	<u>6,077</u>	<u>6,319</u>		

12 DEFERRED TAX ASSETS - NET

	Note	2010	2009
		..... Rupees in '000	
Deferred credits arising due to			
Accelerated tax depreciation on operating fixed assets		(30,109)	(32,810)
Surplus on revaluation of investments		(6,657)	(4,466)
Accelerated depreciation on Ijarah assets		-	(8,679)
Deferred debits arising in respect of			
Accelerated depreciation on Ijarah assets		4,782	-
Minimum tax liability		-	5,897
Provision for diminution in the value of investments		16,959	-
Provision against non-performing financings		178,800	63,726
Available tax losses	12.1	229,341	82,601
		<u>393,116</u>	<u>106,269</u>

12.1 The Bank has an aggregate amount of Rs 655.260 million (2009: Rs 236.002 million) in respect of tax losses as at December 31, 2010. The management carries out periodic assessment to assess the benefit of these losses as the Bank would be able to set off the profit earned in future years against these carry forward losses. Based on this assessment the management has recognised deferred tax debit balance on losses amounting to Rs 229.341 million (2009: Rs 82.601 million) [including on unabsorbed tax depreciation of Rs 306.595 million (2009: Rs 191.806 million)]. The amount of this benefit has been determined based on the projected financial statements for the future period. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio of the Bank, deposit composition, kibar rates, growth of deposits and advances, investment returns, product mix of advances, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.

		2010	2009 (Restated)	2008 (Restated)
13 OTHER ASSETS	Note	Rupees in '000		
Profit / Return accrued in local currency	39	167,030	189,659	160,074
Advances, deposits, advance rent and other prepayments	13.1	1,367,269	334,017	249,962
Advance taxation (payments less provision)		28,788	15,434	15,732
Unrealized gain on forward foreign exchange contracts		-	1,139	-
Deferred costs	13.2	8,234	14,822	21,410
Others		15,690	10,057	6,881
		<u>1,587,011</u>	<u>565,128</u>	<u>454,059</u>
Less: Provision held against other assets	13.3	(22,848)	-	-
Other assets (net of provisions)		<u>1,564,163</u>	<u>565,128</u>	<u>454,059</u>

13.1 This includes advance against future financings amounting to Rs. 1,194.869 million (2009: Rs. 89.615 million).

13.2 Deferred costs

This represents preliminary / pre-commencement expenses incurred upto April 09, 2007 (i.e. date of grant of Islamic Banking license by SBP) and are being amortised over a period of five years:

	2010	2009
	Rupees in '000	
Opening balance	14,822	21,410
Less: Amortised during the year	(6,588)	(6,588)
Closing balance	<u>8,234</u>	<u>14,822</u>

13.3 Provision held against other assets

Opening balance	-	-
Charge for the year	23,102	-
Reversals	(254)	-
Closing balance	<u>22,848</u>	<u>-</u>

		2010	2009
14	BILLS PAYABLE		
		..... Rupees in '000.....	
	In Pakistan	86,867	58,263
	Outside Pakistan	-	-
		<u>86,867</u>	<u>58,263</u>
15	DUE TO FINANCIAL INSTITUTIONS		
	In Pakistan	287,291	1,094,375
	Outside Pakistan	-	-
		<u>287,291</u>	<u>1,094,375</u>
15.1	Particulars of due to financial institutions with respect to currencies		
	In local currency	287,291	1,094,375
	In foreign currencies	-	-
		<u>287,291</u>	<u>1,094,375</u>
15.2	Details of due to financial institutions - Secured / Unsecured		
	Secured		
	Musharika from State Bank of Pakistan under Islamic Export Refinance Scheme	15.2.1 287,291	94,375
	Unsecured		
	Modaraba	-	700,000
	Musharika	-	300,000
		<u>287,291</u>	<u>1,094,375</u>
15.2.1	The Musharika is on profit and loss sharing basis maturing within four months (2009: four months) and is secured against demand promissory note executed in favor of State Bank of Pakistan. SBP has the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. A limit of Rs. 400 million (2009: Rs. 200 million) had been allocated to the bank by SBP under Islamic Export Refinance Scheme for the year 2010.		
16	DEPOSITS AND OTHER ACCOUNTS	2010	2009
		..... Rupees in '000.....	
	Customers		
	Fixed deposits	5,605,366	2,814,117
	Savings deposits	4,724,455	1,500,343
	Current accounts - Non-remunerative	1,722,559	730,568
	Margin deposits	11,162	10,732
		12,063,542	5,055,760
	Financial Institutions		
	Remunerative deposits	555,383	1,717,309
	Non - remunerative deposits	17,158	11,681
		<u>12,636,083</u>	<u>6,784,750</u>
16.1	Particulars of deposits		
	In local currency	12,338,940	6,658,626
	In foreign currencies	297,143	126,124
		<u>12,636,083</u>	<u>6,784,750</u>

18. SHARE CAPITAL

18.1 Authorized Capital

2010	2009		2010	2009
Numbers of Shares			..... Rupees in '000	
<u>1,200,000,000</u>	<u>1,200,000,000</u>	Ordinary shares of Rs. 10 each	<u>12,000,000</u>	<u>12,000,000</u>

18.2 Issued, subscribed and paid-up Capital

<u>501,045,824</u>	<u>501,045,824</u>	Ordinary shares - Fully paid in cash	<u>5,010,458</u>	<u>5,010,458</u>
<u>501,045,824</u>	<u>501,045,824</u>		<u>5,010,458</u>	<u>5,010,458</u>

18.3 The movement in the issued, subscribed and paid-up capital during the year is as follows:

	2010	2009
	Number of Shares	
Opening balance at January 01	501,045,824	400,133,316
Shares issued during the year	-	100,912,508
Closing balance as at December 31	<u>501,045,824</u>	<u>501,045,824</u>

18.4 The State Bank of Pakistan (SBP) vide BSD Circular No. 7 of 2009 dated April 15, 2009 has revised the Minimum Capital Requirement (MCR) for the Banks. As per this circular the Bank was required to have a minimum issued, subscribed and paid-up capital (net of losses) of Rs. 7 billion by December 31, 2010 and is required to raise it to Rs. 10 billion in a phased manner by December 31, 2013. The paid-up capital of the Bank (net of losses) amounted to Rs. 4.249 billion as at December 31, 2010. The Board of Directors in their meeting held on February 17, 2011 have decided to inject an additional Rs. 1.8 billion in the Bank through issuance of right shares. The Bank also wrote to the SBP seeking exemption in meeting minimum capital requirement beyond Rs. 6 billion. The SBP vide its letter No. BSD/BAI-3/608/2654/2011 dated March 4, 2011 has granted extension to the Bank in meeting MCR till June 30, 2011 provided that the Bank completes all formalities of the proposed right issue and raise its capital (net of losses) to Rs. 6 billion by June 30, 2011. SBP has further specified that it can consider facilitating the Bank by granting suitable relaxation in meeting the MCR of Rs.10 billion provided the Bank achieves the target of Rs.6 billion (net of losses) by June 30, 2011. The issue of right shares at a discounted price of Rs. 7.5 per share was approved by the Board in its meeting held on March 6, 2011. The Bank expects that the process of issuance of right shares will be completed by June 30,2011.

19 SURPLUS ON REVALUATION OF ASSETS

	2010	2009
	..... Rupees in '000	
Available for sale securities		
Listed shares	4,677	-
Units of open end mutual funds	61,896	44,657
	66,573	44,657
Related deferred tax liability	(6,657)	(4,466)
	<u>59,916</u>	<u>40,191</u>

	2010	2009
20 CONTINGENCIES AND COMMITMENTS	..... Rupees in '000.....	
20.1 Direct Credit Substitutes	<u>18,545</u>	<u>-</u>
20.2 Transaction-related Contingent Liabilities		
Guarantees favoring - beneficiary		
(i) Government	103,854	1,310,807
(ii) Others	44,616	14,034
	<u>148,470</u>	<u>1,324,841</u>
20.3 Trade-related contingent liabilities		
Import letters of credit	357,325	278,097
Acceptances	42,193	1,542
	<u>399,518</u>	<u>279,638</u>
20.4 Other Contingencies	<u>-</u>	<u>-</u>
20.5 Commitments in respect of forward lending	<u>-</u>	<u>-</u>
20.6 Commitments in respect of forward exchange contracts		
Purchase	-	25,251
Sale	-	169,030
	<u>-</u>	<u>194,281</u>
20.7 Commitments in respect of operating leases	<u>-</u>	<u>-</u>
20.8 Commitments for the acquisition of operating fixed assets		
Civil works	1,105	71,592
Acquisition of computer hardware	9,250	38,018
Acquisition of computer software	4,012	3,055
	<u>14,367</u>	<u>112,665</u>
20.9 Other commitments	<u>-</u>	<u>-</u>
20.10 Commitments to extend credit		
The Bank makes commitment(s) to extend credit in the normal course of business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
21 PROFIT / RETURN EARNED	..... Rupees in '000.....	
On financings to customers	630,063	674,036
On investments in		
- held-for-trading securities	364	-
- available-for-sale securities	321,700	270,165
On deposits with financial institutions	2,468	55,444
On inter-bank murabaha / modaraba / musharika agreements	308,866	132,228
	<u>1,263,461</u>	<u>1,131,873</u>

		2010	2009	
22	PROFIT / RETURN EXPENSED			
		Note Rupees in '000		
	On deposits	701,715	630,978	
	On borrowings from financial institutions	24,610	19,774	
		<u>726,325</u>	<u>650,752</u>	
23	GAIN ON SALE OF SECURITIES			
	Federal Government Securities - Sukuk bonds	438	-	
	Shares / units of open end mutual funds - listed	1,777	-	
		<u>2,215</u>	<u>-</u>	
24	OTHER INCOME			
	Fees	3,185	869	
	Rental income	197	172	
	Gain on sale of property and equipment	242	798	
	Swift charges recovered	530	340	
	Others	20,258	4,767	
		<u>24,412</u>	<u>6,946</u>	
25	ADMINISTRATIVE EXPENSES			
	Salaries, allowances, etc.	25.1	303,436	206,798
	Remuneration to shariah advisor		3,265	2,656
	Contribution to defined contribution plan	31	13,371	9,088
	Non-executive directors' fees, allowances and other expenses		6,514	9,050
	Rent, taxes, insurance, electricity, etc.		218,724	127,136
	Legal and professional charges		26,557	18,305
	Communications		70,139	38,440
	Fees and subscription		6,842	8,326
	Repairs and maintenance		45,523	34,505
	Traveling and conveyance		26,765	20,214
	Stationery and printing		10,169	7,480
	Advertisement and publicity		9,894	23,075
	Brokerage and commission		2,766	4,333
	Service utilization charges		23,397	12,947
	Auditors' remuneration	25.2	3,198	2,507
	Depreciation	11.2	110,855	77,327
	Amortisation of intangible assets and deferred costs	25.3	57,780	54,775
	Security service charges		27,153	14,868
	Others		20,244	13,847
			<u>986,592</u>	<u>685,677</u>
25.1	This includes Rs. 1.801 million (2009: Rs. 1.063 million) in respect of Contribution to Employees' Old Age Benefit Institution.			
25.2	Auditors' remuneration			
		Note Rupees in '000		
	Audit fee		1,100	1,050
	Fee for interim review		350	350
	Special certifications and sundry advisory services		1,570	872
	Out-of-pocket expenses		178	235
			<u>3,198</u>	<u>2,507</u>
25.3	Amortisation			
	Deferred costs	13.2	6,588	6,588
	Intangible assets	11.3	51,192	48,187
			<u>57,780</u>	<u>54,775</u>
26	OTHER CHARGES			
	Penalties imposed by the State Bank of Pakistan		10,237	325

27	TAXATION	Note	2010	2009
			.....Rupees in '000	
	For the year			
	Current	27.1	-	(6,822)
	Deferred		289,038	119,347
	Prior years		-	-
			<u>289,038</u>	<u>112,525</u>

27.1 Provision for minimum tax as required under Section 113 of the Income Tax Ordinance, 2001 has not been made in these financial statements as the minimum tax is not applicable to the Bank for the current year in accordance with Section 113(1) of the Income Tax Ordinance, 2001.

27.2 Relationship between tax expense and accounting profit

Numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as the Bank has accumulated losses in prior years and the Bank has incurred taxable loss for the year ended December 31, 2010.

28	EARNINGS PER SHARE - Basic / Diluted	Note	2010	2009
			.....Rupees in '000	
	Loss after taxation for the year		<u>(535,522)</u>	<u>(292,627)</u>
			Number of shares	
	Weighted average number of ordinary shares		<u>501,045,824</u>	<u>484,227,000</u>
			Rupees	
	Basic / diluted loss per share		<u>(1.069)</u>	<u>(0.604)</u>

There were no convertible / dilutive potential ordinary shares outstanding as at December 31, 2010 and December 31, 2009.

29	CASH AND CASH EQUIVALENTS	Note	2010	2009
			.....Rupees in '000	
	Cash and balances with treasury banks		1,324,461	675,988
	Balances with other banks		400,468	577,349
			<u>1,724,929</u>	<u>1,253,337</u>
	30 STAFF STRENGTH		Number of employees	
	Permanent		452	431
	Temporary / on contractual basis		21	18
	Bank's own staff strength at the end of the year		<u>473</u>	<u>449</u>
	Outsourced		110	61
	Total staff strength		<u>583</u>	<u>510</u>

31 DEFINED CONTRIBUTION PLAN

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

31	DEFINED CONTRIBUTION PLAN	Note	2010	2009
			.....Rupees in '000	
	Contribution made by the Bank		13,371	9,088
	Contribution made by the employees		13,371	9,088
			<u>26,742</u>	<u>18,176</u>

32 COMPENSATION OF DIRECTORS AND EXECUTIVES

	2010			2009		
	President / Chief Executive	Directors	Executives	President / Chief Executive	Directors	Executives
	Rupees in '000			Rupees in '000		
Fees	-	6,514	-	-	9,050	-
Managerial remuneration	14,400	-	65,252	4,954	-	57,542
Contribution to defined contribution plan	1,440	-	6,525	495	-	4,723
Rent and house maintenance	6,480	-	29,363	1,182	-	25,147
Utilities	1,440	-	6,525	169	-	5,588
Medical	1,440	-	6,525	476	-	5,588
Fuel and conveyance	311	-	2,280	244	-	9,067
Others	157	-	887	70	-	3,087
	<u>25,668</u>	<u>6,514</u>	<u>117,357</u>	<u>7,590</u>	<u>9,050</u>	<u>110,742</u>
Number of persons	<u>1</u>	<u>10</u>	<u>81</u>	<u>2</u>	<u>10</u>	<u>59</u>

32.1 The Chief Executive and certain executives have been provided with the free use of Bank maintained cars.

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Fair values of financings cannot be determined with reasonable accuracy due to absence of current and active market. The provisions against financings have been calculated in accordance with the accounting policy as stated in note 5.3 to these financial statements. The repricing, maturity profile and effective rates are stated in note 37 to these financial statements.

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

	2010		2009	
	Book value	Fair value	Book value	Fair value
	Rupees in '000			
33.2 Off-balance sheet financial instruments				
Forward purchase of foreign exchange	-	-	25,251	25,272
Forward agreements for borrowing	-	-	-	-
Forward sale of foreign exchange	-	-	169,030	167,641
Forward agreements for lending	-	-	-	-

34. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	2010				Total
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	
	Rupees in '000				
Total income	1,667	650,963	31,059	644,032	1,327,721
Total expenses	885	379,870	1,123,945	358,543	1,863,243
Net income / (loss)	782	271,093	(1,092,886)	285,489	(535,522)
Segment Assets (Gross)	-	5,710,909	4,102,030	8,554,695	18,367,634
Segment non-performing financings	-	-	61,504	1,091,614	1,153,118
Segment provision required and held	-	48,453	37,011	606,484	691,948
Segment Liabilities	-	29,754	12,824,957	494,992	13,349,703
Segment Return on net Assets (%)	-	4.81	(12.48)	3.83	(12.38)
Segment Cost of funds (%)	-	8.59	8.59	8.59	8.59

	2009				Total
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	
	Rupees in '000				
Total income	1,626	434,291	63,502	689,272	1,188,691
Total expenses	784	254,296	892,041	334,197	1,481,318
Net income / (loss)	842	179,995	(828,539)	355,075	(292,627)
Segment Assets (Gross)	-	3,585,280	3,587,809	6,098,407	13,271,496
Segment non-performing financings	-	-	83,376	648,372	731,748
Segment provision required and held	-	25,000	28,103	209,718	262,821
Segment Liabilities	-	1,008,281	6,917,124	241,490	8,166,895
Segment Return on net Assets (%)	-	7.05	(24.68)	6.29	(6.04)
Segment Cost of funds (%)	-	11.49	11.49	11.49	11.49

35. RELATED PARTY TRANSACTIONS

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

The Bank has related party relationship with its shareholders, directors, associated undertakings, employee benefit plans, and its key management personnel (including their associates).

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

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

35.1 The details of transactions with related parties and balances with them, apart from compensation to executives as disclosed in note 32 are given below:

	2010					2009						
	Associated companies	Directors	Shareholders	Key management personnel**	Others	Total	Associated companies	Directors	Shareholders	Key management personnel	Others	Total
	Rupees in '000											
Financings												
As at January 01	-	-	-	61,126	-	61,126	-	-	-	64,528	-	64,528
Disbursed during the year	-	-	-	107,730	-	107,730	-	-	-	11,079	-	11,079
Repaid during the year	-	-	(13,500)	(67,742)	-	(81,242)	-	-	-	(14,481)	-	(14,481)
Adjustments*	-	-	27,000	(40,714)	-	(13,714)	-	-	-	-	-	-
As at December 31	-	-	13,500	60,400	-	73,900	-	-	-	61,126	-	61,126
Deposits												
As at January 01	574,098	16,385	-	12,798	-	603,281	163,340	9,089	-	6,803	-	179,232
Received during the year	911,738	43,921	2,258,243	560,986	25,025	3,799,913	71,994,112	322,492	-	160,962	-	-72,477,566
Withdrawals during the year	(945,311)	(47,946)	(2,516,781)	(553,832)	(20,505)	(4,084,375)	(71,583,354)	(315,196)	-	(154,967)	-	(72,053,517)
Adjustments*	(456,140)	(8,321)	290,360	18,351	-	(155,750)	-	-	-	-	-	-
As at December 31	84,385	4,039	31,822	38,303	4,520	163,069	574,098	16,385	-	12,798	-	603,281
Investments												
As at January 01	550,000	-	-	-	-	550,000	550,000	-	-	-	-	550,000
Redemptions during the year	(18,750)	-	-	-	-	(18,750)	-	-	-	-	-	-
Adjustments*	(452,083)	-	-	-	-	(452,083)	-	-	-	-	-	-
As at December 31	79,167	-	-	-	-	79,167	550,000	-	-	-	-	550,000
Commodity Murabaha												
As at January 01	-	-	-	-	-	-	-	-	-	-	-	-
Disbursements	-	-	-	-	-	-	30,000	-	-	-	-	30,000
Repayments	-	-	-	-	-	-	(30,000)	-	-	-	-	(30,000)
As at December 31	-	-	-	-	-	-	-	-	-	-	-	-
Others												
Guarantees outstanding	-	-	-	-	-	-	1,135,921	-	-	-	-	1,135,921
Security deposits	-	-	19,350	-	-	19,350	-	-	19,653	-	-	19,653
Other receivables	-	-	908	-	-	908	-	-	-	-	-	-
Provision held against sukuks	19,792	-	-	-	-	19,792	-	-	-	-	-	-
Transactions during the year												
Profit earned on financings	-	-	3,481	4,623	-	8,104	-	-	-	1,860	-	1,860
Income from commodity murabaha	-	-	-	-	-	-	39	-	-	-	-	39
Commission earned on guarantees	-	-	-	-	-	-	6,309	-	-	-	-	6,309
Profit expensed on deposits	116	418	11,728	7,126	191	19,579	101,570	395	-	1,328	-	103,293
Rent paid	-	-	40,289	-	-	40,289	-	-	30,155	-	-	30,155
Sale of sukuks	-	-	-	4,348	-	4,348	-	-	-	-	-	-
Contribution made to provident fund	-	-	-	-	26,742	26,742	-	-	-	-	18,176	18,176

* Primarily relates to those directors, associates and key management personnel who are no longer related parties or have become related parties of the Bank as at December 31, 2010.

** These include balances and transaction with Chief Executive Officer of the Bank.

36 CAPITAL ASSESSMENT AND ADEQUACY

36.1 Capital management

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

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

36.2 Goals of managing capital

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

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

36.3 Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 7 dated April 2009 requires the minimum paid-up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs 10 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs 7 billion paid-up capital (net of losses) by the end of the financial year 2010. The paid-up capital (net of losses) of the Bank for the year ended December 31, 2010 stood at Rs 4.249 billion (excluding surplus on revaluation of securities amounting to Rs 59.916 million). The steps being taken up by the Bank to achieve compliance with the SBP requirements are explained in note 18.4. In addition, the banks are also required to maintain Capital Adequacy Ratio (CAR) of 10 percent of the risk weighted exposure of the Bank. The Bank's CAR as at December 31, 2010 was approximately 38.44 percent of its risk weighted exposure.

36.4 Capital Structure

Banks' Regulatory Capital has been analysed into three tiers i.e.:

- Tier-I Capital, which includes fully paid-up capital, general reserves and unappropriated profits (net of losses) etc. after deduction for certain specified items such as book value of intangibles, etc.
- Tier-II Capital, which includes general provision for loan losses (upto a maximum of 1.25% of total risk weighted assets) and reserve on revaluation of equity investments after deduction of deficit on available-for-sale investments (upto a maximum of 45%).
- Tier-III Capital has also been prescribed by SBP for managing Market Risk; however the Bank does not have Tier III capital.

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

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

36.5 Capital adequacy ratio

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

Regulatory Capital Base

	2010	2009
	.....Rupees in '000.....	
Tier-I Capital		
Issued, subscribed and paid-up capital	5,010,458	5,010,458
Reserves as disclosed on the Statement of Financial Position	16,751	16,751
Accumulated loss	(761,142)	(225,620)
Other deductions:		
Book value of intangible assets (computer software)	(46,948)	-
Total Tier-I Capital	4,219,119	4,801,589
Tier-II Capital		
General provisions for loan losses up to maximum of 1.25% of Risk Weighted Assets	2,884	2,884
Revaluation Reserves up to 45%	26,962	18,086
Other Deductions	-	-
Total Tier-II Capital	29,846	20,970
Eligible Tier-III Capital	-	-
Total Regulatory Capital Base	(a) <u>4,248,965</u>	<u>4,822,559</u>

Risk-weighted exposures

Credit risk	2010		2009	
	Capital Requirement	Risk adjusted value	Capital Requirement	Risk adjusted value
Portfolios subject to standardized approach (Simple Approach for CRM)	..... Rupees in '000 .....		..... Rupees in '000	
On-Balance Sheet Items:				
Banks and securities firms	62,495	624,953	69,474	694,739
Corporate portfolio	421,551	4,215,510	401,403	4,014,033
Retail non-mortgages	441	4,406	2,283	22,827
Mortgages – residential	3,967	39,673	3,226	32,264
Fixed assets	59,970	599,697	60,063	600,626
Other assets	195,728	1,957,279	72,447	724,468
Past due exposures	55,892	558,924	57,264	572,638
Off balance sheet items:				
Non-market related:-				
Performance-related contingencies	8,722	87,221	23,086	230,855
Trade-related contingencies	5,073	50,733	11,417	114,174
Other Commitments	1,437	14,367	-	-
Market risk				
Capital requirement for portfolios subject to standardized approach				
Interest rate risk	111,635	893,081	104,753	838,026
Equity position risk	117,053	936,424	98,666	789,325
Foreign exchange risk	5,998	47,985	6,652	53,213
Operational risk				
Capital Requirement for operational risks subject to Basic Indicator Approach				
	127,779	1,022,232	96,624	772,988
Total	(b)	<u>1,177,741</u>	<u>11,052,485</u>	<u>1,007,358</u>
Capital adequacy ratio				
Total eligible regulatory capital held	(a)	4,248,965	4,822,559	
Total risk weighted assets	(b)	<u>11,052,485</u>	<u>9,460,176</u>	
Capital adequacy ratio	[(a / b) x 100]	38.44%	50.98%	

37 RISK MANAGEMENT

The Bank has set-up a separate Risk Management Division for risk management functions in the Bank. The Bank's risk management function is developed based on the SBP guidelines and International regulatory frameworks and in compliance with the Internal Risk Management Policy Manual, independent of the business areas. To ensure Board's over sight on the risk management functions, the Board of Directors has established a Risk Management Committee consisting of board members with mandate as follows:

- Review of pertinent internal risk management policies, strategies and overall Bank's risk adjusted performances across all areas of functions on periodic basis.
- To review overall risk exposure of the Bank and develop and advise an overall risk strategy to be followed by relevant management committees for approving exposures and to communicate the planned / executed corrective actions to the Board of Directors.

- To ensure that a proper system is installed which provides all the required information pertaining to efficient and timely identification, control and reporting of risk including development of an effective MIS for risk management.
- To ensure that the resources allocated to risk management are adequate given the size, nature and volume of the business.
- To monitor Bank's progress towards Basel-II and to take and approve all such actions as may be required for successful implementation of Basel-II and its different approaches.
- As and when required, to review appropriateness and effectiveness of rating models adopted by the Bank for different business classes and align them in accordance with the business needs of the Bank.

Scope and nature of risk reporting tools

The comprehensive risk management framework enable the Bank to identify, assess, manage and monitor risks using a range of quantitative and qualitative tools. Some of these tools are common to a number of risk categories, while others are tailored to particular features of specific risk categories and enable generation of information such as:

- Internal risk rating system for Corporate, SME and Consumer financings, risk concentration and distribution;
- Collateral coverage ratios, limit utilisations and past due alerts;
- Stress testing to estimate variation in the value of portfolio in view of changes in the equity prices, foreign exchange rates , profit rates and various other factors.

Risk management process

Through the risk management framework, transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excess or deviations, are escalated to the management for appropriate and timely action.

Furthermore, ALCO also regularly over sights the risk management activities of the Bank. In addition, all the business proposals, both financing and investments, are independently evaluated by a separate division before review and then approved by Management Finance Committee and Investments Committee respectively.

The fundamental risks associated with the financial institution business are credit, market, liquidity and operational risk.

37.1 Credit Risk

Credit risk represents the potential that a Bank's customer or counterparty will fail to meet its obligations in accordance with agreed terms.

Credit risk management and structure

The approach to credit risk management is based on the foundation of preserving the independence and integrity of the credit risk assessment, management and reporting process combined with clear policies, limits and approval structures in the business divisions.

To identify and manage the credit risk, the Bank has developed and implemented a comprehensive Obligor Risk Rating System based on the Basel-II and SBP guidelines, which facilitates evaluation of the credit worthiness of customers before consideration for any financing facilities. Further, the Bank has implemented risk concentration and risk distribution policy guidelines which control the exposure to a single customer, group by the risk rating and overall in any business sector. In consumer financing the Bank has implemented product-wise score card risk rating models which assist the Bank in selection of customers and management of underlying risk. In Bank, the credit risk is evaluated and managed on a transaction, customer as well as portfolio basis.

"Watchlist" procedure is also functioning which identifies loans showing early warning signs of becoming non-performing. The risk management division also monitors the non-performing financing portfolio of the Bank and reports the significant matters to Risk Management Committee.

The Bank operates within;

- Exposure ceiling imposed by the State Bank of Pakistan
- Exposure ceiling imposed by the Board of Directors
- Various sectoral ceilings

Financing administration department is working towards ensuring that all the policies and procedures are implemented and followed. Special Asset Management (SAM) department is functional and handles its responsibility with respect to non-performing portfolio.

Management of corporate, SME and consumer financing risk

All the corporate, SME and consumer financing proposals are first evaluated by the business group and thereafter independent evaluation/due diligence analyses are carried out by a separate division. The business proposal are further reviewed, evaluated and decided by the Management Finance Committee. The performance of customers is monitored and the risk ratings changes wherever warranted are identified, recognized and managed on a continuous basis. Further, to ensure segregation of duties and independence of risk review functions, the concept of front office, middle office and back office are implemented in the Bank. In addition, Risk Management Division separately reviews control and monitor the financing and investments' portfolios on an overall basis.

37.1.1 Segmental information

37.1.1.1 Segments by class of business

	2010					
	Financings (Gross)		Deposits		Contingencies and Commitments*	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agri business (Food products and beverages)	1,337,662	21.45	54,767	0.43	9,562	1.69
Automobile and transportation equipment	267,243	4.28	79	0.00	-	-
Cement	150,000	2.41	109	0.00	-	-
Chemical and Pharmaceuticals	369,093	5.92	686,012	5.43	88,740	15.66
Construction	104,049	1.67	-	-	35,111	6.20
Electronics and electrical appliances	157,130	2.52	5,053	0.04	42,650	7.53
Exports / Imports	122,504	1.96	-	-	-	-
Financial Institutions (NBFI, DFI, Banks)	-	-	427,380	3.38	-	-
Fuel, Oil and Gas exploration	-	-	-	-	8,321	1.47
Insurance	-	-	145,162	1.15	-	-
Non-Government Organizations (NGOs)	-	-	761,884	6.03	-	-
Plastic products	83,357	1.34	-	-	-	-
Power (electricity), Gas, Water, Sanitary	142,803	2.29	-	-	6,600	1.16
Production and transmission of energy	104,279	1.67	99,784	0.79	-	-
Services	297,737	4.77	-	-	12,054	2.13
Shoe & leather garments	31,471	0.50	2,006	0.02	28,046	4.95
Sugar	495,179	7.94	128,454	1.02	-	-
Textile	1,415,184	22.69	69,804	0.55	167,447	29.56
Wholesale and Retail Trade	-	-	-	-	162,731	28.72
Individuals	358,579	5.75	8,032,094	63.56	2,800	0.49
Others	800,579	12.84	2,223,495	17.60	2,471	0.44
	6,236,849	100.00	12,636,083	100.00	566,533	100.00

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

	2009					
	Financings (Gross)		Deposits		Contingencies and Commitments*	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agri business (Food products and beverages)	703,623	14.07	7,853	0.12	31,236	1.95
Automobile and transportation equipment	296,438	5.93	1,865	0.03	13,093	0.82
Cement	877	0.02	-	-	-	-
Chemical and Pharmaceuticals	395,665	7.91	2,395	0.04	-	-
Construction	166,662	3.33	-	-	-	-
Electronics and electrical appliances	-	-	-	-	112,849	7.03
Exports / Imports	18,228	0.36	-	-	-	-
Financial Institutions (NBFI, DFI, Banks)	-	-	1,696,008	25.00	-	-
Fuel, Oil and Gas exploration	-	-	-	-	-	-
Non-Government Organizations (NGOs)	-	-	210,427	3.10	-	-
Plastic products	74,691	1.49	156	0.00	-	-
Power (electricity), Gas, Water, Sanitary	-	-	493	0.01	1,172,273	73.06
Production and transmission of energy	127,674	2.55	258,323	3.81	-	-
Services	154,217	3.08	-	-	-	-
Shoe & leather garments	18,451	0.37	41,666	0.61	-	-
Sugar	353,125	7.06	13,802	0.20	-	-
Textile	1,736,007	34.71	40,428	0.60	60,224	3.75
Wholesale and Retail	873	0.02	1,143	0.02	35,453	2.21
Individuals	174,347	3.49	3,404,248	50.17	-	-
Others	780,565	15.61	1,105,943	16.30	179,352	11.18
	5,001,443	100.00	6,784,750	100.00	1,604,480	100.00

37.1.1.2 Segment by sector

	2010					
	Financings (Gross)		Deposits		Contingencies and Commitments*	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	434,416	6.97	747,069	5.91	-	-
Private	5,802,433	93.03	11,889,014	94.09	566,533	100.00
	6,236,849	100.00	12,636,083	100.00	566,533	100.00

	2009					
	Financings (Gross)		Deposits		Contingencies and Commitments*	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	542,159	7.99	1,135,921	70.80
Private	5,001,443	100.00	6,242,591	92.01	468,559	29.20
	5,001,443	100.00	6,784,750	100.00	1,604,480	100.00

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

37.1.1.3 Details of non-performing financings and specific provisions by class of business segment

	2010		2009	
	Classified financings	Specific provisions held	Classified financings	Specific provisions held
	Rupees in '000			
Automobile and transportation equipment	267,243	214,884	262,158	52,724
Chemical and Pharmaceuticals	37,059	9,265	-	-
Construction	36,846	-	-	-
Production and transmission of energy	97,933	61,914	11,126	2,782
Services	174,074	76,023	228,088	73,396
Textile	271,572	117,457	-	-
Individuals	163,152	42,779	114,376	25,219
Others	105,239	95,441	116,000	80,816
	1,153,118	617,763	731,748	234,937

37.1.1.4 Details of non-performing financings by sector

	2010		2009	
	Classified financings	Specific provisions held	Classified financings	Specific provisions held
	Rupees in '000			
Public / Government	-	-	-	-
Private	1,153,118	617,763	731,748	234,937
	1,153,118	617,763	731,748	234,937

37.1.1.5 Geographical segment analysis

	2010			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments*
	..... Rupees in '000			
Pakistan	(824,560)	17,675,686	4,325,983	566,533
	2009			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments*
	..... Rupees in '000			
Pakistan	(405,152)	13,008,675	4,841,780	1,604,480

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

37.1.2 Credit risk - General disclosures Basel II specific

The Bank has adopted standardised approach for calculation of capital charge against credit risk according to Basel II guidelines. However, as highlighted in note 37.1, the Bank has already implemented the criteria of advance approaches by establishment and implementation of Obligor Risk Rating System for corporate / SME and consumer financing in the Bank along with policy guidelines on the risk concentration and distribution.

37.1.2.1 Credit risk: Disclosures for portfolio subject to Standardised Approach

Under standardized approach the capital requirement is based on the credit rating assigned to the counter parties by the External Credit Assessment Institutions (ECAIs) duly recognised by SBP for capital adequacy purposes. In this connection, Bank utilizes the credit ratings assigned by ECAIs and has recognised agencies such as PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company - Vital Information System) and Standard & Poors which are also recognised by the SBP.

Types of exposures and ECAI's used:

Exposures	JCR-VIS	PACRA	Standard & Poors
Corporate	✓	✓	N/A
Banks	✓	✓	✓
Public Sector Entities (PSEs)	✓	✓	N/A

Use of ECAI Ratings

The Bank prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

Mapping to SBP Rating Grades

The alignment of the Alphanumerical scale of each agency used with risk buckets is as per instructions laid down by SBP under Basel II requirements.

37.1.2.2 Credit Exposures subject to Standardised Approach

For exposure amounts after risk mitigation subject to the standardized approach, amount of bank's/DFI's outstanding (rated & unrated) in each risk bucket as well as those that are deducted are as follows:

Exposures	Rating Category	2010			2009		
		Amount Outstanding	Deduction	Net amount	Amount Outstanding	Deduction	Net amount
..... Rupees in '000							
Corporate	1	164,991	-	164,991	1,310,755	-	1,310,755
	2	412,781	-	412,781	157,294	-	157,294
	3,4	424,606	-	424,606	538,917	-	538,917
	Unrated	4,019,215	26,593	3,992,622	3,806,624	13,405	3,793,219
Banks	1	2,424,919	-	2,424,919	2,724,063	-	2,724,063
	2	601,796	-	601,796	586,517	-	586,517
	3,4	45,706	-	45,706	-	-	-
	Unrated	52,347	-	52,347	163,116	-	163,116

37.1.2.3 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank has adopted the simple approach of credit risk mitigation for the banking book. In instances where the Bank's exposure on an obligor is secured by collateral that conforms to the eligibility criteria under the simple approach of CRM, then the Bank reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement i.e. risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counter party.

The Bank accepts cash, lien on deposits, government securities under the simple approach of credit risk mitigation. The Bank has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the credit risk mitigation benefit, the Bank uses realizable value of eligible collaterals to the extent of outstanding exposure.

Counter party ratings are obtained through the two local SBP authorized External Credit Rating Agencies; JCR VIS and PACRA and other international sources such as Standard and Poor's, etc. Credit risk assessment and the continuous monitoring of counter party and portfolio credit exposures is carried out by the risk management function.

37.1.3 Credit concentration risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz. industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, the SBP has prescribed regulatory limits on banks' maximum exposure to single borrowers and group borrowers.

37.2 Market Risk

Market risk is the risk of losses arising from fluctuation in the market value of trading and non-trading instruments under investments portfolio. The four standard market risk factors are profit rates, foreign exchange rates, equity prices and commodity prices.

The Bank is using standardized approach to calculate capital charge for market risk as per the current regulatory framework under Basel-II. Both general and specific risks are recognized under MCR, general market risk is related to profit rates and equity price risk, whereas specific risk has issuer related factors.

Market risk management

The Bank is using Stress Testing techniques as risk management tool to estimate variation in the value of the portfolio in view of changes in the equity prices, foreign exchange rates, profit rates and various other factors. Further, the Bank as a policy does not engage into any speculative transaction.

In addition to the market risk policies, which cover both trading and banking books, as well as stress testing, bank applies Value at Risk (VAR) technique as risk management tool which quantifies the maximum loss that might arise due to change in risk factors, if exposure remains unchanged for a given period of time.

Equity position in the banking and trading book - Basel-II Specific

Bank classifies and value its investment portfolio in accordance with the directives of SBP as stated in note 5.2

Trading Book

- Held-for-trading and available-for-sale securities;
- They are marked to market weekly;
- Any valuation difference charged to profit and loss account in case of held-for-trading securities and to equity in case of available-for-sale securities.

Banking Book

- The Bank at present does not maintain held-to-maturity portfolio.

37.2.1 Foreign Exchange Risk

The foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates.

The objectives of the foreign exchange risk management function is to minimise the adverse impact of foreign exchange assets and liabilities mismatch and maximise the earnings observing the limits set by the Bank.

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

The analysis below represents the concentration of the Bank's foreign currency risk for on and off balance sheet financial instruments.

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan Rupee	17,330,215	13,052,217	-	4,277,998
United States Dollar	247,836	239,053	-	8,783
Great Britain Pound	47,690	20,260	-	27,430
Euro	41,581	38,173	-	3,408
Japanese Yen	7,198	-	-	7,198
AED	1,166	-	-	1,166
Total foreign currency exposure	345,471	297,486	-	47,985
Total currency exposure	17,675,686	13,349,703	-	4,325,983
	2009			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan Rupee	12,686,826	8,040,584	(194,281)	4,451,961
United States Dollar	285,261	104,600	194,281	374,742
Great Britain Pound	17,696	9,900	-	7,796
Euro	15,937	11,811	-	4,126
Japanese Yen	2,955	-	-	2,955
Total foreign currency exposure	321,849	126,311	194,281	389,819
Total currency exposure	13,008,675	8,166,895	-	4,841,780

37.2.2 Yield / profit rate risk

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market profit rates. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank monitors this risk and manages it by repricing of assets and liabilities with the objective of limiting the potential adverse effects on the profitability of the Bank.

37.2.2.1 Mismatch of profit rate sensitive assets and liabilities

The position for on and off balance sheet instruments is based on the earlier of contractual repricing or maturity date. The Position for off balance sheet instruments is based on settlement dates.

On-balance sheet financial instruments	Effective Yield / Profit rate %	Total	2010									Non-Profit Bearing financial instruments	
			Exposed to Yield / Profit risk										
			Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
Rupees in '000													
Assets													
Cash and balances with treasury banks	-	1,324,461	-	-	-	-	-	-	-	-	-	-	1,324,461
Balances with other banks	5.01 - 7.92	400,468	301,513	-	-	-	-	-	-	-	-	-	98,955
Due from financial institutions	12.15 - 13.75	2,679,753	2,369,582	310,171	-	-	-	-	-	-	-	-	-
Investments	12.10 - 15.66	5,050,878	12,333	34,518	87,137	383,075	1,186,390	2,471,705	370,008	37,500	-	-	468,212
Financings	5.00 - 19.98	5,616,202	811,792	1,365,341	1,217,006	70,295	393,619	586,445	693,032	355,751	122,921	-	-
Other assets	-	1,365,028	24,143	1,212,627	36,195	2,091	11,707	17,441	20,611	10,580	3,656	-	25,977
		16,436,790	3,519,363	2,922,657	1,340,338	455,461	1,591,716	3,075,591	1,083,651	403,831	126,577	-	1,917,605
Liabilities													
Bills payable	-	86,867	-	-	-	-	-	-	-	-	-	-	86,867
Due to financial institutions	7.5 - 10.0	287,291	23,247	104,778	159,266	-	-	-	-	-	-	-	-
Deposits and other accounts	0.39 - 14.33	12,636,083	5,878,358	1,596,038	1,003,274	1,907,108	138,667	64,846	178,978	-	-	-	1,868,814
Other liabilities	-	331,300	44,018	51,269	36,633	2,116	11,848	17,652	20,861	10,708	3,700	-	132,495
		13,341,541	5,945,623	1,752,085	1,199,173	1,909,224	150,515	82,498	199,839	10,708	3,700	-	2,088,176
On-balance sheet gap		3,095,249	(2,426,260)	1,170,572	141,165	(1,453,763)	1,441,201	2,993,093	883,812	393,123	122,877	-	(170,571)
Off-balance sheet financial instruments													
Forward exchange contracts - purchase		-	-	-	-	-	-	-	-	-	-	-	-
Forward exchange contracts - sale		-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-	-
Total Yield / Profit Risk Sensitivity Gap			(2,426,260)	1,170,572	141,165	(1,453,763)	1,441,201	2,993,093	883,812	393,123	122,877	-	(170,571)
Cumulative Yield / Profit Risk Sensitivity Gap			(2,426,260)	(1,255,688)	(1,114,523)	(2,568,286)	(1,127,085)	1,866,008	2,749,820	3,142,943	3,265,820	-	3,095,249

On-balance sheet financial instruments	Effective Yield / Profit rate %	Total	2009									Non-Profit Bearing financial instruments	
			Exposed to Yield / Profit risk										
			Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
Rupees in '000													
Assets													
Cash and balances with treasury banks	-	675,988	-	-	-	-	-	-	-	-	-	-	675,988
Balances with other banks	5.00-8.05	577,349	315,513	-	-	-	-	-	-	-	-	-	261,836
Due from financial institutions	12.10-12.40	2,857,942	2,857,942	-	-	-	-	-	-	-	-	-	-
Investments	11.82-15.44	2,861,751	6,083	120,732	27,333	186,342	217,858	1,515,645	225,258	212,500	-	-	350,000
Financings	5.00-20.04	4,763,622	594,100	398,942	965,731	85,110	368,863	732,524	1,469,914	6,895	141,543	-	-
Other assets	-	310,916	248,782	-	-	-	-	-	-	-	-	-	62,134
		12,047,568	4,022,420	519,674	993,064	271,452	586,721	2,248,169	1,695,172	219,395	141,543	-	1,349,958
Liabilities													
Bills payable	-	58,263	-	-	-	-	-	-	-	-	-	-	58,263
Due to financial institutions	12.1-12.5	1,094,375	1,043,671	-	50,000	-	-	-	-	-	-	-	704
Deposits and other accounts	0.4-13.0	6,784,750	3,214,804	275,522	666,976	1,609,755	-	99,180	165,532	-	-	-	752,980
Other liabilities	-	188,789	151,688	-	-	-	-	-	-	-	-	-	37,101
		8,126,177	4,410,163	275,522	716,976	1,609,755	-	99,180	165,532	-	-	-	849,048
On-balance sheet gap		3,921,391	(387,743)	244,152	276,088	(1,338,303)	586,721	2,148,989	1,529,640	219,395	141,543	-	500,910
Off-balance sheet financial instruments													
Forward exchange contracts - purchase		25,251	25,251	-	-	-	-	-	-	-	-	-	-
Forward exchange contracts - sale		(169,030)	(169,030)	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		(143,779)	(143,779)	-	-	-	-	-	-	-	-	-	-
Total Yield / Profit Risk Sensitivity Gap			(531,522)	244,152	276,088	(1,338,303)	586,721	2,148,989	1,529,640	219,395	141,543	-	500,910
Cumulative Yield / Profit Risk Sensitivity Gap			(531,522)	(287,370)	(11,282)	(1,349,585)	(762,864)	1,386,125	2,915,765	3,135,160	3,276,703	-	3,777,613

37.2.2.2 Reconciliation of assets and liabilities exposed to Yield / Profit	2010	2009
Rate risk with total assets and liabilities	.....Rupees in '000	
Total financial assets as per note 37.2.2.1	16,436,790	12,047,568
Add: Non-financial assets		
Operating fixed assets	646,645	600,626
Deferred tax assets	393,116	106,269
Other assets	199,135	254,212
Total assets as per Statement of Financial Position	<u>17,675,686</u>	<u>13,008,675</u>
Total financial liabilities as per note 37.2.2.1	13,341,541	8,126,177
Add: Non-financial other liabilities	8,162	40,718
Total liabilities as per Statement of Financial Position	<u>13,349,703</u>	<u>8,166,895</u>

37.2.3 Equity position Risk

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

The Bank's equity portfolio comprises of 'held-for-trading' and 'available-for-sale' portfolio of shares. The objective of equity portfolio unit's classified as 'held-for-trading' portfolio is to take advantages of short-term capital gains, while the 'available-for-sale' portfolio is maintained with a medium term view of capital gains and dividend income. Special emphasis is given to the details of risks / mitigants, limits / controls for equity trading portfolios of equity portfolio unit. All the investments are within the limit prescribed in SBP Regulations and are fully Shariah compliant.

37.3 Liquidity Risk

Liquidity risk is the risk that the Bank either does not have sufficient financial resources available to meet its obligations and commitments as they fall due or can fulfill them only at excessive cost that may affect the Bank's income and equity.

The Bank seeks to ensure that it has access to funds at reasonable cost even under adverse conditions, by managing its liquidity risk across all classes of assets and liabilities in accordance with regulatory guidelines and to take advantage of any lending and investment opportunities as they arise.

37.3.1 Maturities of assets and liabilities

2010

	Total	Upto 1 months	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000										
Assets										
Cash and balances with treasury banks	1,324,461	1,324,461	-	-	-	-	-	-	-	-
Balances with other banks	400,468	400,468	-	-	-	-	-	-	-	-
Due from financial institutions	2,679,753	2,369,582	310,171	-	-	-	-	-	-	-
Investments	5,050,878	12,333	36,077	463,934	472,931	1,186,390	2,471,705	370,008	37,500	-
Financings	5,616,202	811,792	1,365,341	1,217,006	70,295	393,619	586,445	693,032	355,751	122,921
Operating fixed assets	646,645	8,688	17,373	26,060	52,120	104,240	104,240	124,167	209,756	-
Deferred tax assets	393,116	10,234	14,186	46,299	17,340	185,192	50,436	69,429	-	-
Other assets	1,564,163	35,841	1,281,945	68,257	71,433	40,122	26,671	24,811	11,427	3,656
	<u>17,675,686</u>	<u>4,973,399</u>	<u>3,025,093</u>	<u>1,821,556</u>	<u>684,119</u>	<u>1,909,563</u>	<u>3,239,497</u>	<u>1,281,447</u>	<u>614,434</u>	<u>126,577</u>
Liabilities										
Bills payable	86,867	86,867	-	-	-	-	-	-	-	-
Due to financial institutions	287,291	23,247	104,778	159,266	-	-	-	-	-	-
Deposits and other accounts	12,636,083	7,747,172	1,596,038	1,003,274	1,907,108	138,667	64,846	178,978	-	-
Other liabilities	339,462	58,489	74,158	64,967	19,978	37,159	40,937	29,365	10,709	3,700
	<u>13,349,703</u>	<u>7,915,775</u>	<u>1,774,974</u>	<u>1,227,507</u>	<u>1,927,086</u>	<u>175,826</u>	<u>105,783</u>	<u>208,343</u>	<u>10,709</u>	<u>3,700</u>
Net assets	<u>4,325,983</u>	<u>(2,942,376)</u>	<u>1,250,119</u>	<u>594,049</u>	<u>(1,242,967)</u>	<u>1,733,737</u>	<u>3,133,714</u>	<u>1,073,104</u>	<u>603,726</u>	<u>122,877</u>
Share capital	5,010,458									
Reserves	16,751									
Accumulated loss	(761,142)									
Surplus on revaluation of assets - net of tax	59,916									
	<u>4,325,983</u>									

2009

	Total	Upto 1 months	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000										
Assets										
Cash and balances with treasury banks	675,988	675,988	-	-	-	-	-	-	-	-
Balances with other banks	577,349	577,349	-	-	-	-	-	-	-	-
Due from financial institutions	2,857,942	2,857,942	-	-	-	-	-	-	-	-
Investments	2,861,751	6,083	120,732	27,333	186,342	567,858	1,515,645	225,258	212,500	-
Financings	4,763,622	594,100	398,942	965,731	85,110	368,863	732,524	1,469,914	6,895	141,543
Operating fixed assets	600,626	8,513	17,027	25,540	51,081	102,162	102,162	102,322	191,819	-
Deferred tax assets	106,269	-	-	-	106,269	-	-	-	-	-
Other assets	565,128	350,203	9,418	16,793	33,586	67,173	62,267	-	25,688	-
	<u>13,008,675</u>	<u>5,070,178</u>	<u>546,119</u>	<u>1,035,397</u>	<u>462,388</u>	<u>1,106,056</u>	<u>2,412,598</u>	<u>1,797,494</u>	<u>436,902</u>	<u>141,543</u>
Liabilities										
Bills payable	58,263	58,263	-	-	-	-	-	-	-	-
Due to financial institutions	1,094,375	1,000,000	-	94,375	-	-	-	-	-	-
Deposits and other accounts	6,784,750	2,901,369	1,843,104	570,495	1,205,470	12,904	105,876	145,532	-	-
Other liabilities	229,507	76,331	69,847	-	-	-	82,647	-	-	681
	<u>8,166,895</u>	<u>4,035,963</u>	<u>1,912,951</u>	<u>664,870</u>	<u>1,205,470</u>	<u>12,904</u>	<u>188,523</u>	<u>145,532</u>	<u>-</u>	<u>681</u>
Net assets	<u>4,841,780</u>	<u>1,034,215</u>	<u>(1,366,832)</u>	<u>370,527</u>	<u>(743,082)</u>	<u>1,093,152</u>	<u>2,224,074</u>	<u>1,651,962</u>	<u>436,902</u>	<u>140,862</u>
Share capital	5,010,458									
Reserves	16,751									
Accumulated loss	(225,620)									
Surplus on revaluation of assets - net of tax	40,191									
	<u>4,841,780</u>									

37.4 Operational Risk

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

Operational risk management and structure

The Bank is using Basic Indicator Approach of Basel II for operational risk. The bank has a separate operational risk management function which is involved in developing various operational risk management tools with the objective of gradually move towards advanced approach under Basel II.

The Bank is also supervised by the Shariah Supervisory Board which sets out guidelines, policies and procedures for the Bank to ensure that all its activities and products are Shariah compliant.

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

38 DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorised for issue on March 06, 2011 by the Board of Directors of the Bank.

39 RESTATEMENT

Uptil last year accrued profit on murabaha transactions was recorded by the Bank in Other Assets (note 13) as Profit / return accrued in local currency while the gross unearned income was shown in Other Liabilities (note 17) under the heads unearned income on commodity murabaha and unearned income on financings. In addition, Unearned Income on Commodity Murabaha was only recorded to the extent of profit / return accrued with a corresponding impact on Due from Financial Institutions (note 8). From the current year the accrued profit has been adjusted against unearned income while Commodity Murabaha has been recorded at gross amount. The corresponding figures have been restated as required under International Accounting Standards. The impact of the change on comparative information as reported previously is summarised as follows:

	2009	2008
	..... Rupees in '000	
Due from financial institution (note 8)		
Increase in Commodity Murabaha	1,890	-
Other assets (note 13)		
Decrease in profit / return accrued in local currency	(59,123)	(85,573)
Other liabilities (note 17)		
Decrease in Unearned Income on Commodity Murabaha	(4,162)	(40)
Decrease in Unearned Income on Financings	(53,071)	(85,533)

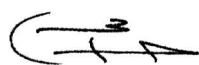
There is no impact of this restatement on the profit and loss account. The impacts on cash flow statement as reported previously are summarised as follows:

	2009
	Rupees in '000
(Increase) / decrease in operating assets	
Due from financial institutions	(1,890)
Other assets (excluding advance taxation and deferred cost)	(26,450)
Increase / (decrease) in operating liabilities	
Other liabilities	28,340

40 CORRESPONDING FIGURES

Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison and to conform with changes in presentation in the current year. However, there are no material reclassifications to report in these financial statements, other than the following:

- Repairs and maintenance expense amounting to Rs. 9.784 million for the year ended December 31, 2009 has been reclassified to Rent, taxes, insurance, electricity, etc.
- Segment details with respect to business activities for the year ended December 31, 2009 have been reclassified to conform with the presentation for the current year.



CHAIRMAN
Khaled Mohammed Al-Aboodi



PRESIDENT AND CHIEF EXECUTIVE OFFICER
Pervez Said



DIRECTOR
Nicolas Edouard Martin



DIRECTOR
Jamil Ahmed Qureshi

PATTERN OF SHAREHOLDING AS ON DECEMBER 31, 2010

S. No.	Number of Shareholders	Shareholding		Total Number of Shares Held
		From	To	
1	7	501	1,000	4,800
2	1	1,001	5,000	5,000
3	1	195,001	200,000	200,000
4	1	265,001	270,000	270,000
5	1	385,001	390,000	390,000
6	1	545,001	550,000	550,000
7	1	730,001	735,000	730,600
8	1	820,001	825,000	822,600
9	2	995,001	1,000,000	2,000,000
10	1	1,195,001	1,200,000	1,200,000
11	1	1,220,001	1,225,000	1,222,600
12	3	1,330,001	1,335,000	3,999,999
13	2	1,335,001	1,340,000	2,680,000
14	1	2,345,001	2,350,000	2,345,034
15	3	2,495,001	2,500,000	7,500,000
16	1	2,510,001	2,515,000	2,512,299
17	1	4,995,001	5,000,000	5,000,000
18	1	9,995,001	10,000,000	10,000,000
19	1	11,495,001	11,500,000	11,500,000
20	1	16,315,001	16,320,000	16,320,000
21	1	16,925,001	16,930,000	16,927,968
22	1	20,200,001	20,205,000	20,200,920
23	1	20,290,001	20,295,000	20,291,284
24	1	26,660,001	26,665,000	26,662,516
25	1	29,685,001	29,690,000	29,685,986
26	1	39,995,001	40,000,000	40,000,000
27	1	88,930,001	88,935,000	88,933,333
28	1	189,090,001	189,095,000	189,090,885
	40			501,045,824

PATTERN OF SHAREHOLDING AS ON DECEMBER 31, 2010

S. No.	Shareholders' Category	Number of Shareholders	Number of Shares Held	Percentage
1	Financial Institutions	5	311,255,238	62.12
2	Individuals	25	108,451,621	21.65
3	Investment Companies	3	43,512,299	8.68
4	Joint Stock Companies	4	18,840,000	3.76
5	Leasing Companies	1	1,333,333	0.27
6	Modarabas	2	17,653,333	3.52
		40	501,045,824	100

PATTERN OF SHAREHOLDINGS AS ON DECEMBER 31, 2010
Additional Information

Particulars	Number of Shareholders	Shares Held	Percentage
Associated Companies			
Unicorn Investment Bank	1	189,090,885	37.74%
Islamic Corp. for the Development of the Private Sector	1	88,933,333	17.75%
Alsafat Investment Company	1	40,000,000	7.98%
Gargash Enterprises L.L.C	1	10,000,000	2.00%
Al-Zamin Leasing Modaraba	1	1,333,333	0.27%
Directors			
Azam Essof Kolia	1	26,662,516	5.32%
Shehab M. Gargash	1	16,927,968	3.38%
Mohammed Tariq	1	390,000	0.08%
Muhammad Jamil Ahmed Qureshi	1	5,000	0.00%
Public Sector Companies, Corporations, Banks, Development Finance Institutions, Non-Banking Finance Institutions, Mutual Funds and other Organizations			
PAIR Investment Company	1	29,685,986	5.92%
B.R.R Guardian Modaraba	1	16,320,000	3.26%
F. Rabbi Steel (Private) Limited	1	5,000,000	1.00%
First Dawood Investment Bank Limited	1	2,512,299	0.50%
Al-Hoqani Securities & Investment Corp. (Private) Limited	1	2,500,000	0.50%
Dawood Capital Managment Limited.	1	2,345,034	0.47%
Dossa Cotton & General Trading (Private) Limited	1	1,340,000	0.27%
Saudi Pak Leasing Company Limited	1	1,333,333	0.27%
Orix Investments Bank Pakistan Limited	1	1,200,000	0.24%
Descon Holding (Private) Limited	1	1,000,000	0.20%
Others (Shareholders with less than 10% Shareholding)	21	64,466,137	12.87%
	<u>40</u>	<u>501,045,824</u>	<u>100%</u>

BRANCH NETWORK

Branch Code	Branch Name	Address	Telephone Number
0001	Main Branch	Trade Center, I.I. Chundrigar Road	(021) 32272447 (021) 32272464
0002	Shahrah-e-Faisal Branch	3/A, Zubaida Garden, Near Awami Markaz, Shahrah-e-Faisal, Karachi	(021) 34543720 (021) 34323711-2
0003	Gulshan-e-Iqbal Branch	Ground Floor, Dawood Avenue, plot No.ZC-5, Shop No. 2-3-4, Block 7, Gulshan-e-Iqbal, Karachi	(021) 34833782-3
0004	Hussain Chowk Branch	57-B-III, Near Hussain Chowk Gulberg III, Lahore	(042) 5772672-75
0005	Jodia Bazar Branch	Daryalal Street, Napier Quarters Jodia Bazar, Karachi	(021) 32430987 (021) 32529081-82
0006	Kharadar Branch	Qasr-e-Yasir, Survey No.5 & 6, Bunder Quarters, Kharadar, Karachi	(021) 32315176-77
0007	Sir Syed Road Branch	G-07& G-08, Madina Arcade, Plot # 154-S, Block 2, Sir Syed Road PECHS, Karachi	(021) 34303084
0008	Dhorajee Branch	Shop 1-2, Plot#35/130; Survey Sheet No 35-P/1 C.P.Berar Co-operative Housing Society Ltd, Block 7/8, Karachi	(021) 34860871-2
0009	Small Industrial Estate Branch	Plot BIII-8S-202, Mianporea Ogoki Road, Chowk Shahabpura, Stalkot	(052) 3557062-4
0010	Hassan Arcade Branch	Ground Floor, Hasan Arcade, Plot No 871-B Peoples Colony, Main Chen One Road, Faisalabad	(041) 8730017-19
0011	Iqbalabad Branch	5 & 6 Moza Dera Shams, Iqbalabad, Rahim Yar Khan	(068) 5678002-6
0012	Blue Area Branch	Saleem Plaza, 19 Jinnah Avenue, Blue Area, F-6/G-6, Islamabad	(051) 2871103-6
0013	13 Wala More Branch	13 Wala More, Chuck 13, 6 Kilometer Muzaffar Gadh, District Khushab, Joharabad	(045) 4720901-3
0014	Vehari Road Branch	Shop No 616, Inside Corporation Near Islam Nagar Vehari Road, Multan	(061) 6244991-4
0015	Zamzama Branch	Plot No 11-C, Zamzama Boulevard, Phase V, D.H.A, Karachi	(021) 35302023-24
0016	Zaib-un-Nisa Street Branch	Shop No 4, Survey 6, SB 7, Zaib-un-Nisa Street, Saddar, Karachi	(021) 35224490-93
0017	M.A. Jinnah Road Branch	Shop No15, Ground Floor, Jahangir Mansion, M.A Jinnah Road, Karachi	(021) 32764751 (021) 32750516
0018	Bank Road Branch	Plot No.1; Survey No 364, Bank Road, Rawalpindi	(051) 5584530 (051) 5584528
0019	Model Town Branch	Plot No 85-19/20/B, Model Town, Gujranwala	(055) 3734162-66
0020	Latifabad Branch	Plot No 325-D.Block-C, Latifabad Unit No: 7 Hyderabad	(022) 3810706 (022) 3810707
0021	Mansehra Road Branch	Shops/Office, Eman Plaza Al Marcha Road Near Satti Masjid Abbottabad	(099) 2344391
0022	Gulistan-e-Johar Branch	Shop No 10, Roofi Lake Drive, Sub plot No 118/2/B&C/B-X. Block No 18 KDA Scheme, Gulistan-e-Johar Karachi	(021) 34610992-3
0023	March Bazar Branch	Plot No B-897/1, Main March Bazar, Sukkar	(071) 5621334-35
0024	M.A. Jinnah Road Branch	Sohail Trader M.A Jinnah Road, Near Municipality, Tando Adam	(023) 5574956 (023) 5574957 (023) 5575001 (023) 5574958
0025	D.H.A. Phase II Branch	Plot No.108-B C, Commercial Area Phase II DHA, Karachi	(021) 35314194
0026	Hussainabad Branch	Hussainabad, F.B Area, Block-3 K.D.A. Scheme No16, Karachi	(021) 36334434-36
0027	F-10 Markaz Branch	Plot # 1-V, Margalla Plaza, Main Double Road, F-10 Markaz, Islamabad	(051) 2297542 (051) 2211916
0028	Sabu Raho Branch	Survey No 64/2, Main National High Way Road, Sabu Rahu, Tehsil Sakrand, District Shaheed Benazirabad, Sindh	(024) 4284969
0029	Odero Lal Branch	Survey No 481/2,483/1-4 & 487/2, Opposite Rural Health Center, Oderolal, Tehsil & District Matyari, Sindh	(022) 2027102
0030	Hydri Market Branch	SE-6, Block-G, North Nazimabad, KDA Scheme No 2, Karachi	(021) 36644213-14
0031	Sargodha Branch	Alif Shumail khilgi Building, Road Sargodha near PSO Pump & Kheyam Cinema, Sargodha	(048) 3723806-07
0032	Allama Iqbal Branch	5 Hunza (A), Block, Main Boulevard Allama Iqbal Road, Lahore	(042) 35296852-55
0033	M.A. Johar Town Branch	68 R 1, M.A Johar Town, Lahore	(042) 35314980-81
0034	DHA Branch	T-56 CCA Phase 2, DHA Lahore	(042) 35707680-81
0035	Rail Bazar Branch	Rail Bazar, Near Clock Tower, Faisalabad	(041) 2621281-83
0036	Mughal Plaza Branch	Mughal Plaza, G.T. Road, Rawat Tehsil & District Islamabad	(051) 4612212-15
0037	Manga Mandi Branch	Madina Market Kalma Chowk, Multan Road, by pass Manga Mandi, Lahore	(042) 35384245
0038	Feroz Pur Road Branch	Khasra No. 163, Khewet No. 698, Khatooni No. 1228 & 1229, Mouza Gaju Matta, Feroze Pur Road, Khana	(042) 35271462-64
0039	G.T Road Branch	Pak-Doha Trade Center, G.T. Road Tarnol, Tehsil & District, Islamabad	(051) 2226572-73
0040	M.A. Jinnah Road Branch	M.A. Jinnah Road, Quetta	(081) 2865700-02
0041	Saddar Road Branch	6 Sadar Road, near Dean Bakery, Peshawar	(091) 5279953-54
0042	BFT Branch	Business Finance & Trade Tower, I.I.Chundrigar Road, Karachi	(021) 32462447-49

Sub Br. Code	Sub Branch Name	Address	Telephone Number
7001	Metropole Sub Branch	18-C, Mereweather Road, Opp. Avari Tower, Karachi	(021) 35651651-52
7081	Tipu Sultan Road Sub Branch	Plot No 116-117-Z, Block No 7/8, Shabirabad Commercial Area, Dawoodi Bohra Co-operative Housing Society Ltd. Tipu Sultan Road, Karachi	(021) -34306580 (021)- 34306581
7102	Clifton Sub Branch	S-07, Ground Floor, Yousuf Grand Plaza, Plot No G4 Block 8, KDA Scheme 5, Kehkashan, Clifton, Karachi	(021) 35876077
7131	City Sub Branch	Opposite NBP Ghalla Mandi, Khushab, Jauharabad	(052) 3557062-4
7141	Old Bahawalpur Road Sub Branch	Plot # 126, Old Bahawalpur Road, Multan	(061) 4512054-5
7151	Khayaban-e-Sehar Sub Branch	Plot # 19-E Khayaban-e-sehar, Phase VI, D.H.A Karachi	(021) 35342585 (021) 35342645
7251	D.H.A Ext. Sub Branch	C-45,21st Commercial Street, Phase-II Ext DHA Karachi	(021) 35397366
7401	Shahalam Sub Branch	14-A, Situated at Main Road Shahalam Market, Lahore	(042) 7655208 (042) 7654948

Notice of 5th Annual General Meeting Dawood Islamic Bank Limited

Notice is hereby given that the 5th Annual General Meeting of Dawood Islamic Bank Limited will be held at 3rd Floor, Board Room, Trade Center, I. I. Chundrigar Road, Karachi on Wednesday March 30, 2011 at 11:00 am, to transact the following business:

Ordinary Business

1. To confirm the minutes of 5th EOGM Meeting.
2. To receive, consider and adopt the Audited Accounts for the year ended December 31, 2010 together with the Auditors' and Directors' Report thereon.
3. To appoint Auditors for the year ending December, 2011 and to fix their remuneration.

Special Business:

4. To consider and approve the following:
 - a) Rebranding of DIBL,
 - b) Change in the remuneration of the Directors of the sub-committees of the Board.
 - c) To approve the issuance of 240 Million shares at par value of Rs.10 per share through issue of rights at the discounted price of Rs.7.5 per share to all existing share holders of the Bank, subject to the approval of the Shareholders in this General Meeting.

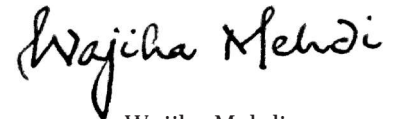
Note: Statements under section 160 of the Companies Ordinance, 1984 is appended below.

Other Business:

6. To consider any other business with the permission of Chairman.

March 09, 2011
Karachi

By Order of the Board



Wajiha Mehdi
Company Secretary

Notes:

- i) The share transfer books of the Bank shall remain closed from March 22, 2011 to March 30, 2011 (both days inclusive).
- ii) A member entitled to attend and vote at the 5th Annual General Meeting may appoint another member as his/her proxy to attend, speak and vote instead of him/her behalf at the meeting. No person other than a member shall act as proxy.
- iii) An instrument appointing a proxy and the power of attorney or other Authority under which it is signed or a notarily certified copy of the Power or Authority, in order to be valid, must be deposited at the Registered Office of the Bank not later than 48 hours before the time fixed for holding the meeting and must be duly stamped, signed and witnessed.
- iv) Members are requested to notify the Bank of any change of address immediately.
- v) CDC account holders will in addition, have to follow under mentioned guidelines as laid down in Circular No. 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan for attending the meeting

A. For attending the meeting

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

B. For appointing proxies

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

Statements under section 160 of the Companies Ordinance, 1984

Item No 5(a): To approve the Rebranding of DIBL

To grant approval for Rebranding of DIBL and approve the following resolution by Special Resolution:

“Resolved that DIBL be rebranded as Burj Bank Limited subject to availability of the name after due legal process.”

Item No 5(b): Change in the remuneration of the Directors of the Board

To approve the change in the remuneration of the Directors of the sub-committees of the BOD and approve the following resolution by way of Special Resolution:

“Resolved unanimously that instead of the 2 day restriction on reimbursement of Directors for attending BOD meetings, reimbursement shall be available to all BOD members whether they were attending a BOD meeting or a BOD Committee meeting, they shall be reimbursed for actual expenses including travel and accommodation and the Board members shall exercise prudence in this regard.”

Item No.5(c): To approve the issuance of 240 Million shares at par value of Rs.10 per share through issue of rights at the discounted price of Rs.7.5 per share to all existing share holders of the Bank, subject to the approval of the Shareholders in this General Meeting.

To approve the issuance of 240 Million shares at par value of Rs.10 per share through issue of rights at the discounted price of Rs.7.5 per share to all existing share holders of the Bank and approve the following resolution by way of Special Resolution:

“Resolved, with reference to the resolution passed earlier in the 34th BOD Meeting in respect of MCR, to recommend to the members of the Board that capital increase of Rs.1.8 Billion should be through rights issue at the proposed price of Rs.7.50 per share.”

FORM OF PROXY

Folio/CDC Account No.

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

member of the Bank, as my/our proxy to vote for me/us, and on my/our behalf at the 5th Annual
General Meeting of the Bank to be held on **Wednesday March 30, 2011** and at any adjournment
thereof.

As witness my/our hand this _____ day of _____, 2011,

Witness:

Name: _____

CNIC No/Passport No: _____

Address: _____

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

Name: _____

CNIC No/Passport No: _____

Address: _____

Please affix
correct
postage

The Company Secretary
Dawood Islamic Bank Limited
Trade Center, I.I.Chundrigar Road
Karachi, Pakistan