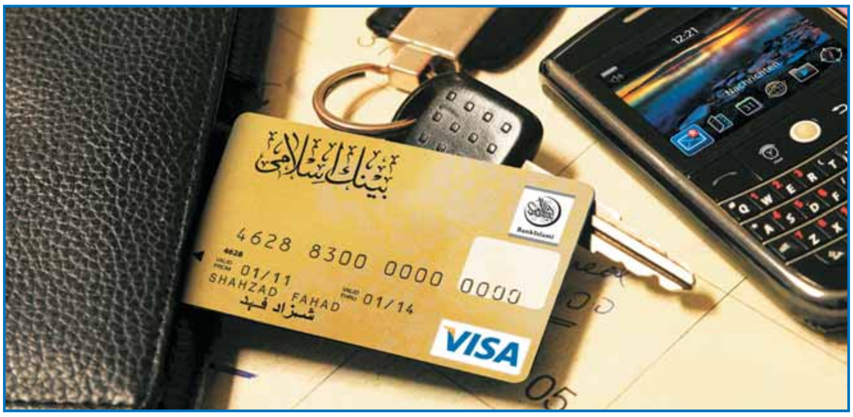
بینک اسلامی

BankIslami






Serving you,
the Right way

8th Annual Report 2011

# Vision

The Vision of BankIslami is to be recognized as the leading Authentic Islamic Bank.

# Mission

The Mission of BankIslami is to create value for our stakeholders by offering Authentic, Shariah Compliant and Technologically advanced products and services. We differentiate ourselves through:

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

# Core Values

BankIslami is strongly committed towards its core values of:

- Product authenticity
- Customer focus
- Meritocracy
- Integrity
- Team work
- Humility
- Innovation

بسم الله الرحمن الرحيم

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# Corporate Information

| | |
|---|---|
| **Board of Directors** | |
| Chief Justice (Retd.) Mahboob Ahmed | Chairman |
| Mr. Ahmed Goolam Mahomed Randeree | |
| Mr. Ali Raza Siddiqui | |
| Mr. Ali Hussain | |
| Mr. Hasan A. Bilgrami | Chief Executive Officer |
| Mr. Hicham Hammoud | |
| Mr. Shabir Ahmed Randeree | |
| **Sharia'h Supervisory Board** | |
| Mr. Justice (Retd.) Muhammad Taqi Usmani | Chairman |
| Professor Dr. Fazlur Rahman | Member |
| Mufti Irshad Ahmad Aijaz | Member & Sharia'h Adviser |
| **Audit Committee** | |
| Mr. Hicham Hammoud | Chairman |
| Mr. Ali Raza Siddiqui | Member |
| Mr. Shabir Ahmed Randeree | Member |
| **Executive Committee** | |
| Chief Justice (Retd.) Mahboob Ahmed | Chairman |
| Mr. Ahmed Goolam Mahomed Randeree | Member |
| Mr. Hasan A. Bilgrami | Member |
| Mr. Hicham Hammoud | Member |
| **Risk Management Committee** | |
| Mr. Ahmed Goolam Mahomed Randeree | Chairman |
| Mr. Hasan A Bilgrami | Member |
| **Human Resource & Compensation Committee** | |
| Mr. Ali Raza Siddiqui | Chairman |
| Mr. Ahmed Goolam Mahomed Randeree | Member |
| Mr. Hicham Hammoud | Member |
| Mr. Hasan A. Bilgrami | Member |

**Company Secretary**
Syed Shah Sajid Hussain

**Auditors**
A. F. Ferguson & Co.
Chartered Accountants

**Legal Adviser**
Haidermota & Co.
Barrister at Law

**Management (in alphabetical order)**

| | |
|---|---|
| Mr. Ahmed Mustafa | Head, Branch Operations |
| Mr. Arsalan Vohra | Head, Risk Policy & Analytics |
| Mr. Arshad Wahab Zuberi | Head, Administration and General Service |
| Mr. Asad Alim | Head, Information Systems |
| Mr. Farooq Anwar | Head, Operations |
| Mr. Hasan A. Bilgrami | Chief Executive Officer |
| Mr. Khawaja Ehrar ul Hassan | Head, Compliance and Legal |
| Mr. Muhammad Faisal Shaikh | Head, Product Development |
| Mr. Muhammad Furqan | Head, Credit Administration |
| Mr. Muhammad Imran | Head, Consumer & Retail Banking |
| Mr. Muhammad Shoaib Khan | Head, Treasury & Financial Institutions |
| Mr. Rehan Shuja Zaidi | Head, Internal Audit |
| Mr. Shamshad Ahmed | Head, Trade Finance |
| Ms. Sheba Matin Khan | Head, Human Resources |
| Mr. Syed Akhtar Ausaf | Head, Risk Management |
| Mr. Syed Mujtaba H. Kazmi | Head, Corporate Finance |
| Mr. Syed Shah Sajid Hussain | Head, Finance |

**Registered Office**

11th Floor, Executive Tower,
Dolmen City, Marine Drive,
Block-4, Clifton,
Karachi.
Phone (92-21) 111-247(BIP)-111
Fax: (92-21) 35378373
Email: info@bankislami.com.pk

**Share Registrar**

Technology Trade (Private) Limited
Dagia House, 241-C, Block-2,
P.E.C.H.S. Off: Shahra-e-Qaideen,
Karachi.
Phone: (92-21) 34387960-61
Fax: (92-21) 34391318

**Website:**

www.bankislami.com.pk

# Six Years' Vertical Analysis

| | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rs. In Mln | % | Rs. In Mln | % | Rs. In Mln | % | Rs. In Mln | % | Rs. In Mln | % | Rs. In Mln | % |
| **Statement of Finanacial Position** | | | | | | | | | | | | |
| ***Assets*** | | | | | | | | | | | | |
| Cash and balances | | | | | | | | | | | | |
| with treasury banks | 4,685 | 8% | 3,035 | 7% | 4,218 | 12% | 2,175 | 11% | 1,433 | 10% | 338 | 8% |
| Balances with other banks | 549 | 1% | 570 | 1% | 2,060 | 6% | 2,207 | 12% | 2,577 | 18% | 791 | 20% |
| Lending to financial institutions | 4,436 | 8% | 4,513 | 10% | 4,019 | 12% | 40 | 0.2% | 625 | 4% | 412 | 10% |
| Investments | 21,067 | 36% | 13,732 | 30% | 6,813 | 20% | 5,020 | 26% | 3,864 | 27% | 493 | 12% |
| Financings | 20,110 | 34% | 16,670 | 37% | 10,457 | 31% | 6,343 | 33% | 3,963 | 27% | 959 | 24% |
| Operating fixed assets | 1,812 | 3% | 2,067 | 5% | 2,395 | 7% | 1,911 | 10% | 1,093 | 8% | 441 | 11% |
| Deferred tax assets | 188 | 0% | 402 | 1% | 355 | 1% | 267 | 1% | 91 | 1% | 27 | 1% |
| Other assets | 5,974 | 10% | 4,047 | 9% | 3,955 | 12% | 1,121 | 6% | 799 | 6% | 563 | 14% |
| | 58,821 | 100% | 45,036 | 100% | 34,272 | 100% | 19,085 | 100% | 14,446 | 100% | 4,025 | 100% |
| ***Liabilities*** | | | | | | | | | | | | |
| Bills payable | 799 | 1% | 563 | 1% | 486 | 1% | 354 | 2% | 85 | 1% | 24 | 1% |
| Due to Financial Institutions | 800 | 1% | 353 | 1% | 156 | 0% | 246 | 1% | 70 | 0% | 50 | 1% |
| Deposits | 50,569 | 86% | 38,198 | 85% | 27,987 | 82% | 12,478 | 65% | 9,934 | 69% | 1,778 | 44% |
| Deferred tax liabilities | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% |
| Other Liabilities | 1,341 | 2% | 1,155 | 3% | 917 | 3% | 819 | 4% | 513 | 4% | 170 | 4% |
| | 53,509 | 91% | 40,269 | 89% | 29,546 | 86% | 13,897 | 73% | 10,603 | 73% | 2,022 | 50% |
| ***Net Assets*** | 5,313 | 9% | 4,766 | 11% | 4,725 | 14% | 5,188 | 27% | 3,843 | 27% | 2,003 | 50% |
| **Represented by** | | | | | | | | | | | | |
| Share Capital | 5,280 | 9% | 5,280 | 12% | 5,280 | 15% | 5,280 | 28% | 3,200 | 22% | 2,000 | 50% |
| Reserves | 91 | 0.2% | 9 | 0.02% | - | 0% | - | 0% | - | 0% | - | 0% |
| Accumulated Loss | (227) | -0.4% | (555) | -1% | (592) | -2% | (102) | -1% | (47) | -0.3% | (8) | -0.2% |
| Advance against future | | | | | | | | | | | | |
| issue of share capital | - | - | - | - | - | - | - | - | 681 | 5% | - | - |
| Surplus on revaluation | | | | | | | | | | | | |
| of assets - net of tax | 169 | 0.3% | 32 | 0.1% | 38 | 0.1% | 10 | 0.1% | 9 | 0.1% | 11 | 0.3% |
| | 5,313 | 9% | 4,766 | 11% | 4,725 | 14% | 5,188 | 27% | 3,843 | 27% | 2,003 | 50% |
| **Profit & Loss Account** | | | | | | | | | | | | |
| Profit / return earned | 5,502 | 96% | 3,807 | 95% | 2,177 | 86% | 1,465 | 88% | 600 | 81% | 100 | 69% |
| Profit / return expensed | (2,883) | -50% | (2,058) | -51% | (1,222) | -49% | (730) | -44% | (304) | -41% | (19) | -13% |
| Net spread earned | 2,619 | 46% | 1,750 | 44% | 955 | 38% | 735 | 44% | 296 | 40% | 81 | 56% |
| Provisions | (85) | -1% | (4) | 0% | (111) | -4% | (131) | -8% | (28) | -4% | (1) | -1% |
| Net spread after provisions | 2,534 | 44% | 1,746 | 43% | 844 | 33% | 605 | 36% | 267 | 36% | 80 | 56% |
| Other income | 227 | 4% | 206 | 5% | 343 | 14% | 196 | 12% | 140 | 19% | 45 | 31% |
| Other expenses | (2,152) | -38% | (1,907) | -48% | (1,766) | -70% | (1,034) | -62% | (511) | -69% | (159) | -110% |
| Profit before tax | 609 | 11% | 45 | 1% | (580) | -23% | (233) | -14% | (103) | -14% | (34) | -24% |
| Taxation | (199) | -3% | 2 | 0% | 90 | 4% | 178 | 11% | 64 | 9% | 26 | 18% |
| Profit after taxation | 410 | 7% | 47 | 1% | (490) | -19% | (55) | -3% | (39) | -5% | (8) | -6% |

# Six Years' Horizontal Analysis

| | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rs. In Mln | % | Rs. In Mln | % | Rs. In Mln | % | Rs. In Mln | % | Rs. In Mln | % | Rs. In Mln |
| **Statement of Finanacial Position** | | | | | | | | | | | |
| ***Assets*** | | | | | | | | | | | |
| Cash and balances | | | | | | | | | | | |
| with treasury banks | 4,685 | 54% | 3,035 | -28% | 4,218 | 94% | 2,175 | 52% | 1,433 | 324% | 338 |
| Balances with other banks | 549 | -4% | 570 | -72% | 2,060 | -7% | 2,207 | -14% | 2,577 | 226% | 791 |
| Lending to financial institutions | 4,436 | -2% | 4,513 | 12% | 4,019 | 9860% | 40 | -94% | 625 | 52% | 412 |
| Investments | 21,067 | 53% | 13,732 | 102% | 6,813 | 36% | 5,020 | 30% | 3,864 | 684% | 493 |
| Financings | 20,110 | 21% | 16,670 | 59% | 10,457 | 65% | 6,343 | 60% | 3,963 | 313% | 959 |
| Operating fixed assets | 1,812 | -12% | 2,067 | -14% | 2,395 | 25% | 1,911 | 75% | 1,093 | 148% | 441 |
| Deferred tax assets | 188 | -53% | 402 | 13% | 355 | 33% | 267 | 193% | 91 | 236% | 27 |
| Other assets | 5,974 | 48% | 4,047 | 2% | 3,955 | 253% | 1,121 | 40% | 799 | 42% | 563 |
| | 58,821 | 31% | 45,036 | 31% | 34,272 | 80% | 19,085 | 32% | 14,446 | 259% | 4,025 |
| ***Liabilities*** | | | | | | | | | | | |
| Bills payable | 799 | 42% | 563 | 16% | 486 | 37% | 354 | 316% | 85 | 257% | 24 |
| Due to Financial Institutions | 800 | 127% | 353 | 126% | 156 | -37% | 246 | 251% | 70 | 40% | 50 |
| Deposits | 50,569 | 32% | 38,198 | 36% | 27,987 | 124% | 12,478 | 26% | 9,934 | 459% | 1,778 |
| Deferred tax liabilities | - | 0% | - | 0% | - | 0% | - | 0% | - | 0% | - |
| Other Liabilities | 1,341 | 16% | 1,155 | 26% | 917 | 12% | 819 | 60% | 513 | 202% | 170 |
| | 53,509 | 33% | 40,269 | 36% | 29,546 | 113% | 13,897 | 31% | 10,603 | 424% | 2,022 |
| ***Net Assets*** | 5,313 | 11% | 4,766 | 1% | 4,725 | -9% | 5,188 | 35% | 3,843 | 92% | 2,003 |
| **Represented by** | | | | | | | | | | | |
| Share Capital | 5,280 | 0% | 5,280 | 0% | 5,280 | 0% | 5,280 | 65% | 3,200 | 60% | 2,000 |
| Reserves | 91 | 880% | 9 | 0% | - | 0% | - | 0% | - | 0% | - |
| Accumulated Loss | (227) | -59% | (555) | -6% | (592) | 478% | (102) | 118% | (47) | 462% | (8) |
| Advance against future | | | | | | | | | | | |
| issue of share capital | - | - | - | - | - | - | - | -100% | 681 | 100% | - |
| Surplus on revaluation | | | | | | | | | | | |
| of assets - net of tax | 169 | 422% | 32 | -14% | 38 | 262% | 10 | 20% | 9 | -23% | 11 |
| | 5,313 | 11% | 4,766 | 1% | 4,725 | -9% | 5,188 | 35% | 3,843 | 92% | 2,003 |
| **Profit & Loss Account** | | | | | | | | | | | |
| Profit / return earned | 5,502 | 45% | 3,807 | 75% | 2,177 | 49% | 1,465 | 144% | 600 | 500% | 100 |
| Profit / return expensed | (2,883) | 40% | (2,058) | 68% | (1,222) | 68% | (730) | 140% | (304) | 1528% | (19) |
| Net spread earned | 2,619 | 50% | 1,750 | 83% | 955 | 30% | 735 | 149% | 296 | 264% | 81 |
| Provisions | (85) | 1965% | (4) | -96% | (111) | -15% | (131) | 360% | (28) | 2734% | (1) |
| Net spread after provisions | 2,534 | 45% | 1,746 | 107% | 844 | 40% | 605 | 126% | 267 | 233% | 80 |
| Other income | 227 | 10% | 206 | -40% | 343 | 75% | 196 | 40% | 140 | 215% | 45 |
| Other expenses | (2,152) | 13% | (1,907) | 8% | (1,766) | 71% | (1,034) | 102% | (511) | 221% | (159) |
| Profit before tax | 609 | 1266% | 45 | 108% | (580) | 149% | (233) | 126% | (103) | 199% | (34) |
| Taxation | (199) | -10017% | 2 | -98% | 90 | -49% | 178 | 176% | 64 | 147% | 26 |
| Profit after taxation | 410 | 780% | 47 | -110% | (490) | 783% | (55) | 44% | (39) | 362% | (8) |

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# Statement of Value Added

| | 2011 Rs. In Mln | % | 2010 Rs.In Mln | % |
|---|---|---|---|---|
| **Value Added** | | | | |
| Net spread earned | 2,619 | | 1,749 | |
| Other income | 227 | | 207 | |
| Other expenses excluding staff costs, depreciation, amortisation, donations and WWF | (955) | | (880) | |
| Provision against financings, investments & others | (85) | | (4) | |
| Value added available for distribution | 1,806 | | 1,072 | |
| **Distribution of value added** | | | | |
| **To employees** | | | | |
| Remuneration, provident fund and other benefits | 840 | 46.51% | 648 | 60.51% |
| **To government** | | | | |
| Workers Welfare Fund | 13 | 0.70% | 1 | 0.11% |
| Income tax | 199 | 1.02% | 2 | 0.19% |
| | 212 | 11.72% | 3 | 0.30% |
| **To Society** | | | | |
| Donations | - | - | - | - |
| **To Shareholders** | | | | |
| Depreciation | 311 | | 334 | |
| Amortisation | 34 | | 44 | |
| Retained earnings | 410 | | 42 | |
| | 754 | 41.76% | 420 | 39.19% |
| | 1,806 | 100.00% | 1,072 | 100.00% |

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# Six Years' Financial Summary 2006-2011

| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| | (Rupees in Millions) | | | | | |
| **Profit & Loss Account** | | | | | | |
| Profit/return Earned | 5,502 | 3,807 | 2,177 | 1,465 | 600 | 100 |
| Profit /return Expensed | 2,883 | 2,058 | 1,222 | 730 | 304 | 19 |
| Net Spread earned | 2,619 | 1,750 | 955 | 735 | 296 | 81 |
| Fee,commission,brokerage & exchange Income | 173 | 153 | 316 | 141 | 71 | 4 |
| Dividend and capital gains | 0.002 | 0.001 | 2 | 33 | 65 | 38 |
| Other Income | 53 | 53 | 24 | 22 | 4 | 4 |
| Total Other Income | 227 | 206 | 343 | 196 | 140 | 45 |
| Total Income | 2,846 | 1,956 | 1,298 | 931 | 436 | 127 |
| Other expenses | 2,084 | 1,907 | 1,766 | 1,034 | 511 | 159 |
| Profit/(loss) before tax and provisions | 693 | 49 | (490) | (102) | (75) | (35) |
| Provisions | 85 | 4 | 111 | 131 | 28 | (1) |
| Profit/(loss) before tax | 609 | 45 | (580) | (233) | (103) | (34) |
| Profit/(loss) after tax | 410 | 47 | (490) | (55) | (39) | (8) |
| **Statement of Finanacial Position** | | | | | | |
| Paid up capital | 5,280 | 5,280 | 5,280 | 5,280 | 3,200 | 2,000 |
| Reserves | 91 | 9 | - | - | - | - |
| Unappropriated profit/(loss) | (227) | (555) | (592) | (102) | (45) | (8) |
| Shareholder's equity | 5,144 | 4,734 | 4,687 | 5,177 | 3,155 | 1,992 |
| Surplus on revaluation of assets-net of tax | 169 | 32 | 38 | 10 | 9 | 11 |
| Net Assets | 5,313 | 4,766 | 4,725 | 5,188 | 3,845 | 2,003 |
| Total Assets | 58,821 | 45,036 | 34,272 | 19,085 | 14,447 | 4,025 |
| Earning Assets | 46,163 | 35,485 | 23,349 | 13,610 | 10,998 | 2,655 |
| Gross Financings | 20,461 | 16,999 | 10,707 | 6,687 | 3,992 | 960 |
| Financings-net of provisions | 20,110 | 16,670 | 10,457 | 6,343 | 3,931 | 959 |
| Non-performing Financings | 799 | 660 | 789 | 186 | 78 | - |
| Investments | 21,067 | 13,732 | 6,813 | 5,020 | 3,864 | 493 |
| Total Liabilities | 53,509 | 40,269 | 29,546 | 13,897 | 10,603 | 2,022 |
| Deposits & other accounts | 50,569 | 38,198 | 27,987 | 12,478 | 9,934 | 1,778 |
| Current & Saving Deposits (CASA) | 25,926 | 19,402 | 15,335 | 5,978 | 5,005 | 966 |
| Borrowing | 800 | 353 | 156 | 246 | 70 | 50 |
| Profit bearing Liabilities | 41,123 | 29,390 | 20,565 | 9,668 | 8,600 | 1,469 |
| Contingencies and commitments | 4,595 | 4,468 | 1,263 | 1,645 | 1,446 | 644 |
| **Financial Ratios** | | | | | | |
| Profit before tax ratio (PBT/total income) | 21.39% | 2.28% | -44.67% | -25.01% | -23.59% | -27.13% |
| Net Spread earned/Profit Earned | 47.60% | 45.96% | 43.86% | 50.20% | 49.33% | 81.34% |
| Other income to total income | 6.09% | 7.84% | 24.53% | 18.72% | 31.31% | 33.05% |
| Income/ expense ratio (excl. provisions) (Times) | 1.37 | 1.03 | 0.73 | 0.90 | 0.85 | 0.80 |
| Return on average equity (ROE) | 8.29% | 0.99% | -9.93% | -1.33% | -1.50% | -0.84% |
| Return on average assets (ROA) | 0.79% | 0.12% | -1.84% | -0.33% | -0.42% | -0.42% |
| Return on Capital Employed (ROCE) | 8.29% | 0.99% | -9.93% | -1.33% | -1.50% | -0.84% |
| Earning per share (EPS after tax) | 0.78 | 0.09 | (0.93) | (0.11) | (0.12) | (0.04) |
| Gross Financings / deposit ratio | 40.46% | 44.50% | 38.26% | 53.59% | 40.19% | 54.00% |
| Net Financings /deposit ratio | 39.77% | 43.64% | 37.36% | 50.83% | 39.57% | 53.94% |
| Breakup value per share (excl.surplus on rev. of assets) | 9.74 | 8.97 | 8.88 | 9.81 | 9.86 | 9.96 |
| Breakup value per share (incl.surplus on rev. of assets) | 10.06 | 9.03 | 8.95 | 9.83 | 9.89 | 10.01 |
| Earning assets to total assets ratio | 78.48% | 78.79% | 68.13% | 71.31% | 76.12% | 65.97% |
| Earning assets to profit bearing Liabilities (Times) | 1.12 | 1.21 | 1.14 | 1.41 | 1.28 | 1.81 |
| CASA to Total Deposits | 51.27% | 50.79% | 54.79% | 47.91% | 50.38% | 54.35% |
| NPLs to Gross Financings ratio | 3.90% | 3.88% | 7.37% | 2.78% | 1.96% | - |
| Assets to Equity (Times) | 11.44 | 9.51 | 7.31 | 3.69 | 4.58 | 2.02 |
| Deposit to share holder equity (Times) | 9.83 | 8.07 | 5.97 | 2.41 | 3.15 | 0.89 |
| Capital Adequacy Ratio | 17.18% | 19.50% | 18.24% | 39.83% | 37.92% | 61.83% |
| Market value per share-Dec 31(Rs.) | 3.10 | 3.63 | 7.25 | 7.25 | 16.2 | 10.55 |
| **Non Financial Information** | | | | | | |
| Number of branches | 102 | 102 | 102 | 102 | 36 | 10 |
| Total number of employees | 1,448 | 1,347 | 1,471 | 1,188 | 563 | 234 |

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# Key Performance Indicators

| | | 2011 | 2010 | Variance | |
|---|---|---|---|---|---|
| | | | | Amount | % / Times |
| | | ------------------ **Rupees in million** ------------------ | | | |
| **Financial** | | | | | |
| Gross Financings | Rs. In Mln | **20,461** | 16,999 | 3,462 | 20% |
| Investments | " | **21,067** | 13,732 | 7,335 | 53% |
| Deposits | " | **50,569** | 38,198 | 12,370 | 32% |
| Shareholders Equity | " | **5,144** | 4,734 | 410 | 9% |
| Net Spread Earned | " | **2,619** | 1,749 | 870 | 50% |
| Other Income | " | **227** | 207 | 20 | 9% |
| Other Expenses | " | **2,152** | 1,907 | 245 | 13% |
| Provisions | " | **85** | 4 | 81 | 21.25 times |
| Profit Before Taxation | " | **609** | 45 | 564 | 13.53 times |
| Profit after Taxation | " | **410** | 47 | 363 | 8.72 times |
| **Non Financial** | | | | | |
| No. of customers | Absolute | **196,371** | 155,957 | 40,414 | 26% |
| No. of ATM cards and Debit cards issued | " | **162,672** | 132,510 | 30,162 | 23% |
| Total Number of employees | " | **1,448** | 1,347 | 101 | 7% |
| **Key Financial Ratios** | | | | | |
| Earnings per Share | Rs. | **0.78** | 0.09 | | |
| Bookvalue Per Share | " | **9.74** | 8.97 | | |
| Share Price - Dec. 31 | " | **3.10** | 3.63 | | |
| Market Capitalisation | Rs. In Bln | **1.64** | 1.92 | | |
| Price/Earnings Ratio | Times | **3.97** | 40.33 | | |
| Return on Equity | % | **7.96%** | 0.98% | | |
| Return on Assets | " | **0.79%** | 0.12% | | |
| Capital Adequacy Ratio | " | **17.18%** | 19.50% | | |

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## 2011 has been another promising year...

Total Deposits
**Rs. 50.569m**
**32%**

Total Assets
**Rs. 58.821m**
**31%**

Total Financing
**Rs. 20.110m**
**21%**

Total Investment
**Rs. 21.067m**
**53%**

Employees Count
**1,448**
**7%**

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 8th Annual General Meeting of the Members of BankIslami Pakistan Limited will be held Inshallah on Friday, March 30, 2012 at 12:00 noon at Hotel Regent Plaza, Shahra-e-Faisal, Karachi, to transact the following business:

**ORDINARY BUSINESS**

1- To confirm minutes of the 7th Annual General Meeting held on March 30, 2011.

2- To receive, consider and adopt the Audited Financial Statements (separate and consolidated) for the year ended December 31, 2011 together with the Auditors' and Directors' Reports thereon.

3- To appoint auditors of the bank for the year ending December 31, 2012 and to fix their remuneration. The present auditors M/s. A. F. Ferguson & Co., Chartered Accountants, retire and being eligible, offer themselves for re-appointment.

**ANY OTHER BUSINESS**

4- To transact any other business with the permission of the Chair.

By Order of the Board

**Syed Shah Sajid Hussain**
Company Secretary

Karachi: March 9, 2012

**Notes:**

i The Members' Register will remain closed from March 25, 2012 to March 31, 2012 (both days inclusive).

ii A member eligible to attend and vote at this meeting may appoint another member as proxy to attend and vote in the meeting. Proxies in order to be effective must be received at the registered office not less than 48 hours before the holding of the meeting.

iii An individual beneficial owner of the Central Depository Company, entitled to vote at this meeting must bring his/her Computerized National Identity Card with him/her to prove his/her identity, and in case of proxy must enclose an attested copy of his/her Computerized National Identity Card. Representatives of corporate members should bring the usual documents required for such purposes.

iv Members are requested to promptly notify Share Registrar, M/s. Technology Trade (Pvt.) Ltd., Dagia House, 241-C, PECHS Society, Karachi, of any change in their address.

# Directors' Report

On behalf of the Board, I am pleased to present the Eighth Annual Report of BankIslami Pakistan Limited. Highlights are:

| | Dec-11 | Dec-10 | Growth (%) |
|---|---|---|---|
| | ............Rupees in million.............. | | |
| | | | |
| Total Deposits | 50,569 | 38,198 | 32.4% |
| Total Assets | 58,821 | 45,035 | 30.6% |
| Total Financing | 20,110 | 16,670 | 20.6% |
| Total Investments | 21,067 | 13,732 | 53.4% |
| Shareholder's Equity | 5,144 | 4,734 | 8.66% |
| Branches | 102 | 102 | - |
| **Basic Earnings/(loss) per share - rupees** | 0.78 | 0.09 | 766.60% |

It gives me great pleasure to share with you the milestones we achieved in the financial year 2011 and the strategy for 2012:

- Total deposits of the Bank grew by 32.4%. The growth was mainly driven by a 55.06% increase in the Savings Account followed by a 30.21% increase in the Fixed Deposits, of which the main contribution came from the Islami Mahana Munafa Account, a monthly profit paying facility ranging from one to ten years. Non-remunerative Current Accounts grew by 11.84%. Growth in Current Accounts was low due to conversion into a recently launched Saving product, Islami Sahulat Account. The need for this was felt as bundled facilities could be made available which otherwise are not possible due to Shariah restrictions. The deposit cost of Bank remained almost flat despite of this increase. At the end of the year, the Bank had almost 200,000 depository relationships as against approximately 160,000 last year;

  In 2012 we will continue to focus on further strengthening our retail franchise by further strengthening the Product Portfolio, existing relationships as well as tapping new markets. More focus on the Current and Saving products is expected;

- Financing grew by 20.64%. The growth was achieved in all segments. Corporate, Small and Medium Enterprise and Commercial Business contributed the most. The growth in Consumer business was driven by our Mortgage Financing business, Muskun, which grew by 65.08%. Trade Finance business grew by 44.52%, much below our anticipated target. Asset quality across the board remained good. Total Classified portfolio was only 3.91% of the Financing making it one of the best portfolio's in the Banking industry;

While we do expect some improvement in Credit off take, our focus shall remain on the blue chip market in the Corporate Segment with opportunistic interest in the SME and Commercial Segments. Trade Finance shall be priority for growth. In Consumer segment, we are all set to launch our Mortgage product across the country in 10 more cities. The Car Financing product, Islami Auto Ijarah, has also been re-packaged and will receive increased focus;

· Investment portfolio recorded a growth of 53.41%, almost exclusively due to increased investments in the Sovereign Sukuk Bonds. Owing to fewer quality financing opportunities, we will continue to focus aggressively on investment opportunities in the Sovereign Market with sporadic interest in the private Sukuk Market;

· Better deployment of assets and improved yields contributed to the top line growth of 44.52% which is impressive in the current economic environment. Coupled with it, the Gross Spread improved by 49.67% while Net Spread after provisioning increased by 47.82%. Our strong spreads are a testament of our basic banking business being vibrant and competitive. Specifically, our spreads fall firmly in the upper half of the Banking industry. With better asset deployment and mix in 2012, we expect to further improve our Gross Spreads by at least 1%;

· Other Income remained almost flat. One of the reasons was shifting of excess liquidity to the Ijara Sukuk and limited trading opportunities in it. However, in 2012 we are expecting introduction of Treasury instruments both at the short and long end of the yield curve. Additional, we are also hopeful Islamic Banks will have access to the Repo market, the Shariah compliant alternative of which is already available. These measures will significantly boast the Treasury revenues. Our increased focus on Trade Finance and introduction of charges on various services effective January 2012 will also contribute to the income under this head which we expect to be doubled going forward;

· Administrative Expenses increased by 13.30% which is in line with the inflation. Main contributor to the increase was employment cost which was high for the year due to certain one time expenses, monetization of cars and hiring of Service Quality Officers. Despite of increase, Employment Cost constituted only 39.68% of the Administrative Expenses which is actually one of the best in the industry. Head Count remained competitive at 1,448 which works to be 135 per relationship as against 116 in 2010. We expect this to increase to 160 in 2012. In percentage terms, Administrative Expenses are expected to increase by almost 20% due to planned expansion in 2012 and inflation. Further, Pre-operating Expenses were fully written off this year;

· There was no increase in the branch network which remained at 102 Branches and Sub branches. BankIslami has received 39 new licenses, out of which we expect to open about 20 new branches starting from second quarter;

· The Earning per Share worked out to be Rs. 0.78. The quality of earnings was high as it almost entirely came from sustainable and recurring operations.

In addition to the above financial highlights, several new initiatives were taken that enabled us to deliver these strong results.

We have been extremely proud of our Information Technology infrastructure. 2011 saw us taking new strides. Notable initiatives were: Complete automation of back office work flow which would enable us to increase efficiency and make substantial savings. Core Banking hardware was upgraded to IBM Power 7 which allowed us to efficiently handle increased business load. BankIslami was one of the few banks in Pakistan that deployed CISCO based IP Telephony infrastructure. The investment made in 2006 continues to provide state-of-the-art communication facility with substantial cost advantage. This year the system was upgraded to new technology thereby extending the original life. In addition to that, Pakistan Remittance Initiative was also finalized to be launched in 2012. A complete automated system was opted for better product delivery. An end-to-end SMS alert was also introduced allows customers to keep a better tab over their finances. Additionally, introduction of Standardized Electronic Balance Confirmation, Electronic Validation Printing and Personalized Cheque Books were also introduced. We also expect to roll out the first phase of Mobile Banking this year.

On the Human Resources front, we invested heavily on Training and Development. A total of 212 Training Sessions were conducted spread over 24,429 Training Hours. On an average an employee was trained for 17 hours. Technical Skills received most of the attention with Training Hours totaling 17,553 Hours.

The result of increased automation, better processes and extensive training was reflected in marked improvement in Service Quality, which was the primary focus of the Bank in 2011. The Bank introduced 22 service indicators, which showed improvement across the board. To give an idea of the level of improvement, 96% of the Cash Deposits and Withdrawal transactions were processed within 10 minutes, Pay order took only 15 minutes 96% of the time while 94% of the Utility Bills were paid within 5 minutes. Same was the case with Internal Transfers. The average up time for ATM machines including cash replenishment etc was 92%. With our technology infrastructure, improved work flows and extensive training Insha'Allah we will set new standards in customer service. The appeal of Islamic Banking should extend beyond Product Authenticity. It is firmly factored in our value statement.

**Minimum Capital Requirement.**

State Bank of Pakistan was kind enough to grant us extension till June 30, 2012 and has indicated subject to our raising the Paid Up Capital net of losses to Rs. 6 Billion, further relaxation shall be allowed. The Board of directors last year had agreed in principle to issue right shares at discount to increase the Paid Up Capital to Rs. 6 Billion. Further announcement in this respect is expected soon. No dividend is proposed as the Bank has still accumulated losses, as well earnings are being retained to meet the Regulatory Capital Requirement.

## Corporate and Financial Reporting Framework

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

1- The financial statements prepared by the Management of the Bank present fairly its state of affairs, the results of its operations, cash flow and changes in equity.

2- Proper books of account of the Bank have been maintained.

3- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

4- International Accounting Standards, as applicable in Pakistan have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.

5-The system of internal control is sound in design and has been effectively implemented and monitored.

6-There are no doubts upon the Bank's ability to continue as a going concern.

7-There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations.

8-The value of investments of the Bank's Provident Fund and gratuity fund based on un-audited accounts at December 31, 2011 amounted to Rs. 173 million and Rs. 82 million respectively.

9-The purchase and sale of shares by the Directors and the Chief Executive during the year is given in enclosed annexure.

## Compliance with Code of Corporate Governance

The requirements of the Code of Corporate Governance set out by The Karachi Stock Exchange is its listing regulations relevant for the year ended December 31, 2011 have been adopted by the Bank and have been duly complied with. A statement to this effect is annexed with the report.

## Risk Management Framework

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

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

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

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

**Credit Rating**

The Bank has been assigned a long term entity rating of 'A' and short term rating of 'A-1' by Pakistan Credit Rating Agency Limited (PACRA), reflecting BankIslami well conceived business strategy and establishment of an effective operating platform to execute the business strategy.

**Pattern of Shareholding**

The Pattern of shareholding as at December 31, 2011 is annexed with the report.

**Auditors**

The present auditors A.F. Ferguson & Co., retire and being eligible offer themselves for re-appointment. As required under the Code of Corporate Governance, the Audit Committee has recommended the appointment of A.F. Ferguson & Co., as auditors for the year ending December 31, 2012.

**Acknowledgments**

The Board would like to place on record its deep appreciation for the State Bank of Pakistan for all the assistance and guidance. We are also thankful to our employees for their kind dedication and commitment during the year under review.

On behalf of the Board,

Hasan A Bilgrami
Chief Executive Officer

March 07, 2012

## ANNEXURE TO DIRECTORS' REPORT

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

| Name | Designation | No. of Shares as at Jan. 01, 2011 | Shares subscribed/ purchased during the Year | No. of Shares as at Dec. 31, 2011 |
|---|---|---|---|---|
| Chief Justice (Retd.) Mahboob Ahmed | Chairman | 130,829 | - | 130,829 |
| Mr. Ahmed Goolam Mahomed Randeree | Director | 51,423,883 | - | 51,423,883 |
| Mr. Ali Raza Siddiqui | Director | - | 5,000 | 5,000 |
| Mr. Shabir Ahmed Randeree | Director | 51,423,883 | - | 51,423,883 |
| Mr. Hasan A Bilgrami | CEO | 499,079 | - | 499,079 |

**Attendance of Board of Directors for the Year 2011:**

| Director Name | Total | Attended | Leave of Absence |
|---|---|---|---|
| Chief Justice (Retd.) Mahboob Ahmed * | 7 | 7 | 0 |
| Mr. Ahmed Goolam Mahomed Randeree * | 7 | 1 | 6 |
| Mr. Ali Raza Siddiqui * | 7 | 7 | 0 |
| Mr. Hicham Hammoud * | 7 | 6 | 1 |
| Mr. Hasan A. Bilgrami, Director/CEO ** | 7 | 7 | 0 |
| Mr. Shabir Ahmed Randeree * | 7 | 7 | 0 |
| Mr. Mohamed Amiri *** | 4 | 0 | 4 |
| Mr. Ali Hussain **** | 3 | 3 | 0 |
| Mr. Marwan Hassan Ali ElKhatib **** | 3 | 0 | 3 |

* re-elected as director effective from April 29, 2011, from January to December 2011 total seven board meetings were held.
** term as elected director expired on April 29, 2011.
*** term as elected director expired on April 29, 2011. Till April 2011 four board meetings were held.
**** elected as director effective from April 29, 2011. After April 2011 three board meetings were held.

# Statement Of Internal Control

Statement of Management's Responsibility

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

- Establish and maintain an adequate and effective system of internal controls and procedures for an efficient working environment for obtaining desired objectives.

- Evaluate the effectiveness of the Bank's internal control system that encompasses material matters by identifying control objective, reviewing significant policies and procedures and establishing relevant control procedures.

Management Evaluation of the Effectiveness of the Bank Internal Control System

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

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

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

For and On Behalf of the Board

Hasan A Bilgrami
Chief Executive Officer

March 07, 2012.

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BankIslami

# Islami Auto Ijarah

BankIslami brings to you **"Islami Auto Ijarah"**, the most convenient way to get your dream car, the Sharia'h Compliant way.

The features of "Islami Auto Ijarah" are:

- No monthly installment till delivery
- 3 to 5 years flexible tenure
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* Financing available in selected cities.

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# Statement of Compliance With the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the regulations G-1 of the Prudential Regulations for Corporate/Commercial Banking issued by the State Bank of Pakistan and Regulation No.35 of Chapter XI contained in the Listing Regulations issued by the Karachi Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed banking company is managed in compliance with the best practices of corporate governance.

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

1. The Bank encourages representation of independent non-executive directors on its Board of Directors. At present, the Board includes six non-executive directors.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies including this Bank.

3. All the resident directors of the Bank are registered as taxpayers and none of them have defaulted in payment of any loan to a banking company, a DFI, or NBFI or, being a member of a stock exchange, have been declared as a defaulter by the stock exchange.

4. No casual vacancy occurred on the Board during the period under review.

5. The Bank has prepared Statement of Ethics and Business Practices which has been signed by majority of the Directors and employees of the Bank.

6. The Board has developed a vision and mission statement and an overall corporate strategy and significant policies of the Bank. A complete record of particulars of the significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of the employment of the Chief Executive Officer have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence by a director elected by the Board for this purpose. Seven meetings of the Board were held during the year. Written agenda notices/e-mails of the Board meetings were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.

9. The Directors are well conversant with their duties and responsibilities under the relevant laws applicable to the Bank and the provisions of the Code of Corporate Governance. Further, the management is planning to carry out an orientation course for atleast one director in the near future.

10. There was no new appointment of the CFO, Company Secretary or Head of Internal Audit during the year ended December 31, 2011.

11. The Directors' Report for this year has been prepared in compliance with the requirement of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Bank were duly endorsed by CEO and CFO before the approval of the Board.

13. The Directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.

14. The Bank has complied with all corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the committee.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Bank and as required by the Code. The terms of reference of the Committee have been formed, approved by the Board and advised to the Committee for compliance.

17. The Board has set up internal audit functions, the members of which are considered suitably qualified and experienced for the purposes and are conversant with the policies and procedures of the Bank.

18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program 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 partner are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justifications for non-arm's length transactions, if any and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such term can be substantiated.

21. We confirm that all others material principles contained in the Code have been complied with.

Hasan A. Bilgrami
Chief Executive Officer

March 07, 2012

## AUDITORS' REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE 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 BankIslami Pakistan Limited ('the Bank') to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan and Regulation No. 35 of Chapter XI contained in the Listing Regulations issued by the Karachi Stock Exchange (Guarantee) Limited where the Bank is listed.

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.

Sub-Regulation (xiii a) of Listing Regulation No. 35 as notified by the Karachi Stock Exchange (Guarantee) Limited on which the Bank is listed 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 arms' 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, 2011.

Chartered Accountants
Dated: March 08, 2012
Karachi

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# SHARI'AH ADVISER'S ANNUAL REPORT

بسم الله الرحمن الرحيم

الحمدُ للّه ربِّ العالمين، و الصَّلاةُ و السَّلام علٰى رسُوله الكريم، و علٰى آله
و أصحابه أجمعيْنَ، و بعدُ!

Strengthening the Shariah compliance mechanism in Islamic banking industry to avoid the mistakes and deficiencies observed in an earlier attempt during 80s', the State Bank took certain steps including mandatory statement of Shariah compliance by the Shariah Adviser in Annual Report. This Shari'ah Adviser's Report serves the purpose of statement of Shari'ah compliance through which Shari'ah Adviser shares his opinion with the stakeholders on whether the practices in the financial transactions conform to policies. I will use the opportunity to discuss the general Shari'ah compliance environment, investment in human resources and progress and issues in new products development.

**Shari'ah Compliance:**

Every transaction in the bank is executed either under standard operating procedure and issued guidelines or a separate process flow is structured and approved to ensure conformance to Shari'ah requirements. We have in place a system for the review of executed transactions. This includes periodic testing and checking of sample transactions by Shari'ah team and regular Shari'ah audit by Internal Audit team. Product Development department also plays an important role in ensuring Shari'ah compliance through continuous revision of SOPs and guidelines, structuring of processes for transaction and assisting Shari'ah department in performance of its functions. Identified mistakes and irregularities are rectified and where it is deemed necessary the respective income is transferred to Charity account. Employees on the front desk dealing with the clients and staff at the back office facilitating the transactions have crucial part for ensuring maintenance of Shari'ah standards. Training and equipping them with necessary skills is an important constituent of Shari'ah compliance function which will be discussed later in the report.

**Product Development and Process Improvement:**

Preferred banking services and cash management solutions have for long been much demanded by the business community. To cater to this demand some new products have been introduced which will provide Shari'ah compliant cash management services. This will allow businesses and individuals with high turnover to avail cash management facilities with additional services in a Shari'ah compliant way.

An important progress has been made in the area of Murabahah of fast moving goods. Thanks to the finding and research of Al Majlis-ul-Fiqhi (an informal forum of Shari'ah Advisers of Islamic banks in Pakistan for research and development) a solution to Murabahah of oil and other inventories of low retention period was put in place. This resolves the issue of consumption risk before Murabahah goods are sold.

Like previous years this year too engages our time and attention on the long-demanded running finance product. The proposed structure underlies limited Musharakah concept which excludes certain activities of the financee enterprise from the ambit of Musharakah. However extensive Shari'ah research is required to be undertaken on the proposed structure and certain theoretical issues need to be resolved for this modern form of Musharakah.

**Strengthening Shari'ah Compliance:**

In any control system the people are key role players. The main reason for most of the deviations and irregularities is lack of awareness. By training and educating the employees risk of non-compliance can be mitigated to a large extent. At BankIslami along with audit and post transaction reviews human resource trainings have been paid great attention. Every new employee inducted undergoes a basic Islamic banking course. Besides this, special products training sessions are also held for relevant staff. Performance in Islamic banking test is part of overall performance evaluation and appraisal. During the year under review twenty nine sessions occurred which trained over five hundred employees.

Through enhanced reporting time lag between the occurrence of errors and detection thereof has been reduced. The periodic reporting system will contribute to control mechanism through early warning and expedite the corrective actions.

**Composition of the bank's portfolio:**

As of December 31st the outstanding position of the booked assets reveals that Murabahah comprises 31% of the total financing while Istisna and finished goods purchase financing (Karobar financing) together stand at 20%. Ijarah and Diminishing Musharakah respectively account for 7% and 39%.

**Based on the above, I report:**

Each class of transactions with respect to the relevant documentation and procedures adopted by BankIslami has been examined on test check basis;

In my opinion, the business affairs of BankIslami have been generally 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 specific Fatwas and rulings issued by Shari'ah Board and myself from time to time;

In my opinion, the allocation of funds, weightages, profit sharing ratios, and profit relating to PLS accounts conform to the basis vetted by Shari'ah Board and myself in accordance with Shari'ah rules and principles;

An amount of Rs. 4.419Mn was received from customers in respect of charity on delays in payments and credited to charity account.

Since charity funds are kept under investment accounts at the bank, a return is given to this amount as a part of Modaraba pool. During the year Rs. 386,699 accrued to charity fund in respect of Modaraba profit.

Disbursements during the year from the charity fund amounted to Rs. 8.5Mn.

**Recommendations:**

Based on the observations made through Shari'ah review, reports and feedback from several areas I recommend the following:

More investment on human resource is required through extended and recurrent training session for enhancing the skills and understanding of the staff. This will further our approach of assurance for Shari'ah compliance.

Although the culture at BankIslami promotes knowledge sharing, knowledge management system needs to be introduced to learn from the mistakes and experiences. Not only will it reduce training time for new incumbents but will minimize the effects of employees' leaving. Errors that are caused by ignorance and unawareness will be reduced by large extent.

Islamic banks on collective basis should develop the strategies to replace commodity Murabaha and other less preferred modes for managing liquidity. For this purpose SBP could play a mentoring role.

Islamic banks on collective basis should also develop strategies to promote financing to rather neglected sectors of agriculture, education financing, personal financing, cottage industry etc. Currently the main source of financing for these sectors is conventional bank or informal local financing which is many a time usurious. Shari'ah compliant financing in these sectors is limited and yet to gain momentum. The central bank can establish a task force in this regard which will work in coordination with Islamic banks.

Islamic banking department of SBP in consultation with all stakeholders including customers, IFIs, business community and scholars should introduce a Shari'ah Governance Framework for Islamic banks. Moving a head from Shari'ah compliance to Shari'ah governance will improve the image and reputation of Islamic banks by bringing certain ethical aspects and more independence to the function.

May Allah guide us to the right way.

و صلّی اللّه علٰی نبیِّنا محمَّد و بارَکَ و سَلَّم

Irshad Ahmad Aijaz
Shari'ah Adviser

# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of **BankIslami Pakistan Limited** as at December 31, 2011 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 eight 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, 2011, and its true balance of profit, its comprehensive income, 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 1.2 to the accompanying financial statements which describes the matter relating to shortfall in minimum capital requirements of the bank as at December 31, 2011.The State Bank of Pakistan has given extension in timeline to the bank till June 30, 2012 to meet this requirement. Our opinion is not qualified in respect of this matter.

The financial statements of the bank for the year ended December 31, 2010 were audited by another firm of Chartered Accountants. Their audit report dated March 7, 2011 contained an emphasis of matter paragraph on the same issue as described above.

**A.F. Ferguson & Co**
Chartered Accountants
Audit Engagement Partner: **Rashid A. Jafer**
Dated: March 08, 2012
Karachi

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# STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| **ASSETS** | | **--------- Rupees in `000 ---------** | |
| Cash and balances with treasury banks | 6 | **4,684,826** | 3,035,148 |
| Balances with other banks | 7 | **549,277** | 569,622 |
| Due from financial institutions | 8 | **4,436,264** | 4,513,132 |
| Investments | 9 | **21,067,082** | 13,732,132 |
| Financings | 10 | **20,110,401** | 16,670,125 |
| Operating fixed assets | 11 | **1,811,628** | 2,066,680 |
| Deferred tax assets | 12 | **188,130** | 402,183 |
| Other assets | 13 | **5,973,706** | 4,046,681 |
| | | **58,821,314** | 45,035,703 |
| **LIABILITIES** | | | |
| Bills payable | 14 | **798,853** | 563,020 |
| Due to financial institutions | 15 | **800,000** | 353,000 |
| Deposits and other accounts | 16 | **50,568,785** | 38,198,320 |
| Sub-ordinated loans | | **-** | - |
| Liabilities against assets subject to finance lease | | **-** | - |
| Deferred tax liabilities | | **-** | - |
| Other liabilities | 17 | **1,341,038** | 1,154,977 |
| | | **53,508,676** | 40,269,317 |
| **NET ASSETS** | | **5,312,638** | 4,766,386 |
| **REPRESENTED BY** | | | |
| Share capital | 18 | **5,279,679** | 5,279,679 |
| Reserves | 19 | **91,221** | 9,310 |
| Accumulated losses | | **(227,340)** | (554,985) |
| | | **5,143,560** | 4,734,004 |
| Surplus on revaluation of assets - net | 20 | **169,078** | 32,382 |
| | | **5,312,638** | 4,766,386 |
| **CONTINGENCIES AND COMMITMENTS** | 21 | | |

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

**President / Chief Executive** **Director** **Director** **Director**

ANNUAL REPORT 2011

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# Profit and Loss Account
## For the Year Ended December 31, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Profit / return earned | 22 | **5,502,154** | 3,807,197 |
| Profit / return expensed | 23 | **2,883,355** | 2,057,533 |
| Net spread earned | | **2,618,799** | 1,749,664 |
| Provision / (Reversal of provision) against non-performing financings - net | 10.10 | **21,423** | (7,424) |
| Provision for diminution in the value of investments | | **-** | - |
| Bad debts written off directly | | **-** | - |
| | | **21,423** | (7,424) |
| Net spread after provisions / (reversals) | | **2,597,376** | 1,757,088 |
| **OTHER INCOME** | | | |
| Fee, commission and brokerage income | | **110,118** | 94,207 |
| Dividend Income | | **2** | 1 |
| Income from dealing in foreign currencies | | **63,285** | 59,124 |
| Gain on sale of securities | | **-** | - |
| Unrealised gain on revaluation of investments classified as held for trading | | **-** | - |
| Other income | 24 | **53,304** | 52,784 |
| Total other income | | **226,709** | 206,116 |
| | | **2,824,085** | 1,963,204 |
| **OTHER EXPENSES** | | | |
| Administrative expenses | 25 | **2,147,527** | 1,895,476 |
| Other provisions / write offs | | **63,310** | 11,528 |
| Other charges | 26 | **4,661** | 11,657 |
| Total other expenses | | **2,215,498** | 1,918,661 |
| | | **608,587** | 44,543 |
| Extra ordinary / unusual items | | **-** | - |
| **PROFIT BEFORE TAXATION** | | **608,587** | 44,543 |
| **Taxation** | | | |
| - Current | 27 | **57,242** | (42,269) |
| - Prior years | 27 | **1,340** | - |
| - Deferred | 27 | **140,449** | 44,276 |
| | | **199,031** | 2,007 |
| **PROFIT AFTER TAXATION** | | **409,556** | 46,550 |
| **Accumulated losses brought forward** | | **(554,985)** | (592,225) |
| | | **(145,429)** | (545,675) |
| Basic earnings per share – Rupees | 28 | **0.78** | 0.09 |
| Diluted earnings per share – Rupees | 28 | **0.78** | 0.09 |

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

| President / Chief Executive | Director | Director | Director |
|---|---|---|---|

# Statement of Comprehensive Income
## For the Year Ended December 31, 2011

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| Profit after taxation for the year | **409,556** | 46,550 |
| Comprehensive income transferred to equity | **409,556** | 46,550 |
| Components of comprehensive income not reflected in equity : | | |
| Surplus on revaluation of available for sale investments - net of tax | **169,078** | 32,382 |
| Total comprehensive income for the year | **578,634** | 78,932 |

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

**President / Chief Executive** **Director** **Director** **Director**

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# Cash Flow Statement
## For the Year Ended December 31, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Profit before taxation | | **608,587** | 44,543 |
| Less: Dividend Income | | **(2)** | (1) |
| | | **608,585** | 44,542 |
| **Adjustments:** | | | |
| Depreciation | 25 | **310,745** | 333,686 |
| Amortisation | 25 | **29,705** | 27,798 |
| Depreciation on operating Ijara assets | | **255,941** | 89,403 |
| Provision / (Reversal of provision) against non-performing financings - net | 10.10 | **21,423** | (7,424) |
| Other provisions / write offs | | **63,310** | 11,528 |
| Gain on sale of property, plant and equipment | 24 | **(12,787)** | (20,260) |
| Deferred cost amortised | 13.2 | **4,086** | 16,083 |
| | | **672,423** | 450,814 |
| | | **1,281,008** | 495,356 |
| (Increase) / decrease in operating assets | | | |
| Due from financial institutions | | **76,868** | (494,319) |
| Financings | | **(3,717,640)** | (6,294,801) |
| Others assets (excluding advance taxation and deferred cost) | | **(1,995,261)** | (126,682) |
| | | **(5,636,033)** | (6,915,802) |
| Increase / (decrease) in operating liabilities | | | |
| Bills payable | | **235,833** | 77,412 |
| Due to financial institutions | | **447,000** | 196,840 |
| Deposits and other accounts | | **12,370,465** | 10,210,942 |
| Other liabilities (excluding current taxation) | | **186,061** | 237,645 |
| | | **13,239,359** | 10,722,839 |
| | | **8,884,334** | 4,302,393 |
| Income tax paid | | **(57,742)** | (34,720) |
| **Net cash generated from operating activities** | | **8,826,592** | 4,267,673 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Net investments in available for sale securities | | **(7,124,649)** | (6,927,369) |
| Dividend received | | **2** | 1 |
| Investments in operating fixed assets | | **(104,786)** | (68,839) |
| Sale proceeds of property and equipment disposed-off | | **32,174** | 56,239 |
| **Net cash used in investing activities** | | **(7,197,259)** | (6,939,968) |
| **Increase / (decrease) in cash and cash equivalents** | | **1,629,333** | (2,672,295) |
| Cash and cash equivalents at beginning of the year | 29 | **3,604,770** | 6,277,065 |
| Cash and cash equivalents at end of the year | 29 | **5,234,103** | 3,604,770 |

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

**President / Chief Executive** **Director** **Director** **Director**

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# Statement of Changes in Equity
## For the Year Ended December 31, 2011

| | Share capital | Statutory Reserve | Accumulated losses | Total |
|---|---|---|---|---|
| | ----------Rupees in '000---------- | | | |
| **Balance as at January 01, 2010** | 5,279,679 | - | (592,225) | 4,687,454 |
| Profit after taxation for the year transferred from Statement of Comprehensive Income | - | - | 46,550 | 46,550 |
| Transfer to Statutory reserve | - | 9,310 | (9,310) | - |
| **Balance as at December 31, 2010** | 5,279,679 | 9,310 | (554,985) | 4,734,004 |
| Profit after taxation for the year transferred from Statement of Comprehensive Income | - | - | 409,556 | 409,556 |
| Transfer to Statutory reserve | - | 81,911 | (81,911) | - |
| **Balance as at December 31, 2011** | **5,279,679** | **91,221** | **(227,340)** | **5,143,560** |

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

**President / Chief Executive** **Director** **Director** **Director**

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011

**1 STATUS AND NATURE OF BUSINESS**

**1.1** BankIslami Pakistan Limited (the Bank) was incorporated in Pakistan as a public limited company on October 18, 2004 under the Companies Ordinance, 1984 to carry out business of an Islamic Commercial Bank in accordance with the principles of Islamic Shariah.

The State Bank of Pakistan granted a 'Scheduled Islamic Commercial Bank' license on March 18, 2005. The Bank commenced its operations as a Scheduled Islamic Commercial Bank with effect from April 07, 2006, on receiving Certificate of Commencement of Business from the State Bank of Pakistan (SBP) under section 37 of the State Bank of Pakistan Act, 1956. The Bank is principally engaged in corporate, commercial, consumer, retail banking activities and investment activities.

The Bank is operating through 102 branches including 32 sub branches as at December 31,2011. (2010: 102 branches). The registered office of the Bank is situated at 11th Floor, Dolmen City, Marine Drive, Block-4, Clifton, Karachi. The shares of the Bank are quoted on the Karachi Stock Exchange (Guarantee) Limited.

Based on the financial statements of the Bank for the year ended December 31, 2010, the Pakistan Credit Rating Agency (Private) Limited (PACRA) determined the Bank's long-term rating as 'A' and the short-term rating as 'A-1'.

**1.2** The State Bank of Pakistan (SBP) vide circular no. 07 of 2009 dated April 15, 2009 has increased the Minimum Capital Requirement (MCR) for banks upto Rs. 10 billion to be achieved in a phased manner by December 31, 2013. The MCR (free of losses) and Capital Adequacy Ratio (CAR) requirements as at December 31, 2011 is Rs 8 billion (2010: Rs 7 billion) and 10 percent (2010: 10 percent) respectively. However, the paid up capital of the Bank (free of losses) as of December 31, 2011 amounts to Rs 5.052 billion although its CAR stands at 17.18 percent.

Last year the Board of Directors (BOD) of the Bank in their meeting held on February 07, 2011 had in principle agreed to issue right shares to increase its Capital (free of losses) to Rs. 6 billion.The SBP vide its letter no. BSD/CSD/546/2012 dated January 13, 2012 has advised the Bank to complete the right issue as principally agreed by the BOD in its meeting held on February 7, 2011 by June 30, 2012 to achieve the paid up capital (free of losses) of at least Rs 6 billion. Any further extension in timeline for meeting MCR would be considered once paid up capital (free of losses) of Rs 6 billion is achieved.

**2 BASIS OF PRESENTATION**

**2.1** 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 recognised 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 as directed by the Shariah Advisor.

**2.2** These financial statements are the separate financial statements of the Bank in which investments in subsidiaries are carried at cost and are not consolidated. The consolidated financial statements of the Group are being issued separately.

**3 STATEMENT OF COMPLIANCE**

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

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for banking companies 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 revised standards and amendments to existing standards have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2011:

- IAS 24 (revised), 'Related party disclosures' issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard classifies 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 revised standard does not have any significant effect on the Bank's financial statements.

- IFRIC 14 (amendments), ‘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. The amendment does not have any significant impact on the Bank's financial statements.

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

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

The following amendment to existing standard has been issued and is not mandatory for the Bank's accounting periods beginning on January 1, 2011 and not early adopted:

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

There are other new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or 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 any new or amended standard in 2011.

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. Further, staff retirement benefits as disclosed in note 5.6 to the financial statements have been carried at present values as determined under International Accounting Standard 19.

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

4.2 Critical accounting estimates and 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 5.5, 12 and 27)

iv) determination of useful lives and depreciation / amortisation (note 11)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flows 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 the 'held for trading' or 'held to maturity' categories.

5.2.2 Regular way contracts

All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised at the 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 includes transaction costs associated with the investment. Investments classified as 'held for trading' are initially recognised at fair value and transaction costs are expensed in the profit and loss account.

Premium or discount on debt securities classified as available for sale is amortised using the effective interest method and taken to 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 amortised cost using the effective profit rate method, less any impairment loss recognized to reflect irrecoverable amount.

**(c) Available for sale**

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

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**

Associates are all entities over which the Bank has significant influence but not control. Investments in associate is carried at cost less accumulated impairment losses, if any.

**(e) Investments in subsidiaries**

Subsidiaries are all entities over which the Bank has significant control. Investments in subsidiary is carried at cost less accumulated impairment losses, if any.

### 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 cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of 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 the profit and loss account.

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

## 5.3 Financing

Financings are financial products originated by the Bank and principally comprise Murabaha, Istisn'a, Ijarah, Salam, Musawama and Diminishing Musharaka receivables. These are stated net of general and specific provisions.

**Specific provision**

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

**General provision**

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

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

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

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

Istisn’a is an order to manufacture or construct some assets. Istisn'a has two legs: first the bank acquires the described goods by way of Istisn’a to be manufactured by the customer from raw material of its own and once the goods are delivered to the Bank, the customer through an independent agency contract, will sell the same to various end-users as the agent of the Bank.

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

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

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

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

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

**5.3.1 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 method of minimum Ijarah payments have been recognised 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 and depreciation**

**5.4.1 Property and equipment**

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the straight-line method by taking into consideration the estimated useful life of the related assets at the rates specified in note 11.2 to the financial statements. Depreciation on additions / deletions during the year is charged for the proportionate period for which the asset remained in use.

Subsequent costs are included in the assets' 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. Maintenance and normal repairs are charged to the profit and loss account as and when incurred.

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

Residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

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

### 5.4.2 Capital work in progress

These are stated at cost less accumulated impairment losses, if any.

### 5.4.3 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Such intangible assets are amortised using the straight-line method over the estimated useful lives. The useful lives and amortisation 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 losses, if any.

Amortization on additions / deletions during the year is charged for the proportionate period for which the asset remained in use.

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

### 5.4.4 Impairment

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

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

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

## 5.5 Taxation

### 5.5.1 Current

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

### 5.5.2 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.

**5.6 Staff retirement benefits**

**5.6.1 Defined benefit plan**

The Bank operates an approved funded gratuity scheme for its permanent employees. The liability recognised in the statement of financial position in respect of defined benefit gratuity scheme, is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. Contributions to the fund are made on the basis of actuarial recommendations. The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. The last valuation was conducted as on December 31, 2011. Actuarial gains and losses are recognised as income or expense over the average remaining working lives of the employees, if the net cumulative unrecognised actuarial gains or losses for the Scheme at the end of the previous financial year exceed 10% of the higher of defined benefit obligation and the fair value of the plan assets.

**5.6.2 Defined contribution plan**

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

**5.7 Revenue recognition**

**5.7.1** Profit from Murabaha is accounted for on consummation of Murabaha transaction. However, profit on the portion of revenue not due for payment is deferred by accounting for unearned Murabaha income with a corresponding credit to deferred Murabaha income which is recorded as a liability. The same is then recognised as revenue on a time proportionate basis.

**5.7.2** Profit from Istisn'a is recorded on accrual basis commencing from the time of sale of goods till the realisation of proceeds by the Bank. Profit from Diminishing Musharaka, Salam and Musawamah are recognised on a time proportionate basis.

**5.7.3** The Bank follows the finance method in recognising income on Ijarah contracts written upto December 31, 2008. Under this method the unearned income i.e. 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).

Profit from Ijarah contracts entered on or after January 01, 2009 is recognized in the profit and loss account over the term of the contract net of depreciation expense relating to the Ijarah assets.

**5.7.4** Profit on diminishing Musharaka is recognised on an accrual basis.

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

**5.7.6** Profit on classified financing is recognised on receipt basis.

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

**5.7.8** Gains and losses on sale of investments are included in profit and loss currently.

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

**5.7.10** Profit on Sukuks is recognised on an accrual basis.

**5.8 Financial Instruments**

**5.8.1 Financial assets and financial liabilities**

All financial assets and liabilities are recognised at the time when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Bank loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. Any loss on derecognition of the financial assets and financial liabilities is taken to income directly. Financial assets carried on the balance sheet include cash and bank balances, due from financial institutions, investments, 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.

**5.8.2 Offsetting of financial instruments**

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.

**5.8.3 Derivatives**

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

**5.9 Foreign currencies**

**Functional and presentation currency**

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

**Foreign currency transactions**

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

**Translation gains and losses**

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

**Commitments**

Commitments for ousstanding forward foreign exchange contracts are disclosed at contracted rates. Contigent 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.

**5.10 Fiduciary assets**

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

**5.11 Provisions**

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 unless the probability of an outflow of resources embodying economic benefit is remote.

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

**5.12 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.

**5.13 Segment reporting**

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

**5.13.1 Business segments**

**Trading and sales**

It includes equity, foreign exchanges, commodities, credit, funding, own position securities, placements and financings.

**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.

**Support Centre**

It includes the assets and liabilities relating to support functions at Head Office and their related income and expenses.

**5.13.2 Geographical segment**

The Bank has 102 branches including 32 sub branches (2010: 102 branches including 32 sub branches) and operates only in Pakistan.

**5.14 Assets acquired in satisfaction of claims**

The Bank occasionally acquires assets in settlement of certain doubtful financings. These are stated at lower of the net realizable value of the related advances and the current fair value of such assets.

| | Note | 2011 | 2010 |
|---|---|---|---|
| **6 CASH AND BALANCES WITH TREASURY BANKS** | | --------- Rupees in `000 | --------- |
| In hand | | | |
| - local currency | | **835,990** | 653,801 |
| - foreign currency | | **97,403** | 159,600 |
| | | **933,393** | 813,401 |
| With the State Bank of Pakistan in | | | |
| - local currency current account | 6.1 | **2,857,995** | 1,610,620 |
| - foreign currency deposit accounts | | | |
| Cash Reserves Account | 6.2 | **42,005** | 30,401 |
| Special Cash Reserve Account | 6.3 | **50,189** | 35,967 |
| US Dollar Clearing Account | | **16,634** | 19,264 |
| | 6.4 | **108,828** | 85,632 |
| With National Bank of Pakistan in | | | |
| - local currency current account | | **784,610** | 525,495 |
| | | **4,684,826** | 3,035,148 |

**6.1** This represents Rs.2,857.995 million (2010: Rs. 1,610.620 million) held against Cash Reserve Requirement and Statutory Liquidity Requirement. 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 SBP on FE-25 deposits as specified in BSD Circular No. 15 dated June 21, 2008. During the year this deposit was not remunerated (2010: Nil).

**6.4** This includes Rs. 70.883 million (2010: Rs. 64.058 million) held against Cash Reserve Requirement and Special Cash Reserves Requirement. Balance amount is available to the Bank for its operations. These deposits do not carry any return.

## 7 BALANCES WITH OTHER BANKS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| In Pakistan | | | |
| - on current accounts | | **15,206** | 19,221 |
| - on deposit accounts | 7.1 | **113** | 355 |
| | | **15,319** | 19,576 |
| Outside Pakistan | | | |
| - on current accounts | | **533,958** | 550,046 |
| - on deposit accounts | | **-** | - |
| | | **533,958** | 550,046 |
| | | **549,277** | 569,622 |

7.1 Represents deposits with various Islamic commercial banks under Musharaka and Modaraba arrangements with maturities less than 3 months. The expected profit rate on these arrangements is 5% (2010: 5 % to 13.5 %) per annum.

## 8 DUE FROM FINANCIAL INSTITUTIONS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Sukuk Murabaha | 8.1 | **6,418** | 6,418 |
| Commodity Murabaha - local currency | 8.2 & 8.3 | **3,911,264** | 4,513,132 |
| | | **3,917,682** | 4,519,550 |
| Musharaka Placement | 8.4 | **525,000** | - |
| | 8.5 | **4,442,682** | 4,519,550 |
| Provision against sukuk Murabaha | | **(6,418)** | (6,418) |
| | | **4,436,264** | 4,513,132 |

8.1 The Bank entered into sukuk Murabaha arrangement under which the Bank appointed its client as an agent under asset purchase agreements to purchase the underlying sukuk from the open market on its behalf and later sell them on deferred Murabaha basis. The maturity date of the deal was February 08, 2009. The Bank is making efforts to recover the outstanding balance and has made a provision against the outstanding amount.

8.2 The Bank has entered into Commodity Murabaha agreements under which the Bank purchases an underlying commodity from open market through an agent and sells it to a financial institution on credit with profit. The profit rates on the agreement range between 10.75% to 12.5% (2010: 12.75 % and 13 %) per annum and the agreements have a maturity ranging from 2 days to 16 days.

| | | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| 8.3 | Commodity Murabaha sale price | **529,196,217** | 544,831,409 |
| | Purchase price | **(528,466,000)** | (543,915,000) |
| | | **730,217** | 916,409 |
| | **Deferred Commodity Murabaha income** | | |
| | Opening balance | **10,474** | 7,002 |
| | Deferred during the year | **730,217** | 916,409 |
| | Recognised during the year | **(733,292)** | (912,937) |
| | | **7,399** | 10,474 |
| | **Commodity Murabaha** | | |
| | Opening balance | **4,513,132** | 2,218,813 |
| | Sales during the year | **529,196,217** | 544,831,409 |
| | Received during the year | **(529,798,085)** | (542,537,090) |
| | | **3,911,264** | 4,513,132 |

8.4 The Bank has entered into Musharaka placement agreements which carries profit at 11.90 % per annum and have a maturity of 4 days.

| | | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| 8.5 | **Particulars of amounts due from financial institutions with respect to currencies:** | | |
| | - In local currency | **4,442,682** | 4,519,550 |
| | - In foreign currency | **-** | - |
| | | **4,442,682** | 4,519,550 |

## 9 INVESTMENTS

### 9.1 Investments by types

| | Note | 2011 Held by the Bank | 2011 Given as collateral | 2011 Total | 2010 Held by the Bank | 2010 Given as collateral | 2010 Total |
|---|---|---|---|---|---|---|---|
| | | ------ Rupees in `000 ------ | | | | | |
| **Available for sale securities** | | | | | | | |
| Sukuk / Certificates | 9.2 | **20,630,926** | **-** | **20,630,926** | 13,506,277 | - | 13,506,277 |
| Units of Open-end mutual fund | 9.2 | **15** | **-** | **15** | 15 | - | 15 |
| Units of Closed-end mutual fund | 9.2 | **6** | **-** | **6** | 6 | - | 6 |
| | | **20,630,947** | **-** | **20,630,947** | 13,506,298 | - | 13,506,298 |
| **Subsidiary** | | | | | | | |
| Unlisted Company | | **191,015** | **-** | **191,015** | 191,015 | - | 191,015 |
| **Total investment at cost** | | **20,821,962** | **-** | **20,821,962** | 13,697,313 | - | 13,697,313 |
| Less: Provision for diminution in value of investments | 9.2 | **(15,000)** | **-** | **(15,000)** | (15,000) | - | (15,000) |
| Investments - net of Provisions | | **20,806,962** | **-** | **20,806,962** | 13,682,313 | - | 13,682,313 |
| Surplus on revaluation of available-for-sale securities | 20 | **260,120** | **-** | **260,120** | 49,819 | - | 49,819 |
| **Total investments at market value** | | **21,067,082** | **-** | **21,067,082** | 13,732,132 | - | 13,732,132 |

### 9.2 Investments by segments

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| **Federal Government Securities** | | | |
| GOP Ijarah Sukuks | 9.3 | **18,300,248** | 9,750,000 |
| **Sukuks** | | | |
| Sukuks - unlisted | 9.3 | **2,330,678** | 3,756,277 |
| **Fully paid up ordinary shares / Units** | | | |
| Unlisted subsidiary company | 9.6 | **191,015** | 191,015 |
| Units of Open-ended Mutual Funds | 9.4 | **15** | 15 |
| Units of Closed-end Mutual Funds | 9.4 | **6** | 6 |
| **Total investment at cost** | | **20,821,962** | 13,697,313 |
| Less: Provision for diminution in value of investments | 9.7 | **(15,000)** | (15,000) |
| **Investments (net of provisions)** | | **20,806,962** | 13,682,313 |
| Surplus on revaluation of available-for-sale securities | 20 | **260,120** | 49,819 |
| **Total investments at market value** | | **21,067,082** | 13,732,132 |

## 9.3 Available for sale securities

| Name of the investee company | Note | 2011 | 2010 | Face Value | 2011 | 2010 |
|---|---|---|---|---|---|---|
| | | Number of Certificates | | | Cost | Cost |
| | | | | (Rupees) | Rupees in `000 | |
| **Sukuk Certificates** | | | | | | |
| Federal Government | | | | | | |
| Ijarah GOP Sukuk - 1 | | - | 2,500 | 100,000 | - | 250,000 |
| Ijarah GOP Sukuk - 3 | 9.3.1 | 20,000 | 20,000 | 100,000 | 2,000,000 | 2,000,000 |
| Ijarah GOP Sukuk - 5 | 9.3.2 | 50,000 | 50,000 | 100,000 | 5,000,000 | 5,000,000 |
| Ijarah GOP Sukuk - 6 | 9.3.3 | 25,000 | 25,000 | 100,000 | 2,500,000 | 2,500,000 |
| Ijarah GOP Sukuk - 7 | 9.3.4 | 30,500 | - | 100,000 | 3,050,000 | - |
| Ijarah GOP Sukuk - 8 | 9.3.5 | 22,500 | - | 100,000 | 2,250,248 | - |
| Ijarah GOP Sukuk - 9 | 9.3.6 | 35,000 | - | 100,000 | 3,500,000 | - |
| | | | | | 18,300,248 | 9,750,000 |
| **Others** | | | | | | |
| First WAPDA Sukuk | 9.3.7 | 60,000 | 60,000 | 5,000 | 299,737 | 299,453 |
| Second WAPDA Sukuk | 9.3.8 | 134,000 | 134,000 | 5,000 | 668,903 | 668,555 |
| KSEW Sukuk - 1 | | - | 38,000 | 5,000 | - | 190,000 |
| KSEW Sukuk - 2 | | - | 92,800 | 5,000 | - | 464,000 |
| Pak Electron Sukuk | 9.3.9 | 60,000 | 60,000 | 5,000 | 128,571 | 171,429 |
| Amtex Sukuk | 9.3.10 | 59,000 | 59,000 | 5,000 | 221,250 | 221,250 |
| Engro Fertilizer Sukuk | 9.3.11 | 65,000 | 65,000 | 5,000 | 322,511 | 322,005 |
| Security Leasing Sukuk | 9.3.12 | 2,000 | 2,000 | 5,000 | 4,219 | 6,094 |
| Shahmurad Sugar Mills Sukuk | | - | 250 | 1,000,000 | - | 166,667 |
| Second Sitara Chemicals Sukuk | | - | 10,000 | 5,000 | - | 12,500 |
| Third Sitara Chemicals Sukuk | 9.3.13 | 8,000 | 8,000 | 5,000 | 16,667 | 30,000 |
| Sitara Energy Sukuk - 1 | 9.3.14 | 6,000 | 6,000 | 5,000 | 6,247 | 12,413 |
| Sitara Energy Sukuk - 2 | 9.3.25 | 4,000 | 4,000 | 5,000 | 4,028 | 8,000 |
| New Allied Electronics (LG) Sukuk | 9.3.16 | 11,000 | 11,000 | 5,000 | 55,000 | 55,000 |
| Sui Southern Gas Company Sukuk | 9.3.17 | 84,000 | 84,000 | 5,000 | 168,000 | 336,000 |
| Kohat Cement Sukuk | 9.3.18 | 27,000 | 27,000 | 5,000 | 95,310 | 130,410 |
| Eden Housing Sukuk | 9.3.19 | 50,000 | 50,000 | 5,000 | 156,900 | 187,500 |
| Optimus Sukuk | 9.3.20 | 50,000 | 50,000 | 5,000 | 145,835 | 187,501 |
| LESCO Sukuk | | - | 42,000 | 5,000 | - | 210,000 |
| HBFC Sukuk | 9.3.21 | 15,000 | 15,000 | 5,000 | 37,500 | 52,500 |
| Haq Bahu Sugar Mills Sukuk - 1 | | - | 10,000 | 5,000 | - | 25,000 |
| | | | | | 2,330,678 | 3,756,277 |
| | | | | | 20,630,926 | 13,506,277 |

**9.3.1** The profit rate on these sukuks comprises of six months weighted average yield of six months market T-Bills. The principal is redeemable on maturity in March 2012. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.2** The profit rate on these sukuks comprises of six months weighted average yield of six month market T-Bills. The principal is redeemable on maturity in November 2013. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.3** The profit rate on these sukuks comprises of six months weighted average yield of six month market T-Bills. The principal is redeemable on maturity in December 2013. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.4** The profit rate on these sukuks comprises of six months weighted average yield of six month market T-Bills. The principal is redeemable on maturity in March 2014. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.5** The profit rate on these sukuks comprises of six months weighted average yield of six month market T-Bills. The principal is redeemable on maturity in May 2014. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.6** The profit rate on these sukuks comprises of six months weighted average yield of six month market T-Bills. The principal is redeemable on maturity in December 2014. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.7** These carry profit at the rate of six months KIBOR plus 35 basis points (2010: six months KIBOR plus 35 basis points) receivable on semi-annual basis with maturity in October 2012. The principal will be repaid on maturity. The purchase price and rentals are backed by Government of Pakistan's Sovereign Guarantee.

The Bank had purchased 10,000 certificates on June 25, 2009 of WAPDA – 1 Sukuk through a negotiated transaction for a cash consideration of Rs. 50.228 million having face value of Rs. 50 million. These certificates were available in the seller's Central Depository Company (CDC) account and on completion of the transaction were transferred to the Bank's CDC account. However, the periodic Ijarah Rental dues were not paid to the Bank on the plea that there exists certain discrepancy with respect to ownership of the asset. The Bank and its legal advisors are of the view that the security and the rental purchased through CDC is deemed to be legally bona fide. The Bank's legal advisor is certain that the Bank will be able to recover the rental therefore no provision has been made in these financial statements.

**9.3.8** These carry profit at the rate of six months KIBOR minus 25 basis points (2010: six months KIBOR minus 25 basis points) receivable on semi-annual basis with maturity in July 2017. The principal will be repaid in 12 equal semi-annual installments with first installment falling due on the 54th month from the first drawdown date. The issue amount and rentals are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.9** These Sukuks have been restructured during the year. After restructuring these Sukuks carry profit at the rate of three months KIBOR plus 175 basis points (2010: three months KIBOR plus 175 basis points) receivable quarterly based on Diminishing Musharaka mechanism with maturity in September 2014. The outstanding principal will be redeemed in 6 equal quarterly installments starting from June 2013.

**9.3.10** These carry profit at the rate of three months KIBOR plus 200 basis points (2010: three months KIBOR plus 200 basis points) receivable quarterly based on Diminishing Musharaka mechanism with maturity in October 2012. The principal will be redeemed in 12 consecutive quarterly installments, the first such installment falling due not later than the end of 27 months from the last draw down. These Sukuk are backed by guarantee of Rs. 740 million from a bank. During 2010, Amtex has defaulted on its principal repayment. Consequently the Bank has suspended the accrual of profit from the Sukuk. During the year the Bank has called the underlying guarantee.

**9.3.11** These carry profit at the rate of six months KIBOR plus 150 basis points (2010: six months KIBOR plus 150 basis points) receivable semi annually based on Diminishing Musharaka mechanism with maturity in September 2015. Principal repayment to be made in two consecutive, equal semi annual installments, the first such installment falling due on the 90th month from the date of the first contribution under the facility. As a security first pari passu charge has been provided on all present and future fixed assets of the Company with margin.

**9.3.12** These Sukuks have been further restructured w.e.f. March 2011. After restructuring these Sukuks carry profit at the rate of 0%, (2010: 6% (3% Cash + 3% accrual) upto September 2011 receivable monthly and thereafter at the rate of 1 month KIBOR upto maturity. The accrued profit amount to be repaid in six equal monthly installments staring from 43rd month. Principal to be repaid in 48 months starting from April 2010). As per the new restructured plan principal will be repaid in 36 monthly installments and the accrued portion of profit upto March 2011 has also been waived.

**9.3.13** These carry profit at the rate of three months KIBOR plus 100 basis points (2010: three months KIBOR plus 100 basis points) receivable quarterly based on Diminishing Musharaka mechanism with maturity in December 2012. The principal will be redeemed in 12 equal quarterly installments the first such installment falling due on the 27th month from the date of first draw down. As a security specific and exclusive hypothecation charge in respect of the Musharaka assets in favour of the investors to the extent of entire legal ownership rights of the company (covering the entire amount of Sukuk along with an 18.22% margin) is provided. There is an early purchase option available to the issuer after 2 years of disbursement with "No Early Payment Penalty".

**9.3.14** These carry profit at the rate of six months KIBOR plus 195 basis points (2010: six months KIBOR plus 195 basis points) receivable semi-annually with maturity in July 2012. The principal will be redeemed in ten equal semi-annual installments commencing from the 6th month from the date of issue. As a security first charge over present and future assets of the company with 25% margin has been provided.

**9.3.15** These carry profit at the rate of six months KIBOR plus 195 basis points (2010: six months KIBOR plus 195 basis points) receivable semi-annually with maturity in July 2012. The principal will be redeemed in ten equal semi-annual installments commencing from the 6th month from the date of issue. As a security first charge over present and future assets of the company with 25% margin has been provided.

**9.3.16** These carry profit at the rate of three months KIBOR plus 220 basis points (2010: three months KIBOR plus 220 basis points) receivable semi-annually with maturity in December 2012. The principal will be repaid in 6 consecutive semi-annual installments, the first such installment falling not later than the end of 30th month from the date of issue. As a security first pari passu charge over all present and future fixed assets amounting to Rs. 800 million of the company, irrevocable guarantee of a Financial Institution and Personal Guarantee of sponsoring directors has been provided. There is an early purchase option available to the issuer after 2 years of disbursement. A provision for the diminution in value of investment amounting to Rs. 15 million has been made against the principal.

**9.3.17** These carry profit at the rate of three months KIBOR plus 20 basis points (2010: three months KIBOR plus 20 basis points) receivable quarterly based on Diminishing Musharaka mechanism having a tenor of 5 years with maturity in December 2012. The principal will be repaid in 10 consecutive quarterly installments, the first installment falling due on end of 33rd month from the last draw down. As a security first pari passu charge over fixed assets of the company or equitable mortgage on selected land and building with 25% margin has been provided. There is an early purchase option available to the issuer after 1 year of disbursement.

**9.3.18** These sukuks have been restructured during the year. After restructuring these Sukuks carry profit at the rate of three months KIBOR plus 150 basis points (2010: three months KIBOR plus 180 basis points) receivable quarterly based on Diminishing Musharaka mechanism with maturity in September 2016. As per the new "Restructuring Agreement", Principal to be redeemed with revised mechanism and profit for the first four quarters will go into a frozen account, which will be retired through payments made from 13th quarter to 20th quarter. As a security first ranking hypothecation charge over all present and future fixed assets of the company equivalent to the facility amount, along with 25% margin and first ranking mortgage over all present and future immoveable properties of the Company with a 25% margin over the facility amount has been provided.

**9.3.19** These Sukuks carry profit at the rate of three months KIBOR plus 250 basis points upto June 29, 2013 and three months KIBOR plus 300 basis points for the period between June 30, 2013 and June 29, 2014. (2010: three months KIBOR plus 250 basis points upto June 29, 2013 and three months KIBOR plus 300 basis points for the period between June 30, 2013 and June 29, 2014) receivable quarterly based on Diminishing Musharaka mechanism with maturity in June 2014. These sukuks were restructured in 2010, accordingly the principal redemption started from September 2010 till June 2014 and will be calculated using the percentage as mentioned in "Restructuring Agreement". As a security charge over hypothecated assets amounting to Rs. 2,445 million (inclusive of approximately 33.5% margin) and a charge over the mortgaged property of the company amounting to Rs. 1,820 million (inclusive of 10% margin) has been created by the issuer in favour of the trustee.

**9.3.20** These carry profit at the rate of six months KIBOR plus 125 basis points (2010: six months KIBOR plus 125 basis points) receivable quarterly based on Diminishing Musharaka mechanism with maturity in April 2015. The principal will be repaid in 24 consecutive quarterly installments, the first such installment falling due not later than the end of the 15th month from the last drawdown. As a security, first specific charge on specified vehicles amounting to Rs. 250 million of the company (on market value to be established every year by approved valuator) and a 25% margin over the principal amount in the form of first floating charge on the company's present and future current assets has been provided.

**9.3.21** These carry profit at the rate of six months KIBOR plus 100 basis points (2010: six months KIBOR plus 100 basis points) receivable semi annually and the first such profit payment will fall due after six months from the issue date with maturity in May 2014. As a security first charge over specific assets of the Company with 25% security margin has been provided. The principal will be redeemed in 10 equal semi-annual installments starting from 18th month of the date of issue of Sukuk.

## 9.4 Details of investments in Mutual Funds

| Name of investee fund | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| **Open ended mutual funds** | Number of Units | | Cost (Rupees in '000) | |
| Al Meezan Cash Fund | 128 | 112 | 5 | 5 |
| Meezan Islamic Fund | 166 | 134 | 5 | 5 |
| Meezan Islamic Income Fund | 115 | 104 | 5 | 5 |
| | | | 15 | 15 |
| **Close end mutual funds** | | | | |
| Meezan Balanced Fund | 1,000 | 1,000 | 6 | 6 |
| | | | 21 | 21 |

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| 9.5 Quality of Available for Sale Securities<br>Sukuks / Certificates - (at market value / cost) | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| | Long / Medium Term Rating (Where available) | | (Rupees in '000) | |
| Ijarah GOP Sukuk - 1 | N/A | Unrated | - | 254,050 |
| Ijarah GOP Sukuk - 3 | Unrated | Unrated | 2,017,600 | 2,030,000 |
| Ijarah GOP Sukuk - 5 | Unrated | Unrated | 5,055,000 | 5,000,000 |
| Ijarah GOP Sukuk - 6 | Unrated | Unrated | 2,563,000 | 2,500,000 |
| Ijarah GOP Sukuk - 7 | Unrated | N/A | 3,125,335 | - |
| Ijarah GOP Sukuk - 8 | Unrated | N/A | 2,280,825 | - |
| Ijarah GOP Sukuk - 9 | Unrated | N/A | 3,512,950 | - |
| WAPDA First Sukuk Certificates | Unrated | Unrated | 301,410 | 311,610 |
| WAPDA Second Sukuk Certificates | Unrated | Unrated | 672,881 | 674,154 |
| Karachi Shipyard and Engineering Works - Sukuk | N/A | Unrated | - | 190,000 |
| Karachi Shipyard and Engineering Works - Sukuk | N/A | Unrated | - | 464,000 |
| Pak Elektron Limited Sukuk - Sukuk | A | A+ | 128,571 | 171,429 |
| Amtex Sukuk - Sukuk | D (SO) | Default | 221,250 | 221,250 |
| Engro Chemicals Pakistan Limited - Sukuk | AA | AA | 322,511 | 322,005 |
| Security Leasing - Sukuk | Unrated | Unrated | 4,219 | 6,094 |
| Shahmurad Sugar Mills - Sukuk | N/A | A- | - | 166,667 |
| Sitara Chemical Industries Limited - Second Sukuk | N/A | AA- | - | 12,500 |
| Sitara Chemical Industries Limited - Third Sukuk | A+ | AA- | 16,667 | 30,000 |
| Sitara Energy Limited - Sukuk | Unrated | Unrated | 6,247 | 12,413 |
| Sitara Energy Limited - Sukuk | Unrated | Unrated | 4,028 | 8,000 |
| New Allied Electronics - Sukuk | Default | Default | 55,000 | 55,000 |
| Sui Southern Gas Company Limited - Sukuk | AA | AA | 168,000 | 336,000 |
| Kohat Cement - Sukuk | Withdrawn | Withdrawn | 95,310 | 130,410 |
| Eden Housing - Sukuk | D | A | 156,900 | 187,500 |
| Optimus - Sukuk | A | A | 145,835 | 187,501 |
| Lahore Electric Supply Corporation - Sukuk | N/A | Unrated | - | 210,000 |
| House Building Finance Corporation - Sukuk | A | A+ | 37,500 | 52,500 |
| Haq Bahu Sugar Mills - Sukuk | N/A | Unrated | - | 25,000 |
| | | | 20,891,039 | 13,558,083 |
| **Units of open-end mutual funds (at market value)** | | | | |
| Meezan Cash Fund | AA+(f) | AA(f) | 6 | 6 |
| Meezan Islamic Fund | 5 Star | 5 Star | 7 | 6 |
| Meezan Islamic Income Fund | A+(f) | A+(f) | 6 | 5 |
| **Units of closed-end mutual funds (at market value)** | | | | |
| Meezan Balanced Fund | AM2 | AM2 | 9 | 7 |
| | | | 28 | 24 |
| | | | 20,891,067 | 13,558,107 |
| Less: Provision for diminution in the value of investments | | | (15,000) | (15,000) |
| | | | 20,876,067 | 13,543,107 |

| 9.6 Details of investment in unlisted subsidiary | Holding % | Breakup value Per Share | Cost 2011 | Cost 2010 |
|---|---|---|---|---|
| | | | ------- Rupees in `000 ------- | |
| BankIslami Modaraba Investments Limited<br>Chief Executive Mr. Zulfiqar Ali<br>8,000,000 (2010: 8,000,000) Ordinary shares of Rs.10/- each | 100 | 18.05 | 191,015 | 191,015 |

Breakup value per share is based on the financial statements of the subsidiary for the haif year ended December 31, 2011.

| 9.7 Particular of provision for diminution in the value of investments | Note | 2011 | 2010 |
|---|---|---|---|
| | | ------- Rupees in `000 ------- | |
| Opening balance | 9.7.1 | 15,000 | 15,000 |
| Charge for the year | | - | - |
| Reversals | | - | - |
| Closing balance | | **15,000** | 15,000 |

| 9.7.1 Particulars of provision in respect of type and segment | 2011 | 2010 |
|---|---|---|
| Sukuk certificates - Available for sale securities | **15,000** | 15,000 |
| | **15,000** | 15,000 |

## 10 FINANCINGS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Financings in Pakistan | | | |
| - Murabaha | 10.1 & 10.3 | **6,343,955** | 6,870,285 |
| - Istisn'a | 10.2 | **2,630,000** | 1,445,000 |
| - Diminishing Musharka - Housing | | **1,562,950** | 946,765 |
| - Diminishing Musharka - Others | | **6,280,778** | 5,161,718 |
| - Against Bills - Murabaha | | **65,452** | 9,575 |
| - Against Bills - Musawama | | **-** | 2,640 |
| - Post Due Acceptance | | **53,397** | - |
| - Musawama Financings | | **1,427,500** | - |
| - Financings to employees | 10.6 & 10.11 | **511,687** | 400,381 |
| | | **18,875,719** | 14,836,364 |
| Housing finance portfolio | 10.4 | **156,111** | 809,277 |
| Net investment in Ijarah financing in Pakistan | 10.7 | **371,701** | 706,358 |
| Net book value of assets/investment in ijarah under IFAS 2 | 10.8 | **1,057,265** | 647,098 |
| **Financings – gross** | | **20,460,796** | 16,999,097 |
| Less: Provision against non-performing financings | 10.9 & 10.10 | | |
| - Specific | | **(321,423)** | (296,681) |
| - General | | **(28,972)** | (32,291) |
| Financings – net of provisions | | **20,110,401** | 16,670,125 |

**10.1** Murahaba includes financings amounting to Rs. 99.999 million (2010: Rs 390.761 million) against Murabaha under Islamic Export Refinance Scheme.

**10.2** Istisn'a includes financing amounting to Rs. 350 million (2010: Rs 50 million) against Istisn'a under Islamic Export Refinance Scheme.

| | | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| **10.3** | Murabaha sale price | **22,441,710** | 17,829,687 |
| | Purchase price | **(21,596,731)** | (17,117,952) |
| | | **844,979** | 711,735 |
| **10.3.1** | **Deferred Murabaha income** | | |
| | Opening balance | **160,141** | 81,312 |
| | Arising during the year | **844,979** | 711,735 |
| | Recognised during the year | **(879,998)** | (632,906) |
| | | **125,122** | 160,141 |
| **10.3.2** | **Murabaha receivable** | | |
| | Opening balance | **6,870,285** | 4,180,471 |
| | Sales during the year | **22,441,710** | 17,829,687 |
| | Received during the year | **(22,968,040)** | (15,139,873) |
| | | **6,343,955** | 6,870,285 |

**10.4** Last year, the Bank acquired the housing finance portfolio of CitiBank, N.A. - Pakistan Branches ("the acquired portfolio") under Shariah Compliant Structure of Hawalah (assignment of debt) and Wakalah Lil Qabz (recovery agency). The Wakalah Lil Qabz portfolio was subsequently transferred to the Bank by CitiBank. The acquisition has duly been approved by the State Bank of Pakistan vide letter no. BPRD (R&P-02)/625-93/2010/9690 dated December 06, 2010 and by the Competition Commission of Pakistan vide letter no. 169/CCP/MERGER/2009 dated December 24, 2010. The Bank has settled a loan amount of Rs 722.590 million with CitiBank, N.A. - Pakistan Branches against the acquired portfolio amounting to Rs 953.273 million (comprising of Rs 722 million under assignment of debt and Rs 231.130 million under Wakalah Lil Qabz)

The acquired portfolio was to be converted in Shariah Compliant Diminishing Musharika based facility “Muskun”. No income was to be recognised on the acquired portfolio which was not converted to Shariah Compliant "Muskun" facility. Such unrecognized amount needs to be paid as charity. During the current year out of the total acquired portfolio of Rs 953.273 million, loans amounting to Rs 507.733 million have been converted to "Muskun" facility, loans amounting to Rs 34.409 million have been returned to CitiBank on the basis of some discrepancy in the documents and loans amounting to Rs 266.432 million have not been converted to "Muskun" facility. The gain arising on the acquired portfolio has been deferred and will be transferred to profit and loss account on the time proportionate basis

| | | 2011 | 2010 |
|---|---|---|---|
| **10.5** | **Particulars of financings** | --------- Rupees in `000 | --------- |
| **10.5.1** | In local currency | **20,460,796** | 16,999,097 |
| **10.5.2** | Short -Term ( for upto one year) | **12,856,417** | 11,649,194 |
| | Long- Term ( for over one year) | **7,604,379** | 5,349,903 |
| | | **20,460,796** | 16,999,097 |

**10.6** This includes Rs 2.274 million (2010: Rs 2.259 million) markup free financing to employees advanced under Bank's Human Resource Policy.

**10.7** Net investment in Ijarah financings

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 71,352 | 207,138 | - | 278,490 | 178,114 | 425,153 | - | 603,267 |
| Residual value | 115,502 | 46,851 | - | 162,353 | 109,008 | 149,725 | - | 258,733 |
| Minimum Ijarah payments | 186,854 | 253,989 | - | 440,843 | 287,122 | 574,878 | - | 862,000 |
| Profit for future periods | (12,656) | (56,486) | - | (69,142) | (40,855) | (114,787) | - | (155,642) |
| Present value of minimum Ijarah payments | 174,198 | 197,503 | - | 371,701 | 246,267 | 460,091 | - | 706,358 |

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| **Net investment in Ijarah financings - IFAS 2** | 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 | 33,869 | 1,023,396 | - | 1,057,265 | 20,707 | 626,391 | - | 647,098 |

**10.8 Ijarah Assets**

| 2011 | COST | | | ACCUMULATED DEPRECIATION | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at January 01, 2011 | Additions / (deletions) | As at December 31, 2011 | As at January 01, 2011 | Charge / (deletions) | As at December 31, 2011 | Book value as at December 31, 2011 | Rate of depreciation % |
| | ---------- | ---------- | ---------- | Rupees in `000 | ---------- | ---------- | ---------- | |
| Plant and Machinery | 180,995 | 343,391 | 524,386 | 29,383 | 106,381 | 135,764 | 388,622 | 20-33.33 |
| Vehicles | 582,817 | 415,195 | 896,083 | 87,331 | 149,560 | 227,440 | 668,643 | 20-33.33 |
| | | (101,929) | | | (9,451) | | | |
| | 763,812 | 758,586 | 1,420,469 | 116,714 | 255,941 | 363,204 | 1,057,265 | |
| | | (101,929) | | | (9,451) | | | |

| 2010 | COST | | | ACCUMULATED DEPRECIATION | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at January 01, 2010 | Additions / (deletions) | As at December 31, 2010 | As at January 01, 2010 | Charge / (deletions) | As at December 31, 2010 | Book value as at December 31, 2010 | Rate of depreciation % |
| | ---------- | ---------- | ---------- | Rupees in `000 | ---------- | ---------- | ---------- | |
| Plant and Machinery | 61,356 | 119,639 | 180,995 | 8,393 | 20,990 | 29,383 | 151,612 | 20-33.33 |
| Vehicles | 155,105 | 431,704 | 582,817 | 20,873 | 68,413 | 87,331 | 495,486 | 20-33.33 |
| | | (3,992) | | | (1,955) | | | |
| | 216,461 | 551,343 | 763,812 | 29,266 | 89,403 | 116,714 | 647,098 | |
| | | (3,992) | | | (1,955) | | | |

**10.9** Financing includes Rs. 799.001 million (2010: Rs. 660.047 million) which have been placed under non-performing status as follows:

**2011**

| Category of Classification | Classified Financings | | | Provision Required | | | Provision Held | | |
|---|---|---|---|---|---|---|---|---|---|
| | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| | Rupees in `000 | | | | | | | | |
| Substandard | 71,810 | - | 71,810 | 1,816 | - | 1,816 | 1,816 | - | 1,816 |
| Doubtful | 67,648 | - | 67,648 | 848 | - | 848 | 848 | - | 848 |
| Loss | 659,543 | - | 659,543 | 318,759 | - | 318,759 | 318,759 | - | 318,759 |
| | 799,001 | - | 799,001 | 321,423 | - | 321,423 | 321,423 | - | 321,423 |

**2010**

| Category of Classification | Classified Financings | | | Provision Required | | | Provision Held | | |
|---|---|---|---|---|---|---|---|---|---|
| | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| | Rupees in `000 | | | | | | | | |
| Substandard | 53,570 | - | 53,570 | 5,008 | - | 5,008 | 5,008 | - | 5,008 |
| Doubtful | 52,521 | - | 52,521 | 8,350 | - | 8,350 | 8,350 | - | 8,350 |
| Loss | 553,956 | - | 553,956 | 283,323 | - | 283,323 | 283,323 | - | 283,323 |
| | 660,047 | - | 660,047 | 296,681 | - | 296,681 | 296,681 | - | 296,681 |

**10.10** Particulars of provision against non-performing financings:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Specific | General | Total | Specific | General | Total |
| | Rupees in `000 | | | | | |
| Opening balance | 296,681 | 32,291 | 328,972 | 230,928 | 18,781 | 249,709 |
| Charge for the year | **101,528** | **-** | **101,528** | 69,599 | 2,049 | 71,648 |
| Reversals | **(76,786)** | **(3,319)** | **(80,105)** | (79,072) | - | (79,072) |
| | **24,742** | **(3,319)** | **21,423** | (9,473) | 2,049 | (7,424) |
| Transferred during the years | - | - | - | 75,226 | 11,461 | 86,687 |
| Closing balance | **321,423** | **28,972** | **350,395** | 296,681 | 32,291 | 328,972 |

**10.10.1** The Bank has maintained a general reserve (provision) in accordance with the applicable requirements of the Prudential Regulations for Consumer Financing issued by SBP and for potential losses on financings.

**10.10.2** Particulars of provision against non-performing financings:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Specific | General | Total | Specific | General | Total |
| | Rupees in `000 | | | | | |
| In local currency | **321,423** | **28,972** | **350,395** | 296,681 | 32,291 | 328,972 |
| In foreign currency | **-** | **-** | **-** | - | - | - |
| | **321,423** | **28,972** | **350,395** | 296,681 | 32,291 | 328,972 |

During the year the State Bank of Pakistan (SBP) has introduced certain amendments in the PrudentialRegulations in respect of maintenance of provisioning requirements against non-performing loans and advances vide BSD Circular No. 1 dated October 21, 2011 (effective from September 30, 2011). Under the revised guidelines issued by SBP, banks have been allowed to avail the benefit of Forced Sales Value (FSV) of collaterals held as follows:

a. **Prudential Regulation R-8 for Corporate / Commercial Banking and Prudential Regulation R-11 for SME Financing:**

| **Category of Asset** | **Benefit of FSV allowed from the date of classification** |
|---|---|
| Mortgaged residential, commercial, and industrial properties (land & building only) | 75% for first year<br>60% for second year<br>45% for third year<br>30% for fourth year, and<br>20% for fifth year |
| Plant & Machinery under charge | 30% for first year<br>20% for second year, and<br>10% for third year |
| Pledged stock | 40% for three years |

b. **Prudential Regulations R-22 for Consumer Financing:**

| **Category of Asset** | **Benefit of FSV allowed from the date of classification** |
|---|---|
| Mortgaged residential property | 75% for first and second year<br>50% for third and fourth year, and<br>30% for fifth year |

However, as per the Circular the additional impact on profitability arising from availing the benefit of forced sales value against pledged stocks, mortgaged residential, commercial and industrial properties and plant and machinery would not be available for payment of cash or stock dividend. Under the previous guidelines issued by SBP which were effective from September 30, 2009, banks were allowed to avail the benefit of 40% of forced sales value of pledged stocks and mortgaged residential, commercial and industrial properties held as collateral against all non-performing loans for 3 years from the date of classification for calculating provisioning requirement. However, the benefit of discounted forced sales value of plant and machinery was previously not available to banks for calculating provisioning requirement.

Had the provision against non-performing loans and advances been determined in accordance with the previously laid down requirements of SBP, the specific provision against non-performing loans would have been higher and consequently profit before taxation and advances (net of provisions) as at December 31, 2011 would have been lower by approximately Rs. 59.428 million. As allowed under the circular the Bank has availed benefit of forced sale values amounting to Rs. 443.846 million (2010: Rs 298.764 million) in determining the provisioning against non performing financings as at December 31, 2011.

**10.10.3** During the current year, financial relief in respect of financings was given to three customers from the Citibank acquired portfolio. The Bank did not incur any loss on these financings as the acquired amount of these loans was lower than the amount finally settled by the customers. The financial relief given includes financial relief given to one customer above Rs. 500,000 on the basis of the original outstanding amount. The details are as under:

| S. No. | Customer Name | Father's Name | Address | CNIC No. | Amount outstanding | Amount received | Financial relief given |
|---|---|---|---|---|---|---|---|
| | | | | | --------- Rupees | --------- | |
| 1 | Muhammad Kashif Rahim Khan | Muhammad Abdul Rahim Khan | House No. R-1074, Sector 15-A-4, Buffer Zone, North Karachi, Karachi | 4210117028327 | 1,745,780 | 1,200,000 | 545,780 |

**10.11 Particulars of financings to directors, executives or officers of the Bank**

| Financings due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 | --------- |
| Balance at beginning of year | | 400,381 | 300,052 |
| Financing granted during the year | | 202,089 | 155,382 |
| Repayments | | (90,783) | (55,053) |
| Balance at end of year | | 511,687 | 400,381 |

**11 OPERATING FIXED ASSETS**

| | Note | 2011 | 2010 |
|---|---|---|---|
| Capital work-in-progress | 11.1 | 5,360 | 5,140 |
| Property and equipment | 11.2 | 1,732,638 | 1,980,249 |
| Intangible assets | 11.3 | 73,630 | 81,291 |
| | | 1,811,628 | 2,066,680 |

### 11.1 Capital work-in-progress

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| Civil works | - | - |
| Equipment | 1,580 | 4,894 |
| Advances to suppliers and contractors | 3,780 | 246 |
| | 5,360 | 5,140 |

### 11.2 Property and equipment

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | COST | | | DEPRECIATION | | | | |
| | As at January 01, 2011 | Additions/ (disposals) / adjustments | As at December 31, 2011 | As at January 01, 2011 | Charge for the year / (disposals) / adjustment | As at December 31, 2011 | Net book value as at December 31, 2011 | Rate of Depreciation |
| | Rupees in `000 | | | | | | | |
| Free hold Land | 275,128 | - | 275,128 | - | - | - | 275,128 | - |
| Building on lease hold land | 913,031 | - | 913,031 | 138,422 | 45,652 | 184,074 | 728,957 | 5 |
| Furniture and fixture | 770,158 | 14,131<br>(257)<br>(6,323) | 777,709 | 192,823 | 76,475<br>(56) | 269,242 | 508,467 | 10 |
| Electrical, office and computer equipment | 816,474 | 68,950<br>(1,825)<br>5,695 | 889,294 | 488,643 | 185,586<br>(1,390) | 672,839 | 216,455 | 25 |
| Vehicles | 50,818 | 69<br>(40,520) | 10,367 | 25,472 | 3,032<br>(21,768) | 6,736 | 3,631 | 20 |
| | 2,825,609 | 83,150<br>(42,602)<br>(628) | 2,865,529 | 845,360 | 310,745<br>(23,214) | 1,132,891 | 1,732,638 | |

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | COST | | | DEPRECIATION | | | | |
| | As at January 01, 2010 | Additions/ (disposals) / adjustments | As at December 31, 2010 | As at January 01, 2010 | Charge for the year / (disposals) / adjustment | As at December 31, 2010 | Net book value as at December 31, 2010 | Rate of Depreciation |
| | Rupees in `000 | | | | | | | |
| Free hold Land | 275,128 | - | 275,128 | - | - | - | 275,128 | - |
| Building on lease hold land | 913,031 | - | 913,031 | 92,554 | 45,868 | 138,422 | 774,609 | 5 |
| Furniture and fixture | 755,440 | 15,467<br>(332)<br>(417) | 770,158 | 116,829 | 75,883<br>(85)<br>196 | 192,823 | 577,335 | 10 |
| Electrical, office and computer equipment | 776,652 | 41,588<br>(628)<br>(1,138) | 816,474 | 298,298 | 191,324<br>(405)<br>(574) | 488,643 | 327,831 | 25 |
| Vehicles | 127,509 | 4,220<br>(80,911) | 50,818 | 50,263 | 20,611<br>(45,402) | 25,472 | 25,346 | 20 |
| | 2,847,760 | 61,275<br>(81,871)<br>(1,555) | 2,825,609 | 557,944 | 333,686<br>(45,892)<br>(378) | 845,360 | 1,980,249 | |

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

The details of property and equipment disposed-off during the year are disclosed in 'Annexure 1'

### 11.3 Intangible asset

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | COST | | | AMORTISATION | | | | |
| | As at January 01, 2011 | Additions/ (disposals) | As at December 31,2011 | As at January 01, 2011 | Charge for the Year | As at December 31,2011 | Net book value as at December 31, 2011 | Rate of Amortization |
| | Rupees in `000 | | | | | | | |
| Computer software | 148,377 | 22,044 | 170,421 | 67,086 | 29,705 | 96,791 | 73,630 | 20 |

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | COST | | | AMORTISATION | | | | |
| | As at January 01, 2010 | Additions/ (disposals) | As at December 31,2010 | As at January 01, 2010 | Charge for the Year | As at December 31,2010 | Net book value as at December 31, 2010 | Rate of Amortization |
| | Rupees in `000 | | | | | | | |
| Computer software | 144,435 | 3,942 | 148,377 | 39,288 | 27,798 | 67,086 | 81,291 | 20 |

**11.4** Cost of fully depreciated properties and equipment that are still in the Bank's use, as at December 31, 2011, amounted to Rs. 244.062 million (2010: Rs 92.396 million). The cost of fully amortised intangible assets that are still in the Bank's use, as at December 31, 2011 amounted to Rs.16.164 million (2010: 11.487 million).

## 12 DEFERRED TAX ASSETS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | Rupees in `000 | |
| **Deferred tax debits arising in respect of:** | | | |
| Accumulated tax losses | 12.1 | **401,999** | 632,862 |
| Tax credit against minimum tax paid | | **118,562** | 61,319 |
| Provision against non-performing financings | | **1,753** | - |
| Ijarah financings | | **3,433** | - |
| | | **525,747** | 694,181 |
| **Deferred tax credits arising due to:** | | | |
| Ijarah financings | | - | (1,627) |
| Accelerated tax depreciation | | **(246,575)** | (263,658) |
| Amortization of deferred cost | | - | (1,430) |
| Surplus on revaluation of investment | | **(91,042)** | (17,437) |
| Provision against non-performing financings | | - | (7,846) |
| | | **(337,617)** | (291,998) |
| | | **188,130** | 402,183 |

**12.1** The Bank has an aggregate amount of Rs. 1,148.569 million (2010: Rs. 1,768.345 million) in respect of tax losses as at December 31, 2011. 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 amounting to Rs. 401.999 million (2010: Rs. 632.862 million) [including an unabsorbed tax depreciation of Rs. 894.065 million (2010: Rs. 1,348.868 million)] on the entire available losses. The amount of this benefit has been determined based on the projected financial statements for the future periods. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio of the Bank, deposit composition, kibor rates, growth of deposits and financings, investment returns, product mix of financings, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisibility of the deferre tax asset.

## 13 OTHER ASSETS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | Rupees in `000 | |
| Profit / return accrued in local currency | | **962,319** | 643,769 |
| Advances, deposits, advance rent and other prepayments | | **104,062** | 85,851 |
| Advance against financings | 13.1 | **4,594,158** | 2,895,585 |
| Advance taxation (payments less provision) | | **8,686** | 9,526 |
| Non-banking assets acquired in satisfaction of claims | 13.4 | **308,410** | 308,410 |
| Branch adjustment account | | - | 39,227 |
| Unrealised gain on forward foreign exchange promises | | **1,092** | 7,164 |
| Deferred costs | 13.2 | - | 4,086 |
| Insurance claim receivable | | **17,399** | 12,639 |
| Car Ijara Repossession | | **2,234** | 1,473 |
| Other Receivable | 13.3 | **50,184** | 50,479 |
| | | **6,048,544** | 4,058,209 |
| Less: Provision held against other assets | 13.5 | **(74,838)** | (11,528) |
| Other assets (net of provisions) | | **5,973,706** | 4,046,681 |

**13.1** Represents advance given in respect of Murahaba and Ijarah financings.

**13.2 Deferred costs**

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| Opening balance | **4,086** | 20,169 |
| Less: Amortised during the year | **(4,086)** | (16,083) |
| Closing balance | **-** | 4,086 |

**13.3** Includes Rupess Nil (2010: Rs 1.757 million ) in respect of letter of credits.

**13.4** The market value of Non-Banking assets acquired in satisfaction of claims is Rs 317.812 million (2010: Rs 317.812 million).

**13.5 Provision held against other assets**

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Opening balance | | **11,528** | - |
| Charge for the year | | **63,310** | 11,528 |
| Reversals | | **-** | - |
| Closing balance | | **74,838** | 11,528 |

## 14 BILLS PAYABLE

| | 2011 | 2010 |
|---|---|---|
| In Pakistan | **798,853** | 563,020 |
| Outside Pakistan | **-** | - |
| | **798,853** | 563,020 |

## 15 DUE TO FINANCIAL INSTITUTIONS

| | 2011 | 2010 |
|---|---|---|
| In Pakistan | **800,000** | 353,000 |
| Outside Pakistan | **-** | - |
| | **800,000** | 353,000 |

**15.1 Details of due to financial institutions secured / unsecured**

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Secured** | | | |
| Borrowings from State Bank of Pakistan under Islamic Export Refinance Scheme | 15.1.1 | **800,000** | 353,000 |
| | | **800,000** | 353,000 |

**15.1.1** Represents Musharaka contributions by the State Bank of Pakistan against Islamic Export Refinance Scheme. These carry expected profit rate of 10% per annum (2010: 8.5% to 9% per annum) and are secured against collateral.

**15.2 Particulars of due to financial institutions with respect to currencies**

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| In local currency | **800,000** | 353,000 |
| In foreign currencies | **-** | - |
| | **800,000** | 353,000 |

## 16 DEPOSITS AND OTHER ACCOUNTS

| | 2011 | 2010 |
|---|---|---|
| **Customers** | | |
| Fixed deposits | **24,541,027** | 18,796,560 |
| Savings deposits | **14,257,250** | 9,982,409 |
| Current accounts - non-remunerative | **10,101,628** | 8,975,862 |
| Margin accounts – non-remunerative | **97,270** | 158,067 |
| | **48,997,175** | 37,912,898 |
| **Financial Institutions** | | |
| Remunerative deposits | **1,524,716** | 258,117 |
| Non-remunerative deposits | **46,894** | 27,305 |
| | **50,568,785** | 38,198,320 |

**16.1 Particulars of deposits**

| | 2011 | 2010 |
|---|---|---|
| In local currency | **49,924,398** | 37,619,916 |
| In foreign currencies | **644,387** | 578,404 |
| | **50,568,785** | 38,198,320 |

## 17 OTHER LIABILITIES

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Profit / return payable in local currency | | **518,038** | 300,870 |
| Profit / return payable in foreign currency | | **29** | - |
| Unearned fees and commission | | **1,180** | 5,212 |
| Accrued expenses | | **117,657** | 137,012 |
| Deferred Murabaha Income - Financing and IERS | 10.3.1 | **125,122** | 160,141 |
| Deferred Murabaha Income - Commodity Murabaha | 8.3 | **7,399** | 10,474 |
| Payable to defined benefit plan | 31 | **241** | 58,023 |
| Payable to defined contribution plan | 32 | **879** | 959 |
| Unearned rent | | **1,209** | 1,151 |
| Security deposits against ijara | | **434,375** | 390,706 |
| Branch adjustment account | | **1,517** | - |
| Sundry creditors | | **34,432** | 34,036 |
| Charity payable | 17.1 | **5,747** | 9,441 |
| Retention money | | **7,233** | 7,071 |
| Withholding tax payable | | **2,666** | 3,595 |
| WWF Payable | | **13,867** | 1,219 |
| Others | | **69,447** | 35,067 |
| | | **1,341,038** | 1,154,977 |

**17.1**

| | Note | 2011 | 2010 |
|---|---|---|---|
| Opening | | **9,441** | 8,071 |
| Additions during | | **4,806** | 5,770 |
| Payments during | 17.1.1 | **(8,500)** | (4,400) |
| Closing balance | | **5,747** | 9,441 |

**17.1.1** Charity in excess of Rs 100,000 was paid to the following:

| | 2011 | 2010 |
|---|---|---|
| Deaf and Dumb Welfare Society | **-** | 300 |
| Fakhr-e-Imdad Foundation | **-** | 700 |
| The Citizen Foundation | **2,000** | 2800 |
| Alamgir Welfare Trust Intl | **1,000** | **-** |
| The Indus Hospital | **2,000** | - |
| The Memon Medical | **1,000** | - |
| Akhuwat Charity | **1,000** | - |
| Jamiat Taleem Ul Quran | **1,000** | - |
| Captain (Retd) Ibrahim | **-** | 600 |
| Mrs. Saba Zulfiqar | **500** | - |
| | **8,500** | 4,400 |

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

## 18 SHARE CAPITAL

**18.1 Authorised capital**

| 2011 | 2010 | | 2011 | 2010 |
|---|---|---|---|---|
| -------Number of shares-------- | | | --------- Rupees in `000 --------- | |
| 1,300,000,000 | 1,300,000,000 | Ordinary shares of Rs.10 each | 13,000,000 | 13,000,000 |

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

| 2011 | 2010 | | 2011 | 2010 |
|---|---|---|---|---|
| 527,967,898 | 527,967,898 | Ordinary shares of Rs. 10 each Fully paid in cash | 5,279,679 | 5,279,679 |
| 527,967,898 | 527,967,898 | | 5,279,679 | 5,279,679 |

**18.3** The State Bank of Pakistan through its BSD Circular No. 7 dated April 2009 had revised the Minimum Capital Requirement (MCR) for the Banks. As per the circular the Bank was required to have a minimum issued, subscribed and paid-up capital (free of losses) of Rs. 8 billion by December 31 2011 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 (free of losses) amounted to Rs. 5.052 billion at December 31, 2011. As more fully explained in note 1.2 to this financial statements, the SBP vide its letter No.BSD/CSD/546/2012 dated January 13, 2012 has granted extension to the Bank in timeline for meeting MCR (free of losses) amounting to Rs. 6 billion till June 30, 2012.

| 19 | RESERVES | NOTE | 2011 | 2010 |
|---|---|---|---|---|
| | | | --------- Rupees in `000 --------- | |
| | Statutory Reserves | 19.1 | **91,221** | 9,310 |

**19.1** Under section 21 of the Banking Companies Ordinance, 1962 an amount of not less than 20% of the profit is to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of the paid up capital. Thereafter, an amount of not less than 10% of the profit is required to be transferred to such reserve fund.

## 20 SURPLUS ON REVALUATION OF ASSETS

| 20.1 | Surplus on revaluation of available for sale securities | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| | Sukuk Certificates | **260,113** | 49,816 |
| | Mutual Fund | **7** | 3 |
| | | **260,120** | 49,819 |
| | Related deferred tax liability | **(91,042)** | (17,437) |
| | | **169,078** | 32,382 |

## 21 CONTINGENCIES AND COMMITMENTS

**21.1 Transaction-related contingent liabilities**

| | | 2011 | 2010 |
|---|---|---|---|
| | Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favoring | | |
| | - Government | **689,949** | 869,935 |
| | - Others | **631,196** | 110,245 |
| | | **1,321,145** | 980,180 |
| **21.2** | **Trade-related contingent liabilities** | | |
| | Import letter of Credit | **1,725,823** | 1,260,833 |
| | Acceptances | **235,229** | 176,571 |
| | | **1,961,052** | 1,437,404 |
| **21.3** | **Claim not acknowledged as debt** | **842,707** | 982,606 |
| **21.4** | **Commitments in respect of promises** | | |
| | Purchase | **93,574** | 339,270 |
| | Sale | **127,607** | 373,661 |
| **21.5** | **Commitments for the acquisition of operating fixed assets** | **4,779** | 34,745 |

**21.6 Commitments in respect of financing facilities**

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

| 21.7 | Other commitments | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| | Bills for collection | **244,596** | 320,132 |

## 22 PROFIT / RETURN EARNED

| | 2011 | 2010 |
|---|---|---|
| On financings to: | | |
| - Customers | **2,546,663** | 1,960,781 |
| - Financial institutions | **738,027** | 926,266 |
| | **3,284,690** | 2,887,047 |
| On investments in available for sale securities | **2,190,136** | 885,808 |
| On deposits / placements with financial institutions | **9,024** | 20,813 |
| Others | **18,304** | 13,529 |
| | **5,502,154** | 3,807,197 |

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## 23 PROFIT / RETURN EXPENSED

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Deposits | | **2,811,667** | 2,021,669 |
| Other short term fund generation | | **55,851** | 35,864 |
| Others | | **15,837** | - |
| | | **2,883,355** | 2,057,533 |

## 24 OTHER INCOME

| | Note | 2011 | 2010 |
|---|---|---|---|
| Rent on property | | **8,268** | 10,523 |
| Gain on termination of ijarah financing | | **10,485** | 7,208 |
| Gain on sale of property and equipment | 11.2.1 | **12,787** | 20,260 |
| Other | | **21,764** | 14,793 |
| | | **53,304** | 52,784 |

## 25 ADMINISTRATIVE EXPENSES

| | Note | 2011 | 2010 |
|---|---|---|---|
| Salaries, allowances and other benefits | 25.3 | **787,128** | 601,862 |
| Charge for defined benefit plan | 31 | **25,944** | 20,914 |
| Contribution to defined contribution plan | 32 | **26,566** | 25,464 |
| Worker's Welafre Fund | | **12,648** | 1,219 |
| Non-executive directors' fees, allowances and other expenses | | **1,550** | 1,550 |
| Insurance on consumer car ijarah | | **31,334** | 31,999 |
| Rent, taxes, insurance, electricity, etc. | | **312,956** | 293,457 |
| Legal and professional charges | | **10,325** | 11,395 |
| Communications | | **83,352** | 78,463 |
| Repairs and maintenance | | **150,421** | 143,181 |
| Stationery and printing | | **25,476** | 22,800 |
| Advertisement and publicity | | **67,203** | 46,152 |
| Auditors' remuneration | 25.1 | **3,737** | 5,329 |
| Depreciation | 11.2 | **310,745** | 333,686 |
| Amortization | 25.2 | **33,791** | 43,881 |
| CDC and share registrar services | | **3,828** | 4,075 |
| Entertainment expense | | **19,188** | 15,793 |
| Security service charges | | **66,574** | 60,358 |
| Brokerage and commission | | **5,577** | 7,793 |
| Travelling and conveyance | | **15,703** | 11,075 |
| Remuneration to Shariah Board | | **250** | 250 |
| Fees and Subscription | | **80,322** | 82,036 |
| Vehicle Running and Maintenance | | **25,409** | 24,838 |
| Others | | **47,500** | 27,906 |
| | | **2,147,527** | 1,895,476 |

### 25.1 Auditors' remuneration

| | Note | 2011 | 2010 |
|---|---|---|---|
| Audit fee | | **1,750** | 1,500 |
| Fee for the review of half yearly financial statements | | **600** | 420 |
| Special certifications and sundry advisory services | | **900** | 2,920 |
| Tax services | | **-** | 90 |
| Out-of-pocket expenses | | **487** | 399 |
| | | **3,737** | 5,329 |

### 25.2 Amortisation

| | Note | 2011 | 2010 |
|---|---|---|---|
| Intangible assets | 11.3 | **29,705** | 27,798 |
| Deferred cost | 13.2 | **4,086** | 16,083 |
| | | **33,791** | 43,881 |

25.3 During the year, the Bank has paid Long Service Award (LSA) to eligible employees Only those employees were eligibe for LSA who fulfilled time based condition.The amount under LSA relating to Chief Executive Officer and Key Management Personnel of the Bank amounted to Rs.5.613 million and Rs. 19.292 million respectively.

## 26 OTHER CHARGES

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| Penalties imposed by State Bank of Pakistan | **412** | 7,212 |
| Others | **4,249** | 4,445 |
| | **4,661** | 11,657 |

## 27 TAXATION

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| **For the year** | | |
| - Current | **57,242** | (42,269) |
| - Prior | **1,340** | - |
| - Deferred | **140,449** | 44,276 |
| | **199,031** | 2,007 |

The numerical reconciliation between average tax rate and the applicable tax rate has not been presented in these financial statements due to available tax losses brought forward from tax years 2006, 2007, 2008, 2009, 2010 and 2011. The provision for current year income tax has been made under section 113 of the Income Tax Ordinance 2001 (minimum tax on turnover).

Under Section 114 of the Income Tax Ordinance, 2001 (Ordinance), the Bank has filed the return of income for the tax years 2006, 2007, 2008, 2009, 2010 and 2011 on due dates. The said returns were deemed completed under the provisions of the prevailing income tax laws as applicable in Pakistan during the relevant accounting years.

## 28 BASIC AND DILUTED EARNINGS PER SHARE

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Profit after taxation for the year | | **409,556** | 46,550 |
| | | ------ Number of shares ------ | |
| Weighted average number of ordinary shares in issue - Number | | **527,967,898** | 527,967,898 |
| | | ------ Rupees ------ | |
| Earning per share - basic / diluted | 28.1 | **0.78** | 0.09 |

**28.1** There were no convertible / dilutive potential ordinary shares outstanding as at December 31, 2011 and December 31, 2010

## 29 CASH AND CASH EQUIVALENTS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Cash and balances with treasury banks | 6 | **4,684,826** | 3,035,148 |
| Balances with other banks | 7 | **549,277** | 569,622 |
| | | **5,234,103** | 3,604,770 |

## 30 STAFF STRENGTH

| | 2011 | 2010 |
|---|---|---|
| | --- Number of employees --- | |
| Permanent | **1,112** | 916 |
| Contractual basis | **336** | 431 |
| Total staff strength | **1,448** | 1,347 |

## 31 DEFINED BENEFIT PLAN

### 31.1 General description

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

The number of employees covered under the following defined benefit scheme are 1,112 (2010: 912). The present value of obligation under the scheme at the Statement of Financial Position date were as follows:

### 31.2 Reconciliation of payable to defined benefit plan

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| Present value of defined benefit obligations | **63,884** | 50,735 |
| Fair Value of any Plan assets | **(82,426)** | - |
| Net actuarial losses not recognised | **18,783** | 7,288 |
| Liability recognized in the balance sheet | **241** | 58,023 |

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**31.3 Amount charged to the profit and loss account**

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| Current service cost | **19,117** | 16,070 |
| Finance cost | **7,012** | 4,844 |
| Actuarial loss recognised | **(185)** | - |
| | **25,944** | 20,914 |

**31.4 Movement in fair value of plan assets**

| | 2011 | 2010 |
|---|---|---|
| Opening balance | **-** | - |
| Contributions | **83,726** | - |
| Benefits paid | **(1,300)** | - |
| Acturial Gain / (Loss) on Assets | **-** | - |
| Closing balance | **82,426** | - |

**31.5 Movement in the liability recognised in the balance sheet**

| | 2011 | 2010 |
|---|---|---|
| Opening balance | **58,023** | 37,411 |
| Expense for the year | **25,944** | 20,914 |
| Benefits paid | **-** | (302) |
| Contributions during the year | **(83,726)** | - |
| Closing balance | **241** | 58,023 |

**31.6 Movement in present value of defined benefit obligation**

| | 2011 | 2010 |
|---|---|---|
| Opening balance | **50,735** | 34,755 |
| Current service cost | **19,117** | 16,070 |
| Finance cost | **7,012** | 4,844 |
| Benefits Paid | **(1,300)** | (302) |
| Actuarial gain | **(11,680)** | (4,632) |
| Closing balance | **63,884** | 50,735 |

**31.7 Actuarial loss to be recognised**

| | 2011 | 2010 |
|---|---|---|
| Corridor limit | | |
| The limits of the corridor at the beginning of the year | | |
| 10% of obligations | **5,074** | 3,476 |
| 10% of plan assets | **-** | - |
| Which works out to | **5,074** | 3,476 |
| Unrecognised actuarial gains (losses) at the beginning of the year | **7,288** | 2,656 |
| Limit of corridor as at 1 January 2011 | **5,074** | - |
| Excess | **2,214** | 2,656 |
| Average expected remaining working lives in years | **12** | 13 |
| Actuarial loss to be recognised | **185** | - |

**31.8 Unrecognised actuarial losses**

| | 2011 | 2010 |
|---|---|---|
| Unrecognised actuarial gains (losses) at the beginning of the year | **7,288** | 2,656 |
| Actuarial gains on obligation | **11,680** | 4,632 |
| Subtotal | **18,968** | 7,288 |
| Actuarial loss recognised | **(185)** | - |
| Unrecognised actuarial gains / losses at the end of the year | **18,783** | 7,288 |

**Principal actuarial assumptions used are as follows:**

| | 2011 | 2010 |
|---|---|---|
| Expected rate of increase in salary level | **12%** | 13% |
| Valuation discount rate | **12.5%** | 14% |
| Expected return on plan assets | **5%** | 0% |

**31.9 Historical information**

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | --------------------------- Rupees in `000 | | | | ---------------------------- |
| As at December 31 | | | | | |
| Present value of defined benefit obligation | 63,884 | 50,735 | 34,755 | 19,092 | 10,150 |
| Fair value of plan assets | - | - | - | - | - |
| Deficit | 63,884 | 50,735 | 34,755 | 19,092 | 10,150 |
| Experience adjustments on plan liabilities | (11,680) | (4,632) | (2,928) | (357) | (505) |

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## 32 DEFINED CONTRIBUTION PLAN (PROVIDENT FUND)

The Bank operates a contributory provident fund scheme for permanent employees.The employer and employee both conribute 10% of basic salary to the funded scheme every month.Equal monthly contribution by employer and employees during the year amounted to Rs.26.566 million (2010: Rs.25.464 million) each.

## 33 COMPENSATION OF DIRECTORS AND EXECUTIVES

| | President / Chief Executive | | Directors | | Executives | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | Rupees in '000 | | | | | |
| **Fees** | - | - | **1,550** | 1,550 | - | - |
| Managerial remuneration | ***14,183** | 9,781 | - | - | **94,279** | 87,780 |
| Bonus | - | - | - | - | - | - |
| Charge for defined benefit plan | **1,181** | 815 | - | - | **8,500** | 7,312 |
| Salary in lieu of provident fund | ***1,418** | 978 | - | - | - | - |
| Contribution to defined contribution plan | - | - | - | - | **8,894** | 8,220 |
| Rent and house maintenance | ***391** | 270 | - | - | **29,691** | 24,522 |
| Utilities | ***1,418** | 978 | - | - | **9,428** | 8,778 |
| Medical | ***1,418** | 978 | - | - | **9,428** | 8,623 |
| Increment Allwance | - | - | - | - | **36,535** | 12,117 |
| Others | - | - | - | - | **1,633** | 2,215 |
| | **20,009** | 13,800 | **1,550** | 1,550 | **198,388** | 159,567 |
| Number of persons | **1** | 1 | **4** | 4 | **106** | 100 |

*Included in this amount are arrears amounting to Rs. 3.571 million (2010:Nil)

33.1 The Bank's President / Chief Executive and certain Executives are provided with free use of Bank's maintained cars in accordance with the Bank's service rules.

In addition to above all eligible executives, including the Chief Executive Officer of the Bank are also entitled to certain short term employee benefits which are disclosed in note 25.3 to these financial statements.

## 34 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of quoted investments is based on quoted market prices. Unquoted equity securities are valued at 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.

The 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 38 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.

### 34.1 Off-balance sheet financial instruments

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Book value | Fair vlue | Book value | Fair vlue |
| | Rupees in '000 | | | |
| Forward purchase of foreign exchange | 93,579 | 93,574 | 382,146 | 373,661 |
| Forward sale of foreign exchange | 127,887 | 127,607 | 63,402 | 63,269 |

## 35 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

| 2011 | Trading & Sales | Retail Banking | Commercial Banking | Support Centre | Total |
|---|---|---|---|---|---|
| | ---Rupees in '000--- | | | | |
| Total income | 571,690 | 3,355,587 | 1,757,459 | 44,127 | 5,728,863 |
| Total expenses | 46,669 | 2,860,545 | 1,328,808 | 884,254 | 5,120,276 |
| Net income (loss) | 525,021 | 495,042 | 428,651 | (840,127) | 608,587 |
| Segment Assets (Gross) | 31,232,461 | 7,122,755 | 18,773,042 | 2,139,706 | 59,267,964 |
| Segment Non Performing Assets | 74,790 | 324,240 | 536,214 | 12 | 935,256 |
| Segment Provision Required | 34,790 | 183,848 | 228,000 | 12 | 446,650 |
| Segment Liabilities | 618,920 | 34,973,402 | 17,859,572 | 56,782 | 53,508,676 |
| Segment Return on Assets (ROA) (%) | 1.68% | 6.95% | 2.28% | - | - |
| Segment Cost of funds (%)* | 12.76% | 6.81% | 8.33% | - | - |

* In case of Trading & Sales and Commercial Banking, the cost of funds includes the cost of funds borrowed from Head office.

| 2010 | Trading & Sales | Retail Banking | Commercial Banking | Support Centre | Total |
|---|---|---|---|---|---|
| | ---Rupees in '000--- | | | | |
| Total income | 80,237 | 2,422,415 | 1,277,775 | 232,886 | 4,013,313 |
| Total expenses | 37,531 | 2,211,077 | 954,175 | 765,987 | 3,968,770 |
| Net income (loss) | 42,706 | 211,338 | 323,600 | (533,101) | 44,543 |
| Segment Assets (Gross) | 20,655,460 | 4,643,858 | 17,743,245 | 2,355,058 | 45,397,621 |
| Segment Non Performing Financing | 61,418 | 152,202 | 517,670 | - | 731,290 |
| Segment Provision Required | 21,418 | 140,065 | 200,435 | - | 361,918 |
| Segment Liabilities | 377,520 | 26,673,044 | 12,876,337 | 342,416 | 40,269,317 |
| Segment Return on Assets (ROA) (%) | 0.21% | 4.55% | 1.82% | - | - |
| Segment Cost of funds (%) | 13.81% | 6.63% | 8.74% | - | - |

* In case of Trading & Sales and Commercial Banking, the cost of funds includes the cost of funds borrowed from Head office.

## 36 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, principal shareholders, retirement benefit funds, directors and their close family members, and key management personnel.

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

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

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

Transactions with related parties other than remuneration and benefits to key management personnel including Chief Executive Officer under the terms of the employment as disclosed in note 33 are as follows:

| Subsidiary | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| **Deposits** | | |
| At beginning of the year | **88,555** | 75,727 |
| Deposits during the year | **1,433,972** | 880,647 |
| Withdrawals during the year | **(1,423,093)** | (867,819) |
| At the end of the year | **99,434** | 88,555 |
| **Transactions, income and expenses** | | |
| Return on deposits expensed | **10,236** | 8,080 |

| Associates | 2011 | 2010 |
|---|---|---|
| **Financings** | | |
| At beginning of the year | **167,663** | 150,000 |
| Disbursements | **66,122** | 17,663 |
| Repayments | **(11,943)** | - |
| At the end of the year | **221,842** | 167,663 |
| **Deposits** | | |
| At beginning of the year | **123,065** | 76,177 |
| Deposits during the year | **598,059** | 811,835 |
| Withdrawals during the year | **(602,448)** | (764,947) |
| At the end of the year | **118,676** | 123,065 |
| **Transactions, income and expenses** | | |
| Profit earned on financings | **31,810** | 18,311 |
| Return on deposits expensed | **5,989** | 6,395 |
| Repairs and maintenance | **49,468** | 47,036 |
| Advance against financing | **4,215** | - |
| Sale of investment | **248,148** | - |

| Key management personnel | 2011 | 2010 |
|---|---|---|
| **Financings** | | |
| At beginning of the year | **61,167** | 48,796 |
| Disbursements | **21,149** | 18,062 |
| Repaid during the year | **(4,232)** | (5,691) |
| At the end of the year | **78,084** | 61,167 |
| **Deposits** | | |
| At beginning of the year | **16,563** | 6,973 |
| Deposits | **94,531** | 84,541 |
| Withdrawals during the year | **(106,529)** | (74,951) |
| At the end of the year | **4,565** | 16,563 |
| **Transactions, income and expenses** | | |
| Profit earned on financing | **2,769** | 2,242 |
| Return on deposits expensed | **364** | 317 |
| Remuneration | **58,929** | 38,222 |
| Disposal of vehicle | **2,115** | 17,420 |

| Employee benefit plans | 2011 | 2010 |
|---|---|---|
| Contribution to Employees Gratuity Fund | **25,944** | 20,914 |
| Contribution to Employees Provident Fund | **26,566** | 25,464 |

## 37 CAPITAL ASSESSMENT AND ADEQUACY

### 37.1 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 the Bank ensures strong capital position and efficient use of capital as determined by the underlying business strategy i.e. maximizing growth on continuing basis. The Bank maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

### 37.2 Goals of managing capital

The goals of managing capital of the Bank are as follows: Our objectives for a sound capital management are: 1) to ensure that the Bank complies with the regulatory Minimum Capital Requirement (MCR) 2) maintain a strong credit rating 3) maintain healthy capital ratios to support business and to maximize shareholder value and 4) to operate with a Revolving Planning Horizon and be able to take advantage of new investment opportunities when they appear.

### 37.3 Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 7 dated April 2009 has revised the Minimum Capital Requirement (MCR) for the Banks. As per the circular the Bank was required to have a minimum issued, subscribed and paid-up capital (free of losses) of Rs. 8 billion by December 31, 2011 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 (free of losses) amounted to Rs. 5.052 billion at December 31, 2011. As more fully explained in note 1.2 to this financial statements, the SBP vide its letter No. BSD/CSD/546/2012 dated January 13, 2012 has granted extension to the Bank in timeline for meeting MCR (free of losses) amounting to Rs. 6 billion till June 30, 2012.

### 37.4 Capital Structure

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

- Tier 1 capital, which includes fully paid up capital, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for deficit on revaluation of available for sale investments and 50% deduction for investments in the equity of subsidiary companies being commercial entities and book value of goodwill and intangibles.

- Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25% of risk weighted assets), reserves on revaluation of fixed assets and equity investments up to a maximum of 45% of the balance, foreign exchange translation reserves, etc after 50% deduction for investments in the equity of subsidiary companies being commercial entities.

- Tier 3 capital has also been prescribed by the State Bank of Pakistan. However the Bank is not eligible for the Tier 3 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.

### 37.5 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:

| | | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 | --------- |
| Tier I Capital | | | |
| Shareholders Capital | | 5,279,679 | 5,279,679 |
| Reserves as disclosed on the Statement of Financial Position | | 91,221 | 9,310 |
| Accumulated loss | | (227,340) | (554,985) |
| | | 5,143,560 | 4,734,004 |
| Other deductions: | | | |
| Cost of investment in subsidiary - 50% | | (95,508) | (95,508) |
| Book value of goodwill and intangibles | | (73,630) | (81,291) |
| Total Tier I Capital | | 4,974,422 | 4,557,206 |
| Tier II Capital | | | |
| General provisions for loan losses-up to maximum of 1.25% of Risk Weighted Assets | | 28,972 | 32,291 |
| Revaluation Reserves up to 45% | | 117,054 | 22,419 |
| Less: Cost of Investment in Subsidiary | | (95,508) | (95,508) |
| Total Tier II Capital | | 50,518 | (40,798) |
| Eligible Tier III Capital | | - | - |
| Total Regulatory Capital Base | (a) | 5,024,940 | 4,516,407 |

**Risk-weighted exposures**

| | | Capital Requirements | | Risk Weighted Assets | |
|---|---|---|---|---|---|
| **Credit risk** | | **2011** | **2010** | **2011** | **2010** |
| **Portfolios subject to standardized approach (Simple Approach for CRM)** | | ------------------------------ Rupees in '000 | ------------------------------ | | |
| Corporate Portfolio | | **1,144,451** | 997,571 | **11,444,506** | 9,975,714 |
| Retail Portfolio | | **22,280** | 24,781 | **222,795** | 247,814 |
| Mortgage Portfolio | | **64,118** | 65,259 | **641,176** | 652,587 |
| Past due financings | | **56,383** | 27,580 | **563,828** | 275,801 |
| Claims on Banks | | **162,266** | 122,969 | **1,622,658** | 1,229,692 |
| Fixed Assets | | **173,800** | 198,539 | **1,737,998** | 1,985,389 |
| Others | | **616,184** | 382,365 | **6,161,836** | 3,823,648 |
| | | **2,239,482** | 1,819,064 | **22,394,797** | 18,190,645 |
| **Portfolios subject to off balance sheet exposure –non market/market related** | | | | | |
| Corporate Portfolio | | **81,911** | 38,720 | **819,106** | 387,196 |
| **Market risk** | | | | | |
| Capital requirement for portfolios subject to standardized approach | | | | | |
| Foreign Exchange risk | | **6,143** | 18,248 | **61,429** | 182,483 |
| Interest Rate Risk | | **216,207** | 277,665 | **2,162,074** | 2,776,651 |
| Equity Risk | | **6** | 4 | **56** | 42 |
| **Operational risk** | | | | | |
| Capital Requirement for operational risks subject to Basic Indicator Approach | | **381,037** | 161,853 | **3,810,372** | 1,618,525 |
| **Total** | (b) | **2,924,786** | **2,315,554** | **29,247,834** | **23,155,542** |

**Capital adequacy ratio**

| | | 2011 | 2010 |
|---|---|---|---|
| Total eligible regulatory capital held | (a) | **5,024,940** | **4,516,408** |
| Total risk weighted assets | (b) | **29,247,834** | **23,155,542** |
| Capital adequacy ratio | [(a / b) x 100] | **17.18%** | **19.5%** |

## 38 RISK MANAGEMENT

The objective of Risk Management is to effectively manage uncertainties that arise in the normal course of business activities. The risk management function is one of the most important areas of the banking business, and covers a wide spectrum of financial business risk class; including Credit, Market, Liquidity, Operational etc. The Bank follows effective risk governance which commensurate well with its current size and structure.

The implementation of Basel II (B2) provides for a risk-based capital requirement. The Bank adheres to the regulatory requirement in this respect, and conducts its business accordingly.

As a prelude to countering the financial debacle of the recent past, the Basel Committee (Internationally) is raising the resilience of the banking sector by strengthening the regulatory capital framework, essentially building on the three pillars of the Basel II structure. The reforms raise both the quality and quantity of the regulatory capital base and enhance the risk coverage of the capital framework. The SBP (State Bank of Pakistan) while being cognizant of the various reforms in the offing, is reviewing the impact of Basel III (B3) guidelines on the capital structure and CAR (Capital Adequacy Ratio) through quantitative impact studies.

### RISK MANAGEMENT FRAMEWORK

A well formulated policy and procedure is critical to an effective Risk Management framework; it then needs to be reinforced through a strong control culture that promotes sound risk governance. The Bank's Risk Management Framework has been developed keeping in mind, that:

- To be effective, control activities should be an integral part of the regular activities of the Bank;
- Every loss or near miss event should provide some Key Learning Outcome (KLO), helping and promoting a better risk identification and mitigation,
- While the reward may well commensurate the level of risk, it has to be viewed in entirety and not in isolation; and
- Critical decision making should be based on relevant research, proper analysis and effective communication within the Bank.

**Strategic Level**

At the strategic level, the risk related functions are approved by the senior management and the Board. These include: defining risks, setting parameters, ascertaining the institutions risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that overall risk remains within acceptable level and the reward compensates' for the risk taken.

**Macro Level**

It encompasses risk management within a business area or across business lines. Generally the risk management activities performed by middle management or units devoted to risk reviews fall into this category. Periodical review of various portfolios; stress test and scenario analysis for portfolio resilience; application of statistical tools and information in time series for developing strong inferences are all performed at this level.

**Micro Level**

Risk management at micro level, is of critical importance. This function if performed with diligence and understanding, can be of maximum benefit to the organization. Micro level risk management includes:

- Business line acquisition, strong adherence to the credit and other related criteria.
- Middle Office monitoring function for a sound risk assessment of various risks inherent in treasury operations.
- Detailed review of various processes and operating procedures, for operational and other risk related assessments.

**Risk appetite of the bank**

The risk appetite of the Bank is an outcome of its corporate goal, economic profitability, available resources (size and business life cycle) and most significantly; the controls. The Bank believes in a cautious yet steady approach towards its business objectives and takes a holistic view of its investment and financing requirement.

This approach is primarily based on a viable portfolio build-up with a long-term view; key consideration being the health of various portfolios.

**Risk organization**

A strong organizational set-up, with clearly defined roles and responsibilities permits a higher level of articulation of the Banks risk mandate, establishment of a structure that provides for authority, delegation and accountability, and development of control framework. Risk management cannot live in a vacuum; in order to be effective, it has to be run at an enterprise level. Risk governance must involve all relevant parties and should be sanctioned by the bank's leadership.

The risk management function at the Bank, along with the different committees including ALCO (Asset Liability Committee) and MCC (Management Credit Committee), RMC (Risk Management Committee of the Board) manage and adhere to the risk management policies and procedures, with an explicit aim to mitigate/ manage risk in line with the Banks objectives.

**Business line accountability**

One of the most important features of the risk management process is the business line accountability. Business has to understand the risk implication of specific transaction on the business / portfolio. Some specific risks e.g. reputation risk affects the entire banking business and is not limited to one business line or the other. At BIPL, as in any other reputable organization, responsibility comes with accountability. Each business segment is responsible for the profit / loss of the business. The management of risk is as much a line function as it is supports'.

Business lines are equally responsible for the risks they are taking. Because line personnel understand the risks of the business. Lack of an understanding of this by the line management may lead to risk management in isolation.

**38.1 Credit Risk**

The Bank manages credit risk by effective credit appraisal mechanism, approving and reviewing authorities, limit structures, internal credit risk rating system, collateral management and post disbursement monitoring so as to ensure prudent financing activities and sound financing portfolio under the umbrella of a comprehensive Credit Policy approved by the Board of Directors. Credit Risk has certain sub-categories as follows:

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

ii) **Counter party risk**

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

iii) **Settlement risk**

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

iv) **Country risk**

Country Risk can be defined as the risk of adverse impact of certain factors on a country's specific economic, political and social scenario which affects the ability of the country (or a borrower in that country) to repay its obligations. Country risk may be a combination of Transfer Risk and Sovereign Risk.

**38.1.1 Segmental information**

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

**38.1.1.1 Segments by class of business**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Financings (Gross) | | Deposits | | Contingencies and Commitments | |
| | Rupees in '000 | Percentage | Rupees in '000 | Percentage | Rupees in '000 | Percentage |
| Agriculture, Forestry, Hunting and Fishing | 2,619,273 | 12.80% | 2,378,083 | 4.70% | 39,283 | 0.85% |
| Mining and Quarrying | - | 0.00% | 677,889 | 1.34% | - | 0.00% |
| Textile | 1,865,069 | 9.12% | 561,080 | 1.11% | 1,572,926 | 34.23% |
| Chemical and Pharmaceuticals | 200,214 | 0.98% | 571,377 | 1.13% | 90,928 | 1.98% |
| Cement | 1,095,733 | 5.36% | 271,959 | 0.54% | 15,035 | 0.33% |
| Sugar | 1,611,042 | 7.87% | 1,605,441 | 3.17% | 16 | 0.00% |
| Footwear and Leather garments | 52,060 | 0.25% | 67,304 | 0.13% | 27,795 | 0.60% |
| Automobile and transportation equipment | 46,632 | 0.23% | 242,384 | 0.48% | 274,646 | 5.98% |
| Education | 5,135 | 0.03% | 234,430 | 0.46% | - | 0.00% |
| Electronics and electrical appliances | 337,796 | 1.65% | 203,315 | 0.40% | 341,872 | 7.44% |
| Production and transmission of energy | 900,000 | 4.40% | 15,625 | 0.03% | - | 0.00% |
| Construction | 1,057,136 | 5.17% | 1,348,100 | 2.67% | 136,318 | 2.97% |
| Power (electricity), Gas, Water, Sanitary | 2,914,014 | 14.24% | 12,363 | 0.02% | 500,508 | 10.89% |
| Wholesale and Retail Trade | 322,539 | 1.58% | 2,534,288 | 5.01% | 150,000 | 3.26% |
| Exports/Imports | - | 0.00% | 81,118 | 0.16% | 86,837 | 1.89% |
| Transport, Storage and Communication | 293,304 | 1.43% | 404,083 | 0.80% | - | 0.00% |
| Financial | 1,664,258 | 8.13% | 1,571,610 | 3.11% | 139,274 | 3.03% |
| Insurance | 11,933 | 0.06% | 69,789 | 0.14% | - | 0.00% |
| Services | 148,216 | 0.72% | 1,339,464 | 2.65% | 25,323 | 0.55% |
| Individuals | 3,044,917 | 14.88% | 20,306,491 | 40.16% | 35,716 | 0.78% |
| Others* | 2,271,525 | 11.10% | 16,072,592 | 31.78% | 1,158,983 | 25.22% |
| | 20,460,796 | 100.00% | 50,568,785 | 100.00% | 4,595,460 | 100.00% |

* Others include Sole Proprietors, trusts, fund accounts and Govt deposits etc.

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Financings (Gross) | | Deposits | | Contingencies and Commitments | |
| | Rupees in '000 | Percentage | Rupees in '000 | Percentage | Rupees in '000 | Percentage |
| Agriculture, Forestry, Hunting and Fishing | 1,506,050 | 8.86% | 2,081,572 | 5.45% | - | 0.00% |
| Mining and Quarrying | - | 0.00% | 565,914 | 1.48% | - | 0.00% |
| Textile | 2,421,300 | 14.24% | 320,016 | 0.84% | 925,288 | 20.71% |
| Chemical and Pharmaceuticals | 97,898 | 0.58% | 449,386 | 1.18% | 84,419 | 1.89% |
| Cement | 1,004,234 | 5.91% | 76,446 | 0.20% | 25,134 | 0.56% |
| Sugar | 1,220,185 | 7.18% | 981,071 | 2.57% | - | 0.00% |
| Footwear and Leather garments | 134,753 | 0.79% | 68,407 | 0.18% | 51,368 | 1.15% |
| Automobile and transportation equipment | 34,678 | 0.20% | 170,968 | 0.45% | 460,441 | 10.31% |
| Education | 4,789 | 0.03% | 109,534 | 0.29% | - | 0.00% |
| Electronics and electrical appliances | 129,000 | 0.76% | 75,275 | 0.20% | 50,292 | 1.13% |
| Production and transmission of energy | 2,551,685 | 15.01% | 51,285 | 0.13% | - | 0.00% |
| Construction | 488,511 | 2.87% | 492,808 | 1.29% | 92,931 | 2.08% |
| Power (electricity), Gas, Water, Sanitary | - | 0.00% | 12,742 | 0.03% | - | 0.00% |
| Wholesale and Retail Trade | 280,973 | 1.65% | 2,206,127 | 5.78% | - | 0.00% |
| Exports/Imports | 18,021 | 0.11% | 122,656 | 0.32% | 80,661 | 1.81% |
| Transport, Storage and Communication | 350,516 | 2.06% | 451,346 | 1.18% | 138,921 | 3.11% |
| Financial | 1,954,021 | 11.49% | 285,422 | 0.75% | 444,665 | 9.95% |
| Insurance | 1,085 | 0.01% | 37,622 | 0.10% | - | 0.00% |
| Services | 133,502 | 0.79% | 1,030,130 | 2.70% | 73,915 | 1.65% |
| Individuals | 2,832,463 | 16.66% | 15,289,283 | 40.03% | 982,606 | 21.99% |
| Others* | 1,835,433 | 10.80% | 13,320,310 | 34.87% | 1,057,357 | 23.67% |
| | 16,999,097 | 100.00% | 38,198,320 | 100.00% | 4,467,998 | 100.00% |

* Others include Sole Proprietors, trusts, fund accounts and Govt deposits etc.

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38.1.1.2 **Segment by sector**

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Financings (Gross) | | Deposits | | Contingencies and Commitments | |
| | Rupees in '000 | Percentage | Rupees in '000 | Percentage | Rupees in '000 | Percentage |
| Public / Government | 1,860,205 | 9% | 1,218,171 | 2% | 689,950 | 15% |
| Private | 18,600,591 | 91% | 49,350,614 | 98% | 3,905,510 | 85% |
| | 20,460,796 | 100% | 50,568,785 | 100% | 4,595,460 | 100% |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Financings | | Deposits | | Contingencies and Commitments | |
| | Rupees in '000 | Percentage | Rupees in '000 | Percentage | Rupees in '000 | Percentage |
| Public / Government | 2,450,606 | 14% | 1,342,625 | 4% | 869,935 | 19% |
| Private | 14,548,491 | 86% | 36,855,695 | 96% | 3,598,063 | 81% |
| | 16,999,097 | 100% | 38,198,320 | 100% | 4,467,998 | 100% |

38.1.1.3 **Details of non-performing advances and specific provisions by class of business segment:**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | ---------------------- Rupees in '000 ---------------------- | | | |
| | Classified Financings | Specific Provisions Held | Classified Financings | Specific Provisions Held |
| Wholesale and Retail trade | 22,598 | 2,299 | 45,256 | 6,045 |
| Textile | 122,691 | 84,653 | 162,032 | 128,032 |
| Chemical and Pharmaceuticals | 295 | - | 907 | - |
| Power (electricity), Gas, Water, Sanitary | 5,274 | 70 | 12,371 | 30 |
| Cement | 23,750 | 11,006 | 23,750 | 12,422 |
| Automobile & Transportation equipment | 5,333 | - | 8,000 | - |
| Construction | 70,997 | 57,105 | 71,733 | 32,643 |
| Services | 2,703 | 586 | 1,445 | 578 |
| Paper Product* | 137,096 | 9,068 | 85,672 | - |
| Transport, Storage and Communication | 14,313 | 2,363 | 13,312 | 1,194 |
| Individuals | 374,950 | 150,750 | 212,552 | 115,737 |
| Others | 19,001 | 3,523 | 23,017 | - |
| | 799,001 | 321,423 | 660,047 | 296,681 |

* Provision has been made under subjective evaluation

38.1.1.4 **Details of non-performing financings and specific provisions by sector:**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | ---------------------- Rupees in '000 ---------------------- | | | |
| | Classified Financings | Specific Provisions Held | Classified Financings | Specific Provisions Held |
| Public / Government | - | - | - | - |
| Private | 799,001 | 321,423 | 660,047 | 296,681 |
| | 799,001 | 321,423 | 660,047 | 296,681 |

38.1.1.5 **GEOGRAPHICAL SEGMENT ANALYSIS**

| | 2011 | | | |
|---|---|---|---|---|
| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | ---------------------- Rupees in '000 ---------------------- | | | |
| Pakistan | 608,587 | 58,821,314 | 5,312,638 | 4,595,460 |

| | 2010 | | | |
|---|---|---|---|---|
| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | ---------------------- Rupees in '000 ---------------------- | | | |
| Pakistan | 44,543 | 45,035,703 | 4,766,386 | 4,467,998 |

38.1.2 **Credit risk - Standardized Approach**

Credit risk arises due to the risk of a borrower defaulting on his commitment either in part or as a whole. The Bank has currently employed standardized approach for evaluation of credit risk. It uses CRM (Credit Risk Mitigation ) technique where applicable. The Bank carries a strong desire to move towards the FIRB and Advanced approach.

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

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures, where available. The Bank has also recently employed a credit rating model, which is compatible to the rating guidelines of SBP, which will support the Bank in internally rating the credit clients.

### Types of Exposures and ECAI's used

| Exposures | 2011 JCR - VIS | 2011 PACRA | 2011 Others | 2010 JCR - VIS | 2010 PACRA | 2010 Others |
|---|---|---|---|---|---|---|
| Corporate | ✓ | ✓ | N/A | ✓ | ✓ | N/A |
| Banks | ✓ | ✓ | ✓ | ✓ | ✓ | N/A |

**Credit Exposures subject to Standardised approach**

| Exposures | Rating Category | 2011 Amount Outstanding | 2011 Deduction CRM | 2011 Net amount | 2010 Amount Outstanding | 2010 Deduction CRM | 2010 Net amount |
|---|---|---|---|---|---|---|---|
| | | ---- Rs. In '000 ---- | | | | | |
| Corporate | 0% | - | - | - | - | - | - |
| | 20% | 3,423,412 | - | 3,423,412 | 1,584,051 | - | 1,584,051 |
| | 50% | 1,239,277 | 154,832 | 1,084,445 | 1,034,212 | - | 1,034,212 |
| | 100% | 211,259 | - | 211,259 | 10,988 | - | 10,988 |
| | 150% | 320,500 | - | 320,500 | - | - | - |
| | Unrated | 9,637,174 | 111,582 | 9,525,592 | 9,005,147 | 179,764 | 8,825,383 |
| | | 14,831,622 | 266,414 | 14,565,208 | 11,634,398 | 179,764 | 11,454,634 |
| Retail | 0% | - | - | - | - | - | - |
| | 20% | - | - | - | - | - | - |
| | 50% | - | - | - | - | - | - |
| | 75% | 609,867 | 312,807 | 297,060 | 541,360 | 210,941 | 330,419 |
| | | 609,867 | 312,807 | 297,060 | 541,360 | 210,941 | 330,419 |
| Total | | 15,441,489 | 579,221 | 14,862,268 | 12,175,758 | 390,705 | 11,785,053 |

CRM = Credit Risk Mitigation

### 38.1.2.2 Credit Risk Disclosures with respect to Credit Risk Mitigation for Standard and IRB Approaches- Basel II Specific.

The Bank obtains capital relief for both on and off-balance sheet non-market related exposures by using simple approach for Credit risk mitigation (CRM). Off-balance sheet items under the simplified standardized approach are converted into credit exposure equivalents through the use of credit conversion factors. Under the standardized approach the Bank has taken advantage of the cash collaterals available with the Bank in the form of security deposits and cash margins.

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

The Bank takes the benefit of CRM against its claims on corporate and retail portfolio. Under the standardized approach for on-balance sheet exposures, the corporate portfolio of Rs.14,831.622 million (2010: Rs. 11,634.398 million) is subject to the CRM of Rs.266.414 million (2010: Rs. 179.764 million) whereas a claim on retail portfolio of Rs.609.867 million (2010: Rs. 541.360 million) is subject to CRM of Rs 312.807 million (2010: Rs. 210.941 million). The total benefit of Rs.579.221 million (2010: Rs. 390.705 million) was availed through CRM against total on-balance sheet exposure of Rs.15,441.489 million (2010: Rs. 12,175.758 million).

Under off-balance sheet, non-market related exposures; the corporate portfolio of Rs 301.039 million (2010: Rs. 1,473.667 million) is subject to the CRM of Rs.7.023 million (2010: Rs. 100.907 million). Hence total benefit of Rs 7.023 million (2010: Rs. 100.907 million) was availed by the Bank through CRM against total off-balance sheet, non-market related exposure of Rs.301.039 million (2010: Rs. 1,473.667 million).

During the year, total amount of cash collateral used for CRM purposes was Rs.586.244 million as against amount of Rs 491.612 million in year 2010.The difference in the value of cash collateral is due to the changes in the exposure amounts and resultant amount of cash collateral obtained.

### 38.2 Equity Position Risk in the Banking book –Basel II Specific

Equity position includes the following:

- Strategic investments
- Investment in equities for generating revenue in short term

These equity investments are accounted for and disclosed as per the provisions and directives of SBP,SECP and the requirements of approved International Accounting Standards as applicable in Pakistan.

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

### 38.3 Yield / Profit Rate Risk in the banking book – Basel II specific

It includes all material yield risk positions of the Bank taking into account all repricing and maturity data. It includes current balances and contractual yield rates, the Bank understands that its financing shall be repriced as per their respective contracts.

The Bank estimates changes in the economic value of equity due to changes in the yield rates on on-balance sheet positions by conducting duration gap analysis. It also assesses yield rate risk on earnings of the bank by applying upward and downward shocks.

### 38.4 Market Risk

Market risk is defined as the risk of losses in on-and-off balance sheet positions arising from movements in market prices e.g. fluctuations in values in tradable, marketable or leasable assets. The risks relate to the current and future volatility of market values of specific assets and of foreign exchange rates and benchmark yields.

The Bank uses various tools and techniques to assess market risk including but not limited to full valuation, stress testing, scenario analysis. These assessment methods enables the Bank to estimate changes in the value of the portfolio, if exposed to various risk factors.

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

### 38.4.1 Foreign Exchange Risk

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

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

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

| | 2011 | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Off-balance sheet items | Net foreign currency exposure |
| | ------------------------- Rupees in '000 ------------------------- | | | |
| Pakistan rupee | 58,081,473 | 52,864,260 | 34,034 | 5,251,247 |
| United States dollar | 562,738 | 502,211 | (16,605) | 43,922 |
| Great Britain pound | 84,128 | 83,576 | - | 552 |
| Deutsche mark | | - | - | - |
| Japanese yen | 1,521 | - | - | 1,521 |
| Euro | 77,556 | 58,629 | (17,429) | 1,498 |
| UAE Dirham | 426 | - | - | 426 |
| ACU | 7,777 | - | - | 7,777 |
| CHF | 840 | - | - | 840 |
| AUD | 1,985 | - | - | 1,985 |
| Saudi Riyal | 2,869 | - | - | 2,869 |
| | 58,821,313 | 53,508,676 | - | 5,312,637 |

| | 2010 | | | |
| --- | --- | --- | --- | --- |
| | Assets | Liabilities | Off-balance sheet items | Net foreign currency exposure |
| | Rupees in '000 | | | |
| Pakistan rupee | 44,240,425 | 39,690,913 | 34,391 | 4,583,903 |
| United States dollar | 555,343 | 387,130 | (8,058) | 160,155 |
| Great Britain pound | 92,775 | 87,802 | - | 4,973 |
| Deutsche mark | - | - | - | - |
| Japanese yen | 559 | - | - | 559 |
| Euro | 130,923 | 103,472 | (26,333) | 1,118 |
| UAE Dirham | 168 | - | - | 168 |
| ACU | 12,106 | - | - | 12,106 |
| CHF | 627 | - | - | 627 |
| AUD | 37 | - | - | 37 |
| Saudi Riyal | 2,740 | - | - | 2,740 |
| | 45,035,703 | 40,269,317 | - | 4,766,386 |

38.4.2 MISMATCH OF YIELD / PROFIT RATE SENSITIVE ASSETS AND LIABILITIES

| | | | 2011 | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Effective yield / Profit rate | Total | Exposed to Yield / Profit risk | | | | | | | | | Non-profit bearing financial instruments |
| | | | Upto 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years | |
| | | Rupees in '000 | | | | | | | | | | |
| On-balance sheet financial instruments | | | | | | | | | | | | |
| ***Assets*** | | | | | | | | | | | | |
| Cash and balances with Treasury Banks | | 4,684,826 | - | - | - | - | - | - | - | - | - | 4,684,826 |
| Balances with other Banks | 5.00% | 549,277 | 113 | - | - | - | - | - | - | - | - | 549,164 |
| Due from financial institutions | 11.77% | 4,436,264 | 4,436,264 | - | - | - | - | - | - | - | - | - |
| Investments | 12.41% | 21,067,082 | 965,292 | 6,461,473 | 13,449,275 | - | - | - | - | - | - | 191,042 |
| Financings | 13.28% | 20,110,401 | 8,071,685 | 5,350,476 | 3,545,632 | 50,288 | 113,266 | 132,098 | 392,290 | 304,776 | 1,379,586 | 770,304 |
| Other assets | | 1,013,857 | - | - | - | - | - | - | - | - | - | 1,013,857 |
| | | 51,861,707 | 13,473,354 | 11,811,949 | 16,994,907 | 50,288 | 113,266 | 132,098 | 392,290 | 304,776 | 1,379,586 | 7,209,193 |
| ***Liabilities*** | | | | | | | | | | | | |
| Bills payable | | 798,853 | - | - | - | - | - | - | - | - | - | 798,853 |
| Due to financial institutions | 10.00% | 800,000 | - | 350,000 | 450,000 | - | - | - | - | - | - | - |
| Deposits and other | 7.01% | 50,568,785 | 3,939,202 | 2,415,427 | 2,606,264 | 4,866,637 | 8,705,229 | 8,813,778 | 4,769,060 | 4,207,396 | - | 10,245,792 |
| Other liabilities | | 1,181,093 | - | - | - | - | - | - | - | - | - | 1,181,093 |
| | | 53,348,731 | 3,939,202 | 2,765,427 | 3,056,264 | 4,866,637 | 8,705,229 | 8,813,778 | 4,769,060 | 4,207,396 | - | 12,225,738 |
| **On-balance sheet gap** | | (1,487,024) | 9,534,152 | 9,046,522 | 13,938,643 | (4,816,349) | (8,591,963) | (8,681,680) | (4,376,770) | (3,902,620) | 1,379,586 | (5,016,545) |
| **NON FINACIAL ASSETS** | | | | | | | | | | | | |
| Operating fixed assets | | 1,811,628 | | | | | | | | | | |
| Deferred tax assets | | 188,130 | | | | | | | | | | |
| Other assets | | 4,959,849 | | | | | | | | | | |
| | | 6,959,607 | | | | | | | | | | |
| **NON FINACIAL LIABILITIES** | | | | | | | | | | | | |
| Other liabilities | | 159,945 | | | | | | | | | | |
| **TOTAL NET ASSETS** | | 5,312,638 | | | | | | | | | | |
| Total Yield / Profit Risk Sensitivity Gap | | | 9,534,152 | 9,046,522 | 13,938,643 | (4,816,349) | (8,591,963) | (8,681,680) | (4,376,770) | (3,902,620) | 1,379,586 | (5,016,545) |
| Cumulative Yield/Profit Risk Sensitivity Gap | | | 9,534,152 | 18,580,674 | 32,519,317 | 27,702,968 | 19,111,005 | 10,429,325 | 6,052,555 | 2,149,935 | 3,529,521 | (1,487,024) |

| | Effective yield / Profit rate | Total | 2010 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 | Non-profit bearing financial instruments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance sheet financial instruments** | | Rupees in '000 | | | | | | | | | | |
| ***Assets*** | | | | | | | | | | | | |
| Cash and balances with Treasury Banks | - | 3,035,148 | - | - | - | - | - | - | - | - | - | 3,035,148 |
| Balances with other Banks | 9.43% | 569,622 | 355 | - | - | - | - | - | - | - | - | 569,267 |
| Due from financial institutions | 12.14% | 4,513,132 | 4,513,132 | - | - | - | - | - | - | - | - | - |
| Investments | 13.33% | 13,732,132 | 1,529,373 | 3,912,061 | 8,053,563 | - | 6,099 | - | - | 40,000 | - | 191,036 |
| Financings | 14.00% | 16,670,125 | 5,907,981 | 1,044,727 | 2,490,011 | 549,048 | 1,371,082 | 1,001,139 | 1,000,714 | 2,459,451 | 843,713 | 2,258 |
| Other assets | - | 643,769 | - | - | - | - | - | - | - | - | - | 643,769 |
| | | 39,163,928 | 11,950,841 | 4,956,788 | 10,543,574 | 549,048 | 1,377,181 | 1,001,139 | 1,000,714 | 2,499,451 | 843,713 | 4,441,478 |
| ***Liabilities*** | | | | | | | | | | | | |
| Bills payable | - | 563,020 | - | - | - | - | - | - | - | - | - | 563,020 |
| Due to financial institutions | 10.00% | 353,000 | - | 303,000 | 50,000 | - | - | - | - | - | - | - |
| Deposits and other accounts | 6.96% | 38,198,320 | 2,187,711 | 2,310,040 | 1,698,298 | 4,328,688 | 6,086,881 | 6,151,127 | 3,999,615 | 2,274,726 | - | 9,161,234 |
| Other liabilities | - | 365,858 | - | - | - | - | - | - | - | - | - | 365,857 |
| | | 39,480,198 | 2,187,711 | 2,613,040 | 1,748,298 | 4,328,688 | 6,086,881 | 6,151,127 | 3,999,615 | 2,274,726 | - | 10,090,111 |
| **On-balance sheet gap** | | (316,270) | 9,763,130 | 2,343,748 | 8,795,276 | (3,779,640) | (4,709,700) | (5,149,988) | (2,998,901) | 224,725 | 843,713 | (5,648,633) |
| **NON FINACIAL ASSETS** | | | | | | | | | | | | |
| Operating fixed assets | | 2,066,680 | | | | | | | | | | |
| Deferred tax assets | | 402,183 | | | | | | | | | | |
| Other assets | | 3,402,912 | | | | | | | | | | |
| | | 5,871,775 | | | | | | | | | | |
| **NON FINACIAL LIABILITIES** | | | | | | | | | | | | |
| Other liabilities | | 789,119 | | | | | | | | | | |
| **TOTAL NET ASSETS** | | 4,766,386 | | | | | | | | | | |
| Total Yield / Profit Risk Sensitivity Gap | | | 9,763,130 | 2,343,748 | 8,795,276 | (3,779,640) | (4,709,700) | (5,149,988) | (2,998,901) | 224,725 | 843,713 | (5,648,634) |
| Cumulative Yield/Profit Risk Sensitivity Gap | | | 9,763,130 | 12,106,878 | 20,902,154 | 17,122,514 | 12,412,814 | 7,262,826 | 4,263,925 | 4,488,650 | 5,332,363 | (316,271) |

**38.5 Liquidity Risk**

Liquidity risk is the potential loss to the Bank arising from its inability either to meet its obligations (financial) or to fund increases in assets as they fall due without incurring unacceptable costs or losses.

BIPL's liquidity at various levels (day to day, short term, long term) is managed by the Treasury along with the Asset and Liability Management Committee (ALCO), which is one of the most important management level committees. Its role cannot be overemphasized here, it serves as a part of the critical trio with risk management and treasury department. Monitoring and maintaining key liquidity ratios, a viable funding mix, depositor concentration, reviewing contingency plans etc.

**38.5.1 MATURITIES OF ASSETS AND LIABILITIES**

| | Total | 2011 Upto 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |
|---|---|---|---|---|---|---|---|---|---|---|
| | Rupees in '000 | | | | | | | | | |
| ***Assets*** | | | | | | | | | | |
| Cash and balances with treasury banks | 4,684,826 | 4,684,826 | - | - | - | - | - | - | - | - |
| Balances with other banks | 549,277 | 549,277 | - | - | - | - | - | - | - | - |
| Due from financial institutions | 4,436,264 | 4,436,264 | - | - | - | - | - | - | - | - |
| Investments | 21,067,082 | 40,000 | 2,017,600 | - | 846,174 | 7,618,000 | 9,117,728 | 563,656 | 672,909 | 191,015 |
| Financings | 20,110,401 | 6,476,897 | 4,140,756 | 819,439 | 1,419,325 | 781,982 | 933,996 | 3,458,122 | 761,022 | 1,318,862 |
| Operating fixed assets | 1,811,628 | - | - | 5,360 | - | - | - | 293,716 | 508,467 | 1,004,085 |
| Deferred tax assets | 188,130 | - | - | - | - | - | - | 188,130 | - | - |
| Other assets | 5,973,706 | 375,696 | 4,974,843 | 271,497 | 113,119 | - | - | 4,979 | 233,572 | - |
| | 58,821,314 | 16,562,960 | 11,133,199 | 1,096,296 | 2,378,618 | 8,399,982 | 10,051,724 | 4,508,603 | 2,175,970 | 2,513,962 |
| ***Liabilities*** | | | | | | | | | | |
| Bills payable | 798,853 | 798,853 | - | - | - | - | - | - | - | - |
| Due to financial institutions | 800,000 | - | 350,000 | 450,000 | - | - | - | - | - | - |
| eposits and other accounts | 50,568,785 | 5,558,750 | 2,415,427 | 2,606,264 | 4,866,637 | 13,018,350 | 13,126,900 | 4,769,060 | 4,207,397 | - |
| Other liabilities | 1,341,038 | 715,821 | 34,432 | 125,122 | 24,989 | - | - | 440,674 | - | - |
| | 53,508,676 | 7,073,424 | 2,799,859 | 3,181,386 | 4,891,626 | 13,018,350 | 13,126,900 | 5,209,734 | 4,207,397 | - |
| **Net assets** | 5,312,638 | 9,489,536 | 8,333,340 | (2,085,090) | (2,513,008) | (4,618,368) | (3,075,176) | (701,131) | (2,031,427) | 2,513,962 |
| Share capital | 5,279,679 | | | | | | | | | |
| Reserves | 91,221 | | | | | | | | | |
| Accumulated loss | (227,340) | | | | | | | | | |
| Surplus on revaluation of assets | 169,078 | | | | | | | | | |
| | 5,312,638 | | | | | | | | | |

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Upto 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |
| | Rupees in '000 | | | | | | | | | |
| ***Assets*** | | | | | | | | | | |
| Cash and balances with treasury banks | 3,035,148 | 3,035,148 | - | - | - | - | - | - | - | - |
| Balances with other banks | 569,622 | 569,622 | - | - | - | - | - | - | - | - |
| Due from financial institutions | 4,513,132 | 4,513,132 | - | - | - | - | - | - | - | - |
| Investments | 13,732,132 | 1,529,373 | 3,912,061 | 8,053,563 | - | 6,099 | - | - | 40,021 | 191,015 |
| Financings | 16,670,125 | 5,908,191 | 1,044,800 | 2,490,259 | 550,775 | 1,371,082 | 1,001,139 | 1,000,714 | 2,459,451 | 843,714 |
| Operating fixed assets | 4,046,681 | 749,145 | 2,899,671 | 24,112 | 96,871 | 25,000 | - | - | 251,882 | - |
| Deferred tax assets | 2,066,680 | - | - | 5,140 | - | - | - | 434,468 | 577,335 | 1,049,737 |
| Other assets | 402,183 | - | - | - | - | - | - | 402,183 | - | - |
| | 45,035,703 | 16,304,611 | 7,856,532 | 10,573,074 | 647,646 | 1,402,181 | 1,001,139 | 1,837,365 | 3,328,689 | 2,084,466 |
| **Liabilities** | | | | | | | | | | |
| Bills payable | 563,020 | 563,020 | - | - | - | - | - | - | - | - |
| Due to financial institutions | 353,000 | - | 303,000 | 50,000 | - | - | - | - | - | - |
| Deposits and other accounts | 38,198,320 | 3,697,906 | 2,310,040 | 1,698,298 | 4,328,688 | 9,912,402 | 9,976,646 | 3,999,614 | 2,274,726 | - |
| Other liabilities | 1,154,977 | 488,237 | 34,036 | 160,141 | 22,875 | - | - | 449,688 | - | - |
| | 40,269,317 | 4,749,163 | 2,647,076 | 1,908,439 | 4,351,563 | 9,912,402 | 9,976,646 | 4,449,302 | 2,274,726 | - |
| **Net assets** | 4,766,386 | 11,555,448 | 5,209,456 | 8,664,635 | (3,703,917) | (8,510,221) | (8,975,507) | (2,611,937) | 1,053,963 | 2,084,466 |
| | | | | | | | | | | |
| Share capital | 5,279,679 | | | | | | | | | |
| Reserves | 9,310 | | | | | | | | | |
| Accumulated loss | (554,985) | | | | | | | | | |
| Advance against future issue of share capital | 32,382 | | | | | | | | | |
| | 4,766,386 | | | | | | | | | |

## 38.6 Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external / internal events. The risk is different from the others, since it has a greater level of uncertainty and may be termed as a little difficult to measure. The Bank believes that (prudence) should be lived and breathed through the organizational culture.

At a more formal level, the Bank has strengthened its risk management framework by developing polices, guidelines and manuals. Operational and other risk assessment tool e.g. ORAF is being effectively used to assess, mitigate and monitor possible risk that may arise in any of the Bank's financial product or department. Operational Loss Database (OLD) records all the internal/external potential operational losses which helps the management understand the causes and impact of these risks.

**38.7 Strategic Risk**

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

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

**38.8 Systemic Risk**

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

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

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

**38.9 Shariah Non-compliance**

Shariah non-compliance risk is the risk that arises from an Islamic bank's failure to comply with the Shariah rules and principles prescribed by the State Bank of Pakistan and/or the Shariah Advisor of the Bank. It remains' the most important operational risk for an Islamic bank. Compliance of shariah guidelines must permeate throughout the organization and its adherence should be reflected in the products and activities.

**39 GENERAL**

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

The figures in the financial statements have been rounded off to the nearest thousand rupee.

**39.2** Corresponding figures

Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparisons. No significant reclassifications were made during the current year except for the following.

| Reclassified from | Reclassified to | Rupees in '000 |
|---|---|---|
| Other income | Profit / return earned | 988 |
| Other income | Fee, commission and brokerage income | 2,673 |
| Income from dealing in foreign currencies | Fee, commission and brokerage income | 3,713 |
| Other income | Income from dealing in foreign currencies | 2,561 |

**40. DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on March 07, 2012 by the Board of Directors of the Bank.

**President / Chief Executive** **Director** **Director** **Director**

## Annexure 1

Details of disposals of fixed assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 whichever is less and assets disposed off to the chief executive or to a director or to executives or to any related party, irrespective of the value, are as follows:

| | Cost | Accumulated depreciation | Net book value | Sale proceeds | Gain / (loss) on sale of property and equipment | Mode of disposal | Particular of purchaser |
|---|---|---|---|---|---|---|---|
| | -----------------------(Rupees in '000)--------------------- | | | | | | |
| Honda Civic | 1,386 | 1,363 | 23 | 1,077 | 1,054 | Auction | Muhammed Shabir |
| Honda Civic | 1,932 | 348 | 1,584 | 1,725 | 141 | Auction | Suzuki South |
| Honda Civic | 1,652 | 833 | 819 | 1,455 | 636 | Auction | Aqeel Akhtar |
| Toyota Corolla | 919 | 637 | 282 | 1,026 | 744 | Auction | Noman H Khan |
| Suzuki Liana | 852 | 530 | 322 | 557 | 235 | Auction | Salman Ahmed |
| Suzuki Liana | 852 | 551 | 301 | 647 | 346 | Auction | Umar Farooq |
| Suzuki Liana | 1,027 | 452 | 575 | 657 | 82 | Auction | Salman Ahmed |
| Suzuki Liana | 1,070 | 323 | 747 | 704 | (43) | Auction | Musmat Sakina |
| Suzuki Liana | 1,000 | 450 | 550 | 691 | 141 | Auction | Sikandar Ali |
| Suzuki Liana | 829 | 230 | 599 | 766 | 16 | Auction | Waseem Mirza |
| Suzuki Liana | 1,029 | 453 | 576 | 686 | 110 | Auction | Sultan Hassan Khan |
| Suzuki Liana | 1,042 | 458 | 584 | 551 | (33) | Auction | Saif ur Rehman |
| Suzuki Liana | 1,029 | 453 | 576 | 716 | 140 | Auction | Irfan Ullah Ansari |
| Suzuki Liana | 822 | 309 | 513 | 613 | 100 | Auction | Sultan Hassan Khan |
| Suzuki Cultus | 750 | 334 | 416 | 728 | 312 | Auction | Muhammed Arif |
| Suzuki Cultus | 756 | 357 | 399 | 618 | 219 | Auction | Muhammed Alam |
| Suzuki Cultus | 750 | 330 | 420 | 718 | 298 | Auction | Waseem Mirza |
| Suzuki Cultus | 832 | 247 | 585 | 757 | 172 | Auction | Abdul Waheed |
| Suzuki Cultus | 750 | 334 | 416 | 676 | 260 | Auction | Muhammed Ali Akbar Khan |
| Suzuki Bolan | 296 | 4 | 292 | 321 | 29 | Auction | Shahid Ahmed Abbassi |
| Toyota Corolla | 965 | 665 | 300 | 338 | 38 | Bank Policy | Mufti Irshad Ahmed Aijaz - Employee |
| Suzuki Liana | 1,019 | 458 | 561 | 616 | 55 | Bank Policy | Muhammed Nadeem Aslan - Employee |
| Suzuki Cultus | 750 | 335 | 415 | 710 | 295 | Bank Policy | Asif Ullah Khan - Employee |
| Suzuki Cultus | 699 | 223 | 476 | 544 | 68 | Bank Policy | Syed Adib Haider - Employee |
| Suzuki Cultus | 699 | 223 | 476 | 710 | 234 | Bank Policy | Fawad Iqbal Khan - Employee |
| Toyota Corolla | 1,052 | 957 | 95 | 765 | 670 | Bank Policy | Ahmed Mustafa - Employee |
| Suzuki Cultus | 759 | 350 | 409 | 544 | 135 | Bank Policy | Irfan Manzoor Khokhar - Employee |
| Suzuki Cultus | 832 | 257 | 575 | 566 | (9) | Bank Policy | Syed Kashif Iqbal - Employee |
| Suzuki Cultus | 750 | 367 | 383 | 518 | 135 | Bank Policy | Ershad Ahmed - Employee |
| Toyota Corolla | 1,048 | 751 | 297 | 297 | - | Bank Policy | Muhammed Imran - Employee |
| Toyota Corolla | 1,068 | 736 | 332 | 332 | - | Bank Policy | Syed Mujtaba Hussain Kazmi - Employee |
| Honda City | 1,225 | 1,213 | 12 | 675 | 663 | Bank Policy | Mehmood Rashid - Employee |
| Suzuki Cultus | 750 | 404 | 346 | 548 | 202 | Bank Policy | Zakir Siraj Uddin - Employee |
| Suzuki Liana | 1,019 | 564 | 455 | 617 | 162 | Bank Policy | Muhammed Shakir Abbasi - Employee |
| Suzuki Cultus | 815 | 471 | 344 | 700 | 356 | Bank Policy | Syed Azmat Ali - Employee |
| Suzuki Liana | 929 | 340 | 589 | 651 | 62 | Auction | Noman Baig |
| Suzuki Liana | 955 | 437 | 518 | 540 | 22 | Bank Policy | Muhammed Shafi Ullah - Employee |
| | 34,909 | 17,747 | 17,162 | 25,360 | 8,198 | | |
| Other property and equipment (having book value less than 250,000 or cost less than Rs. 1,000,000) | 7,693 | 5,467 | 2,226 | 6,815 | 4,589 | | |
| | 42,602 | 23,214 | 19,388 | 32,175 | 12,787 | | |

# DIRECTORS' REPORT

On behalf of the Board, I am pleased to present the consolidated Annual Results of the Bank along with its subsidiary BankIslami Modaraba Investment Ltd. For the period ended December 31, 2011. The highlights of the year under review are:

| | **Dec-11** | **Dec-10** | **Growth (%)** |
|---|---|---|---|
| | **Rupees in Million** | | |
| Total Deposits | 50,468 | 38,110 | 32.43% |
| Total Assets | 58,717 | 44,947 | 30.64% |
| Total Financing-net | 20,110 | 16,670 | 20.64% |
| Total Investments | 20,892 | 13,565 | 54.01% |
| Shareholder's Equity | 5,138 | 4,732 | 8.58% |
| Branches | 102 | 102 | - |
| | | | |
| | **Dec-11** | **Dec-10** | |
| | **Rupees** | | |
| Basic Earnings/(loss) per share | 0.77 | 0.08 | 862.5% |

Our group performance remained satisfactory. The Group has been able to post growth in its deposits by 32.43%, Financings by 20.64% and total Assets by 30.64%.

The Board would like to place on record its deep appreciation to the State Bank of Pakistan which has supported us with an un-wavering commitment. Gratitude is also due to the Securities and Exchange Commission of Pakistan. Finally, we are thankful to our employees and customers for their patronage and support.

On behalf of the Board,

**Hasan A Bilgrami**
Chief Executive Officer

March 07, 2012

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# Islami Current Account


BankIslami brings to you **Islami Current Account,** which is based on the principles of 'Qarz' and is authenticated by our renowned Sharia'h Board.

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- Available in Pak Rupee
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# AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated statement of financial position of BankIslami Pakistan Limited (the Holding Company) and its subsidiary company, BankIslami Modaraba Investments Limited as at December 31, 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'consolidated financial statements'), for the year then ended. These consolidated financial statements include unaudited certified returns from the branches of the Holding Company, except for eight branches, which have been audited by us. We have also expressed a separate opinion on the separate financial statements of BankIslami Pakistan Limited and have performed a limited scope review under International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the subsidiary company. These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly the financial position of BankIslami Pakistan Limited and its subsidiary company as at December 31, 2011 and the results of their operations, their comprehensive income, their cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

**A.F. Ferguson & Co**
Chartered Accountants
Audit Engagement Partner: **Rashid A. Jafer**
Dated: March 08, 2012
Karachi

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# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | ------------- Rupees in `000 ------------- | |
| **ASSETS** | | | |
| Cash and balances with treasury banks | 6 | **4,684,831** | 3,035,153 |
| Balances with other banks | 7 | **549,411** | 570,858 |
| Due from financial institutions | 8 | **4,436,264** | 4,513,132 |
| Investments | 9 | **20,891,908** | 13,564,654 |
| Financings | 10 | **20,110,401** | 16,670,125 |
| Operating fixed assets | 11 | **1,816,863** | 2,048,855 |
| Deferred tax assets | 12 | **188,442** | 409,483 |
| Other assets | 13 | **6,038,413** | 4,134,418 |
| | | **58,716,533** | 44,946,678 |
| **LIABILITIES** | | | |
| Bills payable | 14 | **798,853** | 563,020 |
| Due to financial institutions | 15 | **800,000** | 353,000 |
| Deposits and other accounts | 16 | **50,468,674** | 38,109,790 |
| Sub-ordinated loans | | **-** | - |
| Liabilities against assets subject to finance lease | | **-** | - |
| Deferred tax liabilities | | **-** | - |
| Other liabilities | 17 | **1,342,233** | 1,156,705 |
| | | **53,409,760** | 40,182,515 |
| **NET ASSETS** | | **5,306,773** | 4,764,163 |
| **REPRESENTED BY** | | | |
| Share capital | 18 | **5,279,679** | 5,279,679 |
| Reserves | 19 | **91,221** | 9,310 |
| Accumulated losses | | **(233,205)** | (557,208) |
| | | **5,137,695** | 4,731,781 |
| Surplus on revaluation of assets - net | 20 | **169,078** | 32,382 |
| | | **5,306,773** | 4,764,163 |
| **CONTINGENCIES AND COMMITMENTS** | 21 | | |

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

**President / Chief Executive** **Director** **Director** **Director**

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# Consolidated Profit and Loss Account
## For the Year Ended December 31, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Profit / return earned | 22 | **5,504,739** | 3,810,943 |
| Profit / return expensed | 23 | **2,873,119** | 2,049,453 |
| Net spread earned | | 2,631,620 | 1,761,490 |
| Provision / (Reversal of provision) against non-performing financings - net | 10.10 | **21,423** | (7,424) |
| Provision for diminution in the value of investments | 9.7 | **1,195** | 12,671 |
| Bad debts written off directly | | **-** | - |
| | | 22,618 | 5,247 |
| Net spread after provisions / (reversals) | | **2,609,002** | 1,756,243 |
| **OTHER INCOME** | | | |
| Fee, commission and brokerage income | | **110,118** | 94,207 |
| Dividend Income | | 2 | 1 |
| Income from dealing in foreign currencies | | **63,285** | 59,124 |
| Gain on sale of securities | | **-** | - |
| Unrealised gain on revaluation of investments classified as held for trading | | **-** | - |
| Other income | 24 | **53,247** | 52,848 |
| Total other income | | **226,652** | 206,180 |
| | | **2,835,654** | 1,962,423 |
| **OTHER EXPENSES** | | | |
| Administrative expenses | 25 | **2,153,177** | 1,897,405 |
| Other provisions / write offs | | **63,310** | 11,528 |
| Other charges | 26 | **4,661** | 11,657 |
| Total other expenses | | **2,221,148** | 1,920,590 |
| | | **614,506** | 41,833 |
| Extra ordinary / unusual items | | **-** | - |
| **PROFIT BEFORE TAXATION** | | **614,506** | 41,833 |
| Taxation | | | |
| - Current | 27 | **59,816** | 44,993 |
| - Prior years | 27 | **1,340** | - |
| - Deferred | 27 | **147,436** | (44,319) |
| | | **208,592** | 674 |
| **PROFIT AFTER TAXATION** | | **405,914** | 41,159 |
| **Accumulated losses brought forward** | | **(556,130)** | (589,057) |
| | | **(150,216)** | (547,898) |
| **Basic earnings per share – Rupees** | 28 | **0.77** | 0.08 |
| **Diluted earnings per share – Rupees** | 28 | **0.77** | 0.08 |

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

| President / Chief Executive | Director | Director | Director |
|---|---|---|---|

# Consolidated Statement of Comprehensive Income
## For the Year Ended December 31, 2011

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| Profit after taxation for the year | **405,914** | 41,159 |
| **Comprehensive income transferred to equity** | **405,914** | 41,159 |
| **Components of comprehensive income not reflected in equity :** | | |
| Surplus on revaluation of available for sale investments - net of tax | **169,078** | 32,382 |
| Total comprehensive income for the year | **574,992** | 73,541 |

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

**President / Chief Executive** **Director** **Director** **Director**

# CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Profit before taxation | | **614,506** | 41,833 |
| Less: Dividend Income | | **(2)** | (1) |
| | | **614,504** | 41,832 |
| **Adjustments:** | | | |
| Depreciation | 25 | **311,474** | 331,722 |
| Amortisation | 25.2 | **29,705** | 27,798 |
| Depreciation on operating Ijara assets | 10.8 | **255,941** | 89,403 |
| Provision / (Reversal of provision) against non-performing financings - net | 10.10 | **21,423** | (7,424) |
| Provision for diminution in the value of investments | 9.7 | **1,195** | 12,671 |
| Other provisions / write offs | 13.6 | **63,310** | 11,528 |
| Gain on sale of property, plant and equipment | 24 | **(12,787)** | (20,260) |
| Deferred cost amortised | 13.2 | **4,086** | 16,083 |
| | | **674,347** | 461,521 |
| | | **1,288,851** | 503,353 |
| **(Increase) / decrease in operating assets** | | | |
| Due from financial institutions | | **76,868** | (494,319) |
| Financings | | **(3,717,640)** | (6,294,801) |
| Others assets (excluding advance taxation and deferred cost) | | **(1,971,718)** | (126,997) |
| | | **(5,612,490)** | (6,916,117) |
| **Increase / (decrease) in operating liabilities** | | | |
| Bills payable | | **235,833** | 77,412 |
| Due to financial institutions | | **447,000** | 196,840 |
| Deposits and other accounts | | **12,358,884** | 10,198,139 |
| Other liabilities (excluding current taxation) | | **185,528** | 238,000 |
| | | **13,227,245** | 10,710,391 |
| | | **8,903,606** | 4,297,627 |
| Income tax paid | | **(60,829)** | (36,476) |
| **Net cash generated from operating activities** | | **8,842,777** | 4,261,151 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Net investments in available for sale securities | | **(7,118,148)** | (6,919,869) |
| Dividend received | | **2** | 1 |
| Investments in operating fixed assets | | **(128,862)** | (68,839) |
| Sale proceeds of property and equipment disposed-off | | **32,462** | 56,239 |
| **Net cash used in investing activities** | | **(7,214,546)** | (6,932,468) |
| **Increase / (decrease) in cash and cash equivalents** | | **1,628,231** | (2,671,317) |
| Cash and cash equivalents at beginning of the year | | **3,606,011** | 6,277,328 |
| **Cash and cash equivalents at end of the year** | 29 | **5,234,242** | 3,606,011 |

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

| **President / Chief Executive** | **Director** | **Director** | **Director** |
|---|---|---|---|

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# Consolidated Statement of Changes in Equity
## For the Year Ended December 31, 2011

| | Share capital | Statutory Reserves | Accumulated losses | Total |
|---|---|---|---|---|
| | Rupees in '000 | | | |
| **Balance as at January 01, 2010** | 5,279,679 | - | (589,057) | 4,690,622 |
| Profit after taxation for the year transferred from Statement of Comprehensive Income | | | 41,159 | 41,159 |
| Transfer to Statutory reserve | | 9,310 | (9,310) | - |
| **Balance as at December 31, 2010** | 5,279,679 | 9,310 | (557,208) | 4,731,781 |
| Profit after taxation for the year transferred from Statement of Comprehensive Income | - | - | 405,914 | 405,914 |
| Transfer to Statutory reserve | - | 81,911 | (81,911) | - |
| **Balance as at December 31, 2011** | 5,279,679 | 91,221 | (233,205) | 5,137,695 |

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

**President / Chief Executive** **Director** **Director** **Director**

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## 1 STATUS AND NATURE OF BUSINESS

### 1.1 The Group comprises of:

**BankIslami Pakistan Limited (Holding Company)**

BankIslami Pakistan Limited (the Bank) was incorporated in Pakistan as a public limited company on October 18, 2004 under the Companies Ordinance, 1984 to carry out business of an Islamic Commercial Bank in accordance with the principles of Islamic Shariah.

The State Bank of Pakistan Bank granted a 'Scheduled Islamic Commercial Bank' license on March 18, 2005. The Bank commenced its operations as a Scheduled Islamic Commercial Bank with effect from April 07, 2006, on receiving Certificate of Commencement of Business from the State Bank of Pakistan (SBP) under section 37 of the State Bank of Pakistan Act, 1956. The Bank is principally engaged in corporate, commercial, consumer, retail banking activities and investment activities.

The Bank is operating through 102 branches including 32 sub branches as at December 31, 2011. (2010: 102 branches). The registered office of the Bank is situated at 11th Floor, Dolmen City, Marine Drive, Block-4, Clifton, Karachi. The shares of the Bank are quoted on the Karachi Stock Exchange (Guarantee) Limited.

Based on the financial statements of the Bank for the year ended December 31, 2010, the Pakistan Credit Rating Agency (Private) Limited (PACRA) determined the Bank's long-term rating as 'A' and the short-term rating as 'A-1'.

**1.2** The State Bank of Pakistan (SBP) vide circular no. 07 of 2009 dated April 15, 2009 has increased the Minimum Capital Requirement (MCR) for banks upto Rs. 10 billion to be achieved in a phased manner by December 31, 2013. The MCR (free of losses) and Capital Adequacy Ratio (CAR) requirements as at December 31, 2011 is Rs 8 billion (2010: Rs 7 billion) and 10 percent (2010: 10 percent) respectively. However, the paid up capital of the Bank (free of losses) as of December 31, 2011 amounts to Rs 5.052 billion although its CAR stands at 17.57 percent.

Last year the Board of Directors (BoD) of the Bank in their meeting held on February 07, 2011 had in principle agreed to issue right shares to increase its capital (free of losses) to Rs. 6 billion. The SBP vide its letter no. BSD/CSD/546/2012 dated January 13, 2012 has advised the Bank to complete the right issue as principally agreed by the BOD in its meeting held on February 7, 2011 by June 30, 2012 to achieve the paid up capital (free of losses) of at least Rs 6 billion. Any further extension in timeline for meeting MCR would be considered once the paid up capital (free of losses) of Rs 6 billion is achieved.

**BankIslami Modaraba Investments Limited (Subsidiary Company) - 100 percent holding**

The subsidiary company was incorporated in Pakistan on January 22, 1986 under the Companies Ordinance, 1984 as a public limited company. Later on it was registered as a Modaraba Company with the Registrar of Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. The principal activity of the subsidiary company is to float and operate Modaraba. The subsidiary company is managing its Modaraba with the name of Modaraba-Al-Mali. The principal place of business of the Subsidiary company is situated at 10th Floor, Progressive Square, Shahrah-e-Faisal, Karachi.

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

The financial statements of the subsidiary company have been consolidated on the basis of reviewed condensed interim financial statements for the half year ended December 31, 2011.

The financial statements of "Modaraba Al-Mali", a modaraba floated by the subsidiary company in which it has 13 percent holding, have not been consolidated although the Group over which the Group has control by virtue of management rights. The management of the Group is of the view that consolidated financial statements are required to be prepared only for subsidiaries as defined in the Companies Ordinance, 1984. "Modaraba Al-Mali" is a modaraba floated under the Modaraba Companies and Modaraba (flotation and control) Ordinance, 1980 and does not fall under the definition of subsidiary as defined under the Companies Ordinance, 1984. Hence, the financial statements of "Modaraba Al-Mali" are not required to be consolidated in the Group's consolidated financial statements.

## 2 BASIS OF PRESENTATION

The Group 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 recognised 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 as directed by the Shariah Advisor.

## 3 STATEMENT OF COMPLIANCE

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

**3.2** The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for banking companies 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 consolidated 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 consolidated financial statements.

**3.4** IFRS 8 'Operating Segments' is effective for the Group'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 Group 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 revised standards and amendments to existing standards have been published and are mandatory for the Group's accounting period beginning on or after January 1, 2011:

- IAS 24 (revised), 'Related party disclosures' issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard classifies 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 revised standard does not have any significant effect on the Group's Financial Statements.

- IFRIC 14 (amendments), '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. The amendment does not have any significant impact on the Group's Financial Statements.

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

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

The following amendment to existing standard has been issued and is not mandatory for the Group's accounting periods beginning on January 1, 2011 and not early adopted:

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

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

### 3.7 Early adoption of standards

The Group has not early adopted any new or amended standard in 2011.

## 4 BASIS OF MEASUREMENT

### 4.1 Accounting convention

These consolidated 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. Further, staff retirement benefits as disclosed in note 5.7 to the financial statements have been carried at present values as determined under International Accounting Standard 19.

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

### 4.2 Critical accounting estimates and judgements

The preparation of consolidated 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 5.6, 12 and 27)
iv) determination of useful lives and depreciation / amortisation (note 11)

## 5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of consolidated 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 Group, 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 Group has the positive intent and ability to hold them till maturity.

**(c) Available-for-sale**

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

#### 5.2.2 Regular way contracts

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

#### 5.2.3 Initial recognition and measurement

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

Premium or discount on debt securities classified as available for sale is amortised using the effective interest method and taken to 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 amortised cost using the effective profit rate method, less any impairment loss recognised 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 realised 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**

Associates are all entities over which the Group has significant influence but not control.

**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 cash flows of the investments. A significant or prolonged decline in fair value of an equity investment below its cost is also considered an objective evidence of impairment. Provision for diminution in the value of 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 Consolidated 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 the profit and loss account.

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

**5.3 Financing**

Financings are financial products originated by the Group and principally comprise Murabaha, Istisn’a, Ijarah, Salam, Musawamah and Diminishing Musharaka receivables. These are stated net of general and specific provisions.

**Specific provision**

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

**General provision**

The Group 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 the profit and loss account and accumulated provision is netted off against financings. Financings are written off when there are no realistic prospects of recovery.

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

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

Istisn’a is an order to manufacture or construct some assets. Istisn'a has two legs: first the Group acquires the described goods by way of Istisna to be manufactured by the customer from raw material of its own and once the goods are delivered to the Group, the customer through an independent agency contract, will sell the same to various end-users as the agent of the Group.

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

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

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

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

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

### 5.3.1 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 method of minimum Ijarah payments have been recognised 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 and depreciation

#### 5.4.1 Property and equipment

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the straight-line method by taking into consideration the estimated useful life of the related assets at the rates specified in note 11.2 to the financial statements. Depreciation on additions / deletions during the year is charged for the proportionate period for which the asset remained in use.

Subsequent costs are included in the assets' 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 Group and the cost of the item can be measured reliably. Maintenance and normal repairs are charged to the profit and loss account as and when incurred.

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

Residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

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

#### 5.4.2 Capital work in progress

These are stated at cost less accumulated impairment losses, if any.

#### 5.4.3 Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Such intangible assets are amortised using the straight-line method over the estimated useful lives. The useful lives and amortisation 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 losses, if any.

Amortisation on additions / deletions during the year is charged for the proportionate period for which the asset remained in use.

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

#### 5.4.4 Impairment

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

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

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

### 5.5 Goodwill

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

### 5.6 Taxation

#### 5.6.1 Current

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

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

### 5.7 Staff retirement benefits

#### 5.7.1 Defined benefit plan

The Group operates an approved funded gratuity scheme for its permanent employees. The liability recognised in the consolidated statement of financial position in respect of defined benefit gratuity scheme, is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. Contributions to the fund are made on the basis of actuarial recommendations. The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. The last valuation was conducted as on December 31, 2011. Actuarial gains and losses are recognised as income or expense over the average remaining working lives of the employees, if the net cumulative unrecognised actuarial gains or losses for the Scheme at the end of the previous financial year exceed 10% of the higher of defined benefit obligation and the fair value of the plan assets.

#### 5.7.2 Defined contribution plan

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

5.8 **Revenue recognition**

**5.8.1** Profit from Murabaha is accounted for on consummation of Murabaha transaction. However, profit on the portion of revenue not due for payment is deferred by accounting for unearned Murabaha income with a corresponding credit to deferred Murabaha income which is recorded as a liability. The same is then recognised as revenue on a time proportionate basis.

**5.8.2** Profit from Istisn'a is recorded on accrual basis commencing from the time of sale of goods till the realisation of proceeds by the Group. Profit from Diminishing Musharaka, Salam and Musawamah are recognised on a time proportionate basis.

**5.8.3** The Group follows the finance method in recognising income on Ijarah contracts written upto December 31, 2008. Under this method the unearned income i.e. 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).

Profit from Ijarah contracts entered on or after January 01, 2009 is recognised in the profit and loss account over the term of the contract net of depreciation expense relating to the Ijarah assets.

**5.8.4** Profit on Diminishing Musharaka is recognised on an accrual basis.

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

**5.8.6** Profit on classified financing is recognised on receipt basis.

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

**5.8.8** Gains and losses on sale of investments are included in profit and loss currently.

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

**5.8.10** Profit on Sukuks is recognised on an accrual basis.

5.9 **Financial Instruments**

5.9.1 **Financial assets and financial liabilities**

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

5.9.2 **Offsetting of financial instruments**

Financial assets and financial liabilities are off-set and the net amount is reported in the consolidated financial statements only when there is a legally enforceable right to off-set the recognised amount and the Group 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 consolidated financial statements.

### 5.9.3 Derivatives

Derivative financial instruments are recognised at fair value. In the case of equity futures, the fair value is calculated with reference to quoted market price. Derivatives with positive market values (unrealised gains) are included in other receivables and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position. The resultant gains and losses are taken to profit and loss account currently.

### 5.10 Foreign currencies

**Functional and presentation currency**

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

**Foreign currency transactions**

Foreign currency transactions are translated into local currency at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the exchange rates prevailing at the statement of consolidated financial position date. Forward exchange promises are revalued using forward exchange rates applicable to their respective remaining maturities.

**Translation gains and losses**

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

**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.

### 5.11 Fiduciary assets

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

### 5.12 Provisions

Provisions are recognised when the Group 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 unless the probability of an outflow of resources embodying economic benefit is remote.

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

### 5.13 Deferred costs

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

### 5.14 Segment reporting

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

### 5.14.1 Business segments

**Trading and sales**

It includes equity, foreign exchanges, commodities, credit, funding, own position securities, placements and financings.

**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.

**Support Centre**

It includes the assets and liabilities relating to support functions at Head Office and their related income and expenses.

**Modaraba Management**

It includes the Modaraba management business carried on by the Group.

### 5.14.2 Geographical segment

The Group has 102 branches including 32 sub branches (2010: 102 branches including 32 sub branches) and operates only in Pakistan.

### 5.15 Assets acquired in satisfaction of claims

The Group occasionally acquires assets in settlement of certain doubtful financings. These are stated at lower of the net realisable value of the related advances and the current fair value of such assets.

## 6 CASH AND BALANCES WITH TREASURY BANKS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| In hand | | | |
| - local currency | | **835,995** | 653,806 |
| - foreign currency | | **97,403** | 159,600 |
| | | **933,398** | 813,406 |
| With the State Bank of Pakistan in | | | |
| - local currency current account | 6.1 | **2,857,995** | 1,610,620 |
| - foreign currency deposit accounts | | | |
| Cash Reserves Account | 6.2 | **42,005** | 30,401 |
| Special Cash Reserve Account | 6.3 | **50,189** | 35,967 |
| US Dollar Clearing Account | | **16,634** | 19,264 |
| | 6.4 | **108,828** | 85,632 |
| With National Bank of Pakistan in | | | |
| - local currency current account | | **784,610** | 525,495 |
| | | **4,684,831** | 3,035,153 |

**6.1** This represents Rs.2,857.995 million (2010: Rs. 1,610.620 million) held against Cash Reserve Requirement and Statutory Liquidity Requirement. 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 SBP on FE-25 deposits as specified in BSD Circular No. 15 dated June 21, 2008. During the year this deposit was not remunerated (2010: Nil).

**6.4** This includes Rs. 70.883 million (2010: Rs. 64.058 million) held against Cash Reserve Requirement and Special Cash Reserves Requirement. Balance amount is available to the Group for its operations. These deposits do not carry any return.

| | Note | 2011 | 2010 |
|---|---|---|---|
| **7 BALANCES WITH OTHER BANKS** | | --------- Rupees in `000 --------- | |
| In Pakistan | | | |
| - on current accounts | | 15,206 | 19,221 |
| - on deposit accounts | 7.1 | 247 | 1,591 |
| | | 15,453 | 20,812 |
| Outside Pakistan | | | |
| - on current accounts | | 533,958 | 550,046 |
| - on deposit accounts | | - | - |
| | | 533,958 | 550,046 |
| | | 549,411 | 570,858 |

**7.1** Represents deposits with various Islamic commercial banks under Musharaka and Modaraba arrangements with maturities less than 3 months. The expected profit rate on these arrangements is 5% (2010: 5 % to 13.5 %) per annum.

| | Note | 2011 | 2010 |
|---|---|---|---|
| **8 DUE FROM FINANCIAL INSTITUTIONS** | | --------- Rupees in `000 --------- | |
| Sukuk Murahaba | 8.1 | 6,418 | 6,418 |
| Commodity Murahaba - local currency | 8.2 & 8.3 | 3,911,264 | 4,513,132 |
| | | 3,917,682 | 4,519,550 |
| Musharika Placement | 8.4 | 525,000 | - |
| | 8.5 | 4,442,682 | 4,519,550 |
| Provision against sukuk Murahaba | | (6,418) | (6,418) |
| | | 4,436,264 | 4,513,132 |

**8.1** The Group entered into sukuk Murabaha arrangement under which the Group appointed its client as an agent under asset purchase agreements to purchase the underlying sukuk from the open market on its behalf and later sell them on deferred Murahaba basis. The maturity date of the deal was February 08, 2009. The Group is making efforts to recover the outstanding balance and has made a provision against the outstanding amount.

**8.2** The Group has entered into Commodity Murahaba agreements under which the Group purchases an underlying commodity from open market through an agent and sells it to a financial institution on credit with profit. The profit rates on the agreement range between 10.75 % to 12.5 % (2010: 12.75 % and 13 %) per annum and the agreements have a maturity ranging from 2 days to 16 days.

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| **8.3 Commodity Murabaha sale price** | 529,196,217 | 544,831,409 |
| Purchase price | (528,466,000) | (543,915,000) |
| | 730,217 | 916,409 |
| **Deferred Commodity Murabaha income** | | |
| Opening balance | 10,474 | 7,002 |
| Deferred during the year | 730,217 | 916,409 |
| Recognised during the year | (733,292) | (912,937) |
| | 7,399 | 10,474 |
| **Commodity Murabaha** | | |
| Opening balance | 4,513,132 | 2,218,813 |
| Sales during the year | 529,196,217 | 544,831,409 |
| Received during the year | (529,798,085) | (542,537,090) |
| | 3,911,264 | 4,513,132 |

**8.4** The Group has entered into Musharaka placement agreements which carries profit at 11.90 % per annum and have a maturity of 4 days.

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

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| - In local currency | 4,442,682 | 4,519,550 |
| - In foreign currency | - | - |
| | 4,442,682 | 4,519,550 |

## 9 INVESTMENTS

### 9.1 Investments by types

| | Note | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|---|
| | | Held by the Group | Given as collateral | Total | Held by the Group | Given as collateral | Total |
| | | ---------- Rupees in `000 ---------- | | | | | |
| **Available for sale securities** | | | | | | | |
| Sukuk / Certificates | 9.2 | 20,644,425 | - | 20,644,425 | 13,526,277 | - | 13,526,277 |
| Units of Open-end mutual fund | 9.2 | 15 | - | 15 | 15 | - | 1 5 |
| Units of Closed-end mutual fund | 9.2 | 6 | - | 6 | 6 | - | 6 |
| | | 20,644,446 | - | 20,644,446 | 13,526,298 | - | 13,526,298 |
| **Modaraba** | | | | | | | |
| Modaraba-Al-Mali | 9.6 | 16,208 | - | 16,208 | 16,208 | - | 16,208 |
| **Total investment at cost** | | 20,660,654 | - | 20,660,654 | 13,542,506 | - | 13,542,506 |
| Less: Provision for diminution in value of investments | 9.2 | (28,866) | - | (28,866) | (27,671) | - | (27,671) |
| Investments - net of Provisions | | 20,631,788 | - | 20,631,788 | 13,514,835 | - | 13,514,835 |
| Surplus on revaluation of available-for-sale securities | 20 | 260,120 | - | 260,120 | 49,819 | - | 49,819 |
| **Total investments at market value** | | 20,891,908 | - | 20,891,908 | 13,564,654 | - | 13,564,654 |

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9.2 **Investments by segment**

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | ---------- Rupees in `000 --------- | |
| **Federal Government Securities** | | | |
| GOP Ijarah Sukuks | 9.3 | 18,300,248 | 9,750,000 |
| **Sukuks** | | | |
| Sukuks - unlisted | 9.3 | 2,344,177 | 3,776,277 |
| **Fully paid up certificates / Units** | | | |
| Modaraba Certificates | 9.6 | 16,208 | 16,208 |
| Units of Open-ended Mutual Funds | 9.4 | 15 | 15 |
| Units of Closed-end Mutual Funds | 9.4 | 6 | 6 |
| **Total investment at cost** | | 20,660,654 | 13,542,506 |
| Less: Provision for diminution in value of investments | 9.7 | (28,866) | (27,671) |
| **Investments (net of provisions)** | | 20,631,788 | 13,514,835 |
| Surplus on revaluation of available-for-sale securities | 20 | 260,120 | 49,819 |
| **Total investments at market value** | | 20,891,908 | 13,564,654 |

**9.3 Available for sale securities**

| Name of the investee company | Note | 2011 | 2010 | Face Value | 2011 | 2010 |
|---|---|---|---|---|---|---|
| | | Number of Certificates | | (Rupees) | Cost | Cost |
| | | | | | -------- Rupees in '000 -------- | |
| **Sukuk Certificates** | | | | | | |
| **Federal Government** | | | | | | |
| Ijarah GOP Sukuk - 1 | | - | 2,500 | 100,000 | - | 250,000 |
| Ijarah GOP Sukuk - 3 | 9.3.1 | 20,000 | 20,000 | 100,000 | 2,000,000 | 2,000,000 |
| Ijarah GOP Sukuk - 5 | 9.3.2 | 50,000 | 50,000 | 100,000 | 5,000,000 | 5,000,000 |
| Ijarah GOP Sukuk - 6 | 9.3.3 | 25,000 | 25,000 | 100,000 | 2,500,000 | 2,500,000 |
| Ijarah GOP Sukuk - 7 | 9.3.4 | 30,500 | - | 100,000 | 3,050,000 | - |
| Ijarah GOP Sukuk - 8 | 9.3.5 | 22,500 | - | 100,000 | 2,250,248 | - |
| Ijarah GOP Sukuk - 9 | 9.3.6 | 35,000 | - | 100,000 | 3,500,000 | - |
| | | | | | 18,300,248 | 9,750,000 |
| **Others** | | | | | | |
| First WAPDA Sukuk | 9.3.7 | 60,000 | 60,000 | 5,000 | 299,737 | 299,453 |
| Second WAPDA Sukuk | 9.3.8 | 134,000 | 134,000 | 5,000 | 668,903 | 668,555 |
| KSEW Sukuk - 1 | | - | 38,000 | 5,000 | - | 190,000 |
| KSEW Sukuk - 2 | | - | 92,800 | 5,000 | - | 464,000 |
| Pak Electron Sukuk | 9.3.9 | 60,000 | 60,000 | 5,000 | 128,571 | 171,429 |
| Amtex Sukuk | 9.3.10 | 59,000 | 59,000 | 5,000 | 221,250 | 221,250 |
| Engro Fertilizer Sukuk | 9.3.11 | 65,000 | 65,000 | 5,000 | 322,511 | 322,005 |
| Security Leasing Sukuk | 9.3.12 | 2,000 | 2,000 | 5,000 | 4,219 | 6,094 |
| Shahmurad Sugar Mills Sukuk | | - | 250 | 1,000,000 | - | 166,667 |
| Second Sitara Chemicals Sukuk | | - | 10,000 | 5,000 | - | 12,500 |
| Third Sitara Chemicals Sukuk | 9.3.13 | 8,000 | 8,000 | 5,000 | 16,667 | 30,000 |
| Sitara Energy Sukuk - 1 | 9.3.14 | 6,000 | 6,000 | 5,000 | 6,247 | 12,413 |
| Sitara Energy Sukuk - 2 | 9.3.25 | 4,000 | 4,000 | 5,000 | 4,028 | 8,000 |
| New Allied Electronics (LG) Sukuk | 9.3.16 | 11,000 | 11,000 | 5,000 | 55,000 | 55,000 |
| Sui Southern Gas Company Sukuk | 9.3.17 | 84,000 | 84,000 | 5,000 | 168,000 | 336,000 |
| Kohat Cement Sukuk | 9.3.18 | 27,000 | 27,000 | 5,000 | 95,310 | 130,410 |
| Eden Housing Sukuk | 9.3.19 | 54,000 | 54,000 | 5,000 | 170,399 | 202,500 |
| Optimus Sukuk | 9.3.20 | 50,000 | 50,000 | 5,000 | 145,835 | 187,501 |
| LESCO Sukuk | | - | 42,000 | 5,000 | - | 210,000 |
| HBFC Sukuk | 9.3.21 | 15,000 | 15,000 | 5,000 | 37,500 | 52,500 |
| Haq Bahu Sugar Mills Sukuk - 1 | | - | 12,000 | 5,000 | - | 30,000 |
| | | | | | 2,344,177 | 3,776,277 |
| | | | | | 20,644,425 | 13,526,277 |

**9.3.1** The profit rate on these sukuks comprises of six months weighted average yield of six months market T-Bills. The principal is redeemable on maturity in March 2012. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.2** The profit rate on these sukuks comprises of six months weighted average yield of six month market T-Bills. The principal is redeemable on maturity in November 2013. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.3** The profit rate on these sukuks comprises of six months weighted average yield of six month market T-Bills. The principal is redeemable on maturity in December 2013. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.4** The profit rate on these sukuks comprises of six months weighted average yield of six month market T-Bills. The principal is redeemable on maturity in March 2014. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.5** The profit rate on these sukuks comprises of six months weighted average yield of six month market T-Bills. The principal is redeemable on maturity in May 2014. These are backed by Government of Pakistan's Sovereign Guarantee.

**9.3.6** The profit rate on these sukuks comprises of six months weighted average yield of six month market T-Bills. The principal is redeemable on maturity in December 2014. These are backed by Government of Pakistan's Sovereign Guarantee. At December 31, 2011 , these had a market value of Rs. 3,512,950 thousand.

**9.3.7** These carry profit at the rate of six months KIBOR plus 35 basis points (2010: six months KIBOR plus 35 basis points) receivable on semi-annual basis with maturity in October 2012. The principal will be repaid on maturity. The purchase price and rentals are backed by Government of Pakistan's Sovereign Guarantee. At December 31, 2011, these had a market value of Rs. 301,410 thousand (2010: Rs 311,610 thousand).

The Group had purchased 10,000 certificates on June 25, 2009 of WAPDA – 1 Sukuk through a negotiated transaction for a cash consideration of Rs. 50.228 million having face value of Rs. 50 million. These certificates were available in the seller's Central Depository Company (CDC) account and on completion of the transaction were transferred to the Group's CDC account. However, the periodic Ijarah Rental dues were not paid to the Group on the plea that there exists certain discrepancy with respect to ownership of the asset. The Group and its legal advisors are of the view that the security and the rental purchased through CDC is deemed to be legally bonafide. The Group's legal advisor is certain that the Group will be able to recover the rental therefore no provision has been made in these consolidated financial statements.

**9.3.8** These carry profit at the rate of six months KIBOR minus 25 basis points (2010: six months KIBOR minus 25 basis points) receivable on semi-annual basis with maturity in July 2017. The principal will be repaid in 12 equal semi-annual installments with first installment falling due on the 54th month from the first drawdown date. The issue amount and rentals are backed by Government of Pakistan's Sovereign Guarantee. At December 31, 2011, these had a market value of Rs. 672,881 thousand (2010: 674,154 thousand).

**9.3.9** These Sukuks have been restructured during the year. After restructuring these Sukuks carry profit at the rate of three months KIBOR plus 175 basis points (2010: three months KIBOR plus 175 basis points) receivable quarterly based on Diminishing Musharaka mechanism with maturity in September 2014. The outstanding principal will be redeemed in 6 equal quarterly installments starting from June 2013.

**9.3.10** These carry profit at the rate of three months KIBOR plus 200 basis points (2010: three months KIBOR plus 200 basis points) receivable quarterly based on Diminishing Musharaka mechanism with maturity in October 2012. The principal will be redeemed in 12 consecutive quarterly installments, the first such installment falling due not later than the end of 27 months from the last draw down. These Sukuk are backed by guarantee of Rs. 740 million from a Group. During 2010, Amtex has defaulted on its principal repayment. Consequently the Group has suspended the accrual of profit from the Sukuk. During the year the Group has called the underlying guarantee.

**9.3.11** These carry profit at the rate of six months KIBOR plus 150 basis points (2010: six months KIBOR plus 150 basis points) receivable semi annually based on Diminishing Musharaka mechanism with maturity in September 2015.

Principal repayment to be made in two consecutive, equal semi annual installments, the first such installment falling due on the 90th month from the date of the first contribution under the facility. As a security first pari passu charge has been provided on all present and future fixed assets of the Company with margin.

**9.3.12** These Sukuks have been further restructured w.e.f. March 2011. After restructuring these Sukuks carry profit at the rate of 0%, (2010: 6% (3% Cash + 3% accrual) upto September 2011 receivable monthly and thereafter at the rate of 1 month KIBOR upto maturity. The accrued profit amount to be repaid in six equal monthly installments staring from 43rd month. Principal to be repaid in 48 months starting from April 2010). As per the new restructured plan principal will be repaid in 36 monthly installments and the accrued portion of profit upto March 2011 has also been waived.

**9.3.13** These carry profit at the rate of three months KIBOR plus 100 basis points (2010: three months KIBOR plus 100 basis points) receivable quarterly based on Diminishing Musharaka mechanism with maturity in December 2012. The principal will be redeemed in 12 equal quarterly installments the first such installment falling due on the 27th month from the date of first draw down. As a security specific and exclusive hypothecation charge in respect of the Musharaka assets in favour of the investors to the extent of entire legal ownership rights of the company (covering the entire amount of Sukuk along with an 18.22% margin) is provided. There is an early purchase option available to the issuer after 2 years of disbursement with "No Early Payment Penalty".

**9.3.14** These carry profit at the rate of six months KIBOR plus 195 basis points (2010: six months KIBOR plus 195 basis points) receivable semi-annually with maturity in July 2012. The principal will be redeemed in ten equal semi-annual installments commencing from the 6th month from the date of issue. As a security first charge over present and future assets of the company with 25% margin has been provided.

**9.3.15** These carry profit at the rate of six months KIBOR plus 195 basis points (2010: six months KIBOR plus 195 basis points) receivable semi-annually with maturity in July 2012. The principal will be redeemed in ten equal semi-annual installments commencing from the 6th month from the date of issue. As a security first charge over present and future assets of the company with 25% margin has been provided.

**9.3.16** These carry profit at the rate of three months KIBOR plus 220 basis points (2010: three months KIBOR plus 220 basis points) receivable semi-annually with maturity in December 2012. The principal will be repaid in 6 consecutive semi-annual installments, the first such installment falling not later than the end of 30th month from the date of issue. As a security first pari passu charge over all present and future fixed assets amounting to Rs. 800 million of the company, irrevocable guarantee of a Financial Institution and Personal Guarantee of sponsoring directors has been provided. There is an early purchase option available to the issuer after 2 years of disbursement. A provision for the diminution in value of investment amounting to Rs. 15 million has been made against the principal.

**9.3.17** These carry profit at the rate of three months KIBOR plus 20 basis points (2010: three months KIBOR plus 20 basis points) receivable quarterly based on Diminishing Musharaka mechanism having a tenor of 5 years with maturity in December 2012. The principal will be repaid in 10 consecutive quarterly installments, the first installment falling due on end of 33rd month from the last draw down. As a security first pari passu charge over fixed assets of the company or equitable mortgage on selected land and building with 25% margin has been provided. There is an early purchase option available to the issuer after 1 year of disbursement.

**9.3.18** These sukuks have been restructured during the year. After restructuring these Sukuks carry profit at the rate of three months KIBOR plus 150 basis points (2010: three months KIBOR plus 180 basis points) receivable quarterly based on Diminishing Musharaka mechanism with maturity in September 2016. As per the new "Restructuring Agreement", Principal to be redeemed with revised mechanism and profit for the first four quarters will go into a frozen account, which will be retired through payments made from 13th quarter to 20th quarter. As a security first ranking hypothecation charge over all present and future fixed assets of the company equivalent to the facility amount, along with 25% margin and first ranking mortgage over all present and future immoveable properties of the Company with a 25% margin over the facility amount has been provided.

**9.3.19** These Sukuks carry profit at the rate of three months KIBOR plus 250 basis points upto June 29, 2013 and three months KIBOR plus 300 basis points for the period between June 30, 2013 and June 29, 2014. (2010: three months KIBOR plus 250 basis points upto June 29, 2013 and three months KIBOR plus 300 basis points for the period between June 30, 2013 and June 29, 2014) receivable quarterly based on Diminishing Musharaka mechanism with maturity in June 2014. These sukuks were restructured in 2010, accordingly the principal redemption started from September 2010 till June 2014 and will be calculated using the percentage as mentioned in "Restructuring Agreement". As a security charge over hypothecated assets amounting to Rs. 2,445 million (inclusive of approximately 33.5% margin) and a charge over the mortgaged property of the company amounting to Rs. 1,820 million (inclusive of 10% margin) has been created by the issuer in favour of the trustee.

**9.3.20** These carry profit at the rate of six months KIBOR plus 125 basis points (2010: six months KIBOR plus 125 basis points) receivable quarterly based on Diminishing Musharaka mechanism with maturity in April 2015. The principal will be repaid in 24 consecutive quarterly installments, the first such installment falling due not later than the end of the 15th month from the last drawdown. As a security, first specific charge on specified vehicles amounting to Rs. 250 million of the company (on market value to be established every year by approved valuator) and a 25% margin over the principal amount in the form of first floating charge on the company's present and future current assets has been provided.

**9.3.21** These carry profit at the rate of six months KIBOR plus 100 basis points (2010: six months KIBOR plus 100 basis points) receivable semi annually and the first such profit payment will fall due after six months from the issue date with maturity in May 2014. As a security first charge over specific assets of the Company with 25% security margin has been provided. The principal will be redeemed in 10 equal semi-annual installments starting from 18th month of the date of issue of Sukuk.

**9.4 Details of investments in Mutual Funds**

| **Name of investee fund** | **2011** | **2010** | **2011** | **2010** |
|---|---|---|---|---|
| | **Number of units** | | **Cost (Rupees in '000)** | |
| **Open ended mutual funds** | | | | |
| Al Meezan Cash Fund | 128 | 112 | 5 | 5 |
| Meezan Islamic Fund | 166 | 134 | 5 | 5 |
| Meezan Islamic Income Fund | 115 | 104 | 5 | 5 |
| | | | 15 | 15 |
| Close end mutual funds | | | | |
| Meezan Balanced Fund | 1,000 | 1,000 | 6 | 6 |
| | | | 21 | 21 |

| | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| | Long / Medium Term Rating | | -------- Rupees in `000 -------- | |
| **9.5 Quality of Available for Sale Securities** | | | | |
| **Sukuks / Certificates - (at market value / cost)** | | | | |
| Ijarah GOP Sukuk - 1 | N/A | Unrated | - | 254,050 |
| Ijarah GOP Sukuk - 3 | Unrated | Unrated | 2,017,600 | 2,030,000 |
| Ijarah GOP Sukuk - 5 | Unrated | Unrated | 5,055,000 | 5,000,000 |
| Ijarah GOP Sukuk - 6 | Unrated | Unrated | 2,563,000 | 2,500,000 |
| Ijarah GOP Sukuk - 7 | Unrated | N/A | 3,125,335 | - |
| Ijarah GOP Sukuk - 8 | Unrated | N/A | 2,280,825 | - |
| Ijarah GOP Sukuk - 9 | Unrated | N/A | 3,512,950 | - |
| WAPDA First Sukuk Certificates | Unrated | Unrated | 301,410 | 311,610 |
| WAPDA Second Sukuk Certificates | Unrated | Unrated | 672,881 | 674,154 |
| Karachi Shipyard and Engineering Works - Sukuk | N/A | Unrated | - | 190,000 |
| Karachi Shipyard and Engineering Works - Sukuk | N/A | Unrated | - | 464,000 |
| Pak Elektron Limited Sukuk - Sukuk | A | A+ | 128,571 | 171,429 |
| Amtex Sukuk - Sukuk | D (SO) | Unrated | 221,250 | 221,250 |
| Engro Chemicals Pakistan Limited - Sukuk | AA | AA | 322,511 | 322,005 |
| Security Leasing - Sukuk | Unrated | Unrated | 4,219 | 6,094 |
| Shahmurad Sugar Mills - Sukuk | N/A | A- | - | 166,667 |
| Sitara Chemical Industries Limited - Second Sukuk | N/A | AA- | - | 12,500 |
| Sitara Chemical Industries Limited - Third Sukuk | A+ | AA- | 16,667 | 30,000 |
| Sitara Energy Limited - Sukuk | Unrated | Unrated | 6,247 | 12,413 |
| Sitara Energy Limited - Sukuk | Unrated | Unrated | 4,028 | 8,000 |
| New Allied Electronics - Sukuk | Default | Default | 55,000 | 55,000 |
| Sui Southern Gas Company Limited - Sukuk | AA | AA | 168,000 | 336,000 |
| Kohat Cement - Sukuk | Withdrawn | Withdrawn | 95,310 | 130,410 |
| Eden Housing - Sukuk | D | A | 170,399 | 202,500 |
| Optimus - Sukuk | A | A | 145,835 | 187,501 |
| Lahore Electric Supply Corporation - Sukuk | N/A | Unrated | - | 210,000 |
| House Building Finance Corporation - Sukuk | A | A+ | 37,500 | 52,500 |
| Haq Bahu Sugar Mills - Sukuk | N/A | Unrated | - | 30,000 |
| | | | 20,904,538 | 13,578,083 |
| **Units of open-end mutual funds (at market value)** | | | | |
| Meezan Cash Fund | AA+(f) | AA(f) | 6 | 6 |
| Meezan Islamic Fund | 5 Star | 5 Star | 7 | 6 |
| Meezan Islamic Income Fund | A+(f) | A+(f) | 6 | 5 |
| **Units of closed-end mutual funds (at market value)** | | | | |
| Meezan Balanced Fund | AM2 | AM2 | 9 | 7 |
| | | | 28 | 24 |
| | | | 20,904,566 | 13,578,107 |
| Less: Provision for diminution in the value of investments | | | (28,866) | (27,671) |
| | | | 20,875,700 | 13,550,436 |

| | 2011 | 2010 |
|---|---|---|

## 9.6 Details of investment in Modaraba Certificates

| Name of investee | Percentage Holding 2011 | Percentage Holding 2010 | Number of Certificates 2011 | Number of Certificates 2010 | Market Value 2011 | Market Value 2010 | Cost 2011 | Cost 2010 |
|---|---|---|---|---|---|---|---|---|
| | | | | | -------- Rupees in `000 -------- | | -------- Rupees in `000 -------- | |
| Certificates | | | | | | | | |
| Modaraba Al-Mali (related party) | 13 | 13 | 2,342,177 | 2,342,177 | 2,342 | 3,537 | 16,208 | 16,208 |

Breakup value per share is based on the financial statements of the subsidiary for the half year ended December 31, 2011.

## 9.7 Particular of provision for diminution in the value of investments

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | -------- Rupees in `000 -------- | |
| Opening balance | 9.7.1 | 27,671 | 15,000 |
| Charge for the year | | 1,195 | 12,671 |
| Reversals | | - | - |
| Closing balance | | 28,866 | 27,671 |

### 9.7.1 Particulars of provision in respect of type and segment

| | 2011 | 2010 |
|---|---|---|
| Sukuk certificates - Available for sale securities | 28,866 | 27,671 |
| | 28,866 | 27,671 |

## 10 FINANCINGS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | -------- Rupees in `000 -------- | |
| Financings in Pakistan | | | |
| - Murabaha | 10.1 & 10.3 | 6,343,955 | 6,870,285 |
| - Istisn'a | 10.2 | 2,630,000 | 1,445,000 |
| - Diminishing Musharka - Housing | | 1,562,950 | 946,765 |
| - Diminishing Musharka - Others | | 6,280,778 | 5,161,718 |
| - Against Bills - Murabaha | | 65,452 | 9,575 |
| - Against Bills - Musawama | | - | 2,640 |
| - Post Due Acceptance | | 53,397 | - |
| - Musawama Financings | | 1,427,500 | - |
| - Financings to employees | 10.6 & 10.11 | 511,687 | 400,381 |
| | | 18,875,719 | 14,836,364 |
| Housing finance portfolio | | 156,111 | 809,277 |
| Net investment in Ijarah financing in Pakistan | 10.7 | 371,701 | 706,358 |
| Net book value of assets/investment in ijarah under IFAS 2 | 10.8 | 1,057,265 | 647,098 |
| **Financings – gross** | | 20,460,796 | 16,999,097 |
| Less: Provision against non-performing financings | 10.9 & 10.10 | | |
| - Specific | | (321,423) | (296,681) |
| - General | | (28,972) | (32,291) |
| **Financings – net of provisions** | | 20,110,401 | 16,670,125 |

**10.1** Murahaba includes financings amounting to Rs. 99.999 million (2010: Rs 390.761 million) against Murabaha under Islamic Export Refinance Scheme.

**10.2** Istisna includes financing amounting to Rs. 350 million (2010: Rs 50 million) against istisna under Islamic Export Refinance Scheme.

| | 2011 | 2010 |
|---|---|---|
| | -------- Rupees in `000 -------- | |
| **10.3** Murabaha sale price | 22,441,710 | 17,829,687 |
| Purchase price | (21,596,731) | (17,117,952) |
| | 844,979 | 711,735 |
| **10.3.1 Deferred Murabaha income** | | |
| Opening balance | 160,141 | 81,312 |
| Arising during the year | 844,979 | 711,735 |
| Recognised during the year | (879,998) | (632,906) |
| | 125,122 | 160,141 |
| **10.3.2 Murabaha receivable** | | |
| Opening balance | 6,870,285 | 4,180,471 |
| Sales during the year | 22,441,710 | 17,829,687 |
| Received during the year | (22,968,040) | (15,139,873) |
| | 6,343,955 | 6,870,285 |

**10.4** Last year, the Group acquired the housing finance portfolio of CitiBank, N.A. - Pakistan Branches ("the acquired portfolio") under Shariah Compliant Structure of Hawalah (assignment of debt) and Wakalah Lil Qabz (recovery agency). The Wakalah Lil Qabz portfolio was subsequently transferred to the Group by CitiBank. The acquisition has duly been approved by the State Bank of Pakistan vide letter no BPRD (R&P-02)/625-93/2010/9690 dated December 06, 2010 and by the Competition Commission of Pakistan vide letter no 169/CCP/MERGER/2009 dated December 24, 2010. The Group has settled a loan amount of Rs 722.590 million with CitiBank, N.A. - Pakistan Branches against the acquired portfolio amounting to Rs 953.273 million (comprising of Rs 722 million under assignment of debt and Rs 231.130 million under Wakalah Lil Qabz).

The acquired portfolio was to be converted in Shariah Compliant Diminishing Musharika based facility "Muskun". No income was to be recognised on the acquired portfolio which was not converted to Shariah Compliant "Muskun" facility. Such unrecognised amount needs to be paid as charity. During the current year out of the total acquired portfolio of Rs 953.273 million, loans amounting to Rs 507.733 million have been converted to "Muskun" facility, loans amounting to Rs 34.409 million have been returned to CitiBank on the basis of some discrepancy in the documents and loans amounting to Rs 266.432 million have not been converted to "Muskun" facility. The gain arising on the acquired portfolio has been deferred and will be transferred to profit and loss account on the time proportionate basis.

| | 2011 | 2010 |
|---|---|---|
| **10.5 Particulars of financings** | -------- Rupees in `000 -------- | |
| **10.5.1** In local currency | 20,460,796 | 16,999,097 |
| **10.5.2** Short -Term ( for upto one year) | 12,856,417 | 11,649,194 |
| Long- Term ( for over one year) | 7,604,379 | 5,349,903 |
| | 20,460,796 | 16,999,097 |

**10.6** This includes Rs 2.274 million (2010: Rs 2.259 million) markup free financing to employees advanced under Group's Human Resource Policy.

## 10.7 Net investment in Ijarah financings

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 71,352 | 207,138 | - | 278,490 | 178,114 | 425,153 | - | 603,267 |
| Residual value | 115,502 | 46,851 | - | 162,353 | 109,008 | 149,725 | - | 258,733 |
| Minimum Ijarah payments | 186,854 | 253,989 | - | 440,843 | 287,122 | 574,878 | - | 862,000 |
| Profit for future periods | (12,656) | (56,486) | - | (69,142) | (40,855) | (114,787) | - | (155,642) |
| Present value of minimum Ijarah payments | 174,198 | 197,503 | - | 371,701 | 246,267 | 460,091 | - | 706,358 |

## Net investment in Ijarah financings - IFAS 2

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 33,869 | 1,023,396 | - | 1,057,265 | 20,707 | 626,391 | - | 647,098 |

## 10.8 Ijarah Assets

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | COST | | | ACCUMULATED DEPRECIATION | | | | |
| | As at January 01, 2011 | Additions / (deletions) | As at December 31, 2011 | As at January 01, 2011 | Charge / (deletions) | As at December 31, 2011 | Book value as at December 31, 2011 | Rate of depreci-ation % |
| Plant and Machinery | 180,995 | 343,391 | 524,386 | 29,383 | 106,381 | 135,764 | 388,622 | 20-33.33 |
| Vehicles | 582,817 | 415,195<br>(101,929) | 896,083 | 87,331<br>(9,451) | 149,560 | 227,440 | 668,643 | 20-33.33 |
| | 763,812 | 758,586<br>(101,929) | 1,420,469 | 116,714<br>(9,451) | 255,941 | 363,204 | 1,057,265 | |

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | COST | | | ACCUMULATED DEPRECIATION | | | | |
| | As at January 01, 2010 | Additions / (deletions) | As at December 31, 2010 | As at January 01, 2010 | Charge / (deletions) | As at December 31, 2010 | Book value as at December 31, 2010 | Rate of depreci-ation % |
| | Rupees in `000 | | | | | | | |
| Plant and Machinery | 61,356 | 119,639 | 180,995 | 8,393 | 20,990 | 29,383 | 151,612 | 20-33.33 |
| Vehicles | 155,105 | 431,704<br>(3,992) | 582,817 | 20,873 | 68,413<br>(1,955) | 87,331 | 495,486 | 20-33.33 |
| | 216,461 | 551,343<br>(3,992) | 763,812 | 29,266 | 89,403<br>(1,955) | 116,714 | 647,098 | |

**10.9** Financings include Rs. 799.001 million (2010: Rs. 660.047 million) which have been placed under non-performing status as follows:

| | 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Classified Financings | | | Provision Required | | | Provision Held | | |
| | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| | Rupees in `000 | | | | | | | | |
| Substandard | 71,810 | - | 71,810 | 1,816 | - | 1,816 | 1,816 | - | 1,816 |
| Doubtful | 67,648 | - | 67,648 | 848 | - | 848 | 848 | - | 848 |
| Loss | 659,543 | - | 659,543 | 318,759 | - | 318,759 | 318,759 | - | 318,759 |
| | 799,001 | - | 799,001 | 321,423 | - | 321,423 | 321,423 | - | 321,423 |

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Classified Financings | | | Provision Required | | | Provision Held | | |
| | Domestic | Overseas | Total | Domestic | Overseas | Total | Domestic | Overseas | Total |
| | Rupees in `000 | | | | | | | | |
| Substandard | 53,570 | - | 53,570 | 5,008 | - | 5,008 | 5,008 | - | 5,008 |
| Doubtful | 52,521 | - | 52,521 | 8,350 | - | 8,350 | 8,350 | - | 8,350 |
| Loss | 553,956 | - | 553,956 | 283,323 | - | 283,323 | 283,323 | - | 283,323 |
| | 660,047 | - | 660,047 | 296,681 | - | 296,681 | 296,681 | - | 296,681 |

**10.10** Particulars of provision against non-performing financings

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Specific | General | Total | Specific | General | Total |
| | Rupees in `000 | | | | | |
| Opening balance | **296,681** | **32,291** | **328,972** | 230,928 | 18,781 | 249,709 |
| Charge for the year | **101,528** | **-** | **101,528** | 69,599 | 2,049 | 71,648 |
| Reversals | **(76,786)** | **(3,319)** | **(80,105)** | (79,072) | - | (79,072) |
| | **24,742** | **(3,319)** | **21,423** | (9,473) | 2,049 | (7,424) |
| Transferred during the year | **-** | **-** | **-** | 75,226 | 11,461 | 86,687 |
| Closing balance | **321,423** | **28,972** | **350,395** | 296,681 | 32,291 | 328,972 |

**10.10.1** The Group has maintained a general reserve (provision) in accordance with the applicable requirements of the Prudential Regulations for Consumer Financing issued by SBP and for potential losses on financings.

**10.10.2** Particulars of provision against non-performing financings:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Specific | General | Total | Specific | General | Total |
| | Rupees in `000 | | | | | |
| In local currency | **321,423** | **28,972** | **350,395** | 296,681 | 32,291 | 328,972 |
| In foreign currency | **-** | **-** | **-** | - | - | - |
| | **321,423** | **28,972** | **350,395** | 296,681 | 32,291 | 328,972 |

During the year the State Bank of Pakistan (SBP) has introduced certain amendments in the Prudential Regulations in respect of maintenance of provisioning requirements against non-performing loans and advances vide BSD Circular No. 1 dated October 21, 2011 (effective from September 30, 2011). Under the revised guidelines issued by SBP, the availability of benefit of Forced Sales Value (FSV) of collaterals held is as follows:

**a.** **Prudential Regulation R-8 for Corporate / Commercial Banking and Prudential Regulation R-11 for SME Financing:**

Category of Asset — Benefit of FSV allowed from the date of classification

| | |
|---|---|
| Mortgaged residential, commercial, and industrial properties (land & building only) | 75% for first year<br>60% for second year<br>45% for third year<br>30% for fourth year, and<br>20% for fifth year |
| Plant & Machinery under charge | 30% for first year<br>20% for second year, and<br>10% for third year |
| Pledged stock | 40% for three years |

**b. Prudential Regulations R-22 for Consumer Financing:**

| Category of Asset | Benefit of FSV allowed from the date of classification |
|---|---|
| Mortgaged residential property | 75% for first and second year<br>50% for third and fourth year, and<br>30% for fifth year |

However, as per the Circular the additional impact on profitability arising from availing the benefit of forced sales value against pledged stocks, mortgaged residential, commercial and industrial properties and plant and machinery would not be available for payment of cash or stock dividend. Under the previous guidelines issued by SBP which were effective from September 30, 2009, the benefit of 40% of forced sales value of pledged stocks and mortgaged residential, commercial and industrial properties held as collateral against all non-performing loans for 3 years from the date of classification for calculating provisioning requirement was allowed. However, the benefit of discounted forced sales value of plant and machinery was previously not available for calculating provisioning requirement.

Had the provision against non-performing loans and advances been determined in accordance with the previously laid down requirements of SBP, the specific provision against non-performing loans would have been higher and consequently profit before taxation and advances (net of provisions) as at December 31, 2011 would have been lower by approximately Rs. 59.428 million. As allowed under the circular the Group has availed benefit of forced sale values amounting to Rs. 443.846 million (2010: Rs 298.764 million) in determining the provisioning against non performing financings as at December 31, 2011.

**10.10.3** During the current year, financial relief in respect of financings was given to three customers from the Citibank acquired portfolio. The Group did not incur any loss on these financings as the acquired amount of these loans was lower than the amount finally settled by the customers. The financial relief given includes financial relief given to one customer above Rs 500,000 on the basis of the original outstanding amount. The details are as under:

| S. No. | Customer Name | Father's Name | Address | CNIC No. | Amount outstanding | Amount received | Financial relief given |
|---|---|---|---|---|---|---|---|
| | | | | | ---------- Rupees | ---------- | |
| 1 | Muhammad Kashif Rahim Khan | Muhammad Abdul Rahim Khan | House No. R-1074, Sector 1 5-A-4, Buffer Zone, North Karachi, Karachi | 4210117028327 | 1,745,780 | 1,200,000 | 545,780 |

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | --------- Rupees in `000 --------- | |

**10.11 Particulars of financings to directors, executives or officers of the Group**

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

| | 2011 | 2010 |
|---|---|---|
| Balance at beginning of year | 400,381 | 300,052 |
| Financing granted during the year | 202,089 | 155,382 |
| Repayments | (90,783) | (55,053) |
| Balance at end of year | 511,687 | 400,381 |

## 11 OPERATING FIXED ASSETS

| | Note | 2011 | 2010 |
|---|---|---|---|
| Capital work-in-progress | 11.1 | 35,360 | 25,140 |
| Property and equipment | 11.2 | 1,707,873 | 1,942,424 |
| Intangible assets | 11.3 | 73,630 | 81,291 |
| | | 1,816,863 | 2,048,855 |

### 11.1 Capital work-in-progress

| | 2011 | 2010 |
|---|---|---|
| Civil works | 30,000 | 20,000 |
| Equipment | 1,580 | 4,894 |
| Advances to suppliers and contractors | 3,780 | 246 |
| | 35,360 | 25,140 |

### 11.2 Property and equipment

**2011**

| | COST | | | DEPRECIATION | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at January 01, 2011 | Additions / (Disposal)/ adjustments | As at December 31, 2011 | As at January 01, 2011 | Charge / (Disposal)/ adjustments | As at December 31, 2011 | Book value as at December 31, 2011 | Rate of depreci-ation % |
| | Rupees in `000 | | | | | | | |
| Free hold Land | 275,128 | - | 275,128 | - | - | - | 275,128 | - |
| Building on lease hold land | 869,858 | -<br>-<br>12,199 | 882,057 | 133,503 | 43,493<br>-<br>2,623 | 179,619 | 702,438 | 5 |
| Furniture and fixture | 770,843 | 14,131<br>(257)<br>(6,323) | 778,394 | 193,502 | 76,477<br>(56) | 269,923 | 508,471 | 10 |
| Electrical, office and computer equipment | 816,763 | 68,950<br>(1,825)<br>5,695 | 889,583 | 488,885 | 185,635<br>(1,390) | 673,130 | 216,453 | 25 |
| Vehicles | 51,481 | 1,946<br>(41,183) | 12,244 | 25,759 | 3,246<br>(22,144) | 6,861 | 5,383 | 20 |
| | 2,784,073 | 85,027<br>(43,265)<br>11,571 | 2,837,406 | 841,649 | 308,851<br>(23,590)<br>2,623 | 1,129,533 | 1,707,873 | |

**2010**

| | COST | | | DEPRECIATION | | | | |
|---|---|---|---|---|---|---|---|---|
| | As at January 01, 2010 | Additions / (Disposal) | As at December 31, 2010 | As at January 01, 2010 | Charge / (Disposal) | As at December 31, 2010 | Book value as at December 31, 2010 | Rate of depreci-ation % |
| | Rupees in `000 | | | | | | | |
| Free hold Land | 275,128 | - | 275,128 | - | - | - | 275,128 | - |
| Building on lease hold land | 869,858 | - | 869,858 | 89,794 | 43,709 | 133,503 | 736,355 | 5 |
| Furniture and fixture | 756,125 | 15,467<br>(332)<br>(417) | 770,843 | 117,508 | 75,883<br>(85)<br>196 | 193,502 | 577,341 | 10 |
| Electrical, office and computer equipment | 776,941 | 41,588<br>(628)<br>(1,138) | 816,763 | 298,477 | 191,387<br>(405)<br>(574) | 488,885 | 327,878 | 25 |
| Vehicles | 128,172 | 4,220<br>(80,911) | 51,481 | 50,418 | 20,743<br>(45,402) | 25,759 | 25,722 | 20 |
| | 2,806,224 | 61,275<br>(81,871)<br>(1,555) | 2,784,073 | 556,197 | 331,722<br>(45,892)<br>(378) | 841,649 | 1,942,424 | |

**11.2.1** Details of property and equipment disposed-of

The details of property and equipment disposed-of during the year are disclosed in 'Annexure I'

**11.3** Intangible asset

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | COST | | | AMORTISATION | | | | |
| | As at January 01, 2011 | Additions /Disposal | As at December 31, 2011 | As at January 01, 2011 | Charge for the year | As at December 31, 2011 | Net Book value as at December 31, 2011 | Rate of amortisa-tion % |
| | Rupees in `000 | | | | | | | |
| Computer software | 148,377 | 22,044 | 170,421 | 67,086 | 29,705 | 96,791 | 73,630 | 20 |

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | COST | | | AMORTISATION | | | | |
| | As at January 01, 2010 | Additions / (Disposal) | As at December 31, 2010 | As at January 01, 2010 | Charge for the year | As at December 31, 2010 | Net Book value as at December 31, 2010 | Rate of amortisa-tion % |
| | Rupees in `000 | | | | | | | |
| Computer software | 144,435 | 3,942 | 148,377 | 39,288 | 27,798 | 67,086 | 81,291 | 20 |

**11.4** Cost of fully depreciated properties and equipment that are still in the Group's use, as at December 31, 2011, amounted to Rs. 245.026 million (2010: Rs 93.173 million). The cost of fully amortised intangible assets that are still in the Group's use, as at December 31, 2011 amounted to Rs.16.164 million (2010: 11.487 million)

| | | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| **12 DEFERRED TAX ASSETS** | | | |
| **Deferred tax debits arising in respect of:** | | | |
| Accumulated tax losses | 12.1 | 402,222 | 640,040 |
| Tax credit against minimum tax paid | | 118,562 | 61,319 |
| Provision against non-performing financings | | 1,753 | 46 |
| Ijarah financings | | 3,433 | - |
| | | 525,970 | 701,405 |
| **Deferred tax credits arising due to:** | | | |
| Ijarah financings | | - | (1,627) |
| Accelerated tax depreciation | | (246,486) | (263,582) |
| Amortization of deferred cost | | - | (1,430) |
| Surplus on revaluation of investment | | (91,042) | (17,437) |
| Provision against non-performing financings | | - | (7,846) |
| | | (337,528) | (291,922) |
| | | 188,442 | 409,483 |

**12.1** The Group has an aggregate amount of Rs. 1,149.206 million (2010: Rs. 1,768.345 million) in respect of tax losses as at December 31, 2011. The management carries out periodic assessment to assess the benefit of these losses as the Group 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 amounting to Rs. 402.222 million (2010: Rs. 632.862 million) [including an unabsorbed tax depreciation of Rs. 894.065 million (2010: Rs. 1,348.868 million)] on the entire available losses. The amount of this benefit has been determined based on the projected financial statements for the future periods. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio, deposit composition, kibor rates, growth of deposits and financings, investment returns, product mix of financings, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisibility of the deferred tax asset.

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| **13** OTHER ASSETS | | | |
| Profit / return accrued in local currency | | 962,869 | 645,627 |
| Advances, deposits, advance rent and other prepayments | | 104,189 | 108,133 |
| Advance against financings | 13.1 | 4,594,158 | 2,895,585 |
| Advance taxation (payments less provision) | | 6,430 | 6,757 |
| Non-banking assets acquired in satisfaction of claims | 13.5 | 308,410 | 308,410 |
| Branch adjustment account | | - | 39,227 |
| Unrealised gain on forward foreign exchange promises | | 1,092 | 7,164 |
| Goodwill | 13.3 | 59,232 | 59,232 |
| Deferred costs | 13.2 | - | 4,086 |
| Insurance claim receivable | | 17,399 | 12,639 |
| Car Ijarah Repossession | | 2,234 | 1,473 |
| Other Receivables | 13.4 | 57,238 | 57,613 |
| | | 6,113,251 | 4,145,946 |
| Less: Provision held against other assets | 13.6 | (74,838) | (11,528) |
| Other assets (net of provisions) | | 6,038,413 | 4,134,418 |

**13.1** Represents advance given in respect of Murahaba and Ijarah financings.

**13.2** Deferred costs

| | 2011 | 2010 |
|---|---|---|
| Opening balance | 4,086 | 20,169 |
| Less: Amortised during the year | (4,086) | (16,083) |
| Closing balance | - | 4,086 |

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| **13.3** Goodwill | | | |
| As at 1st January | | 59,232 | 59,232 |
| Impairment - charged during the year | | - | - |
| Net book value as at December 31 | | 59,232 | 59,232 |

**Impairment testing of goodwill**

Goodwill acquired through business combination has been allocated to the following Cash Generating Unit (CGU):

- BankIslami Modaraba Investments Limited

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

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| - BankIslami Modaraba Investments Limited | 59,232 | 59,232 |

#### Key assumptions used in value in use calculation

The recoverable amount of the business operation of the cash generating unit has been determined based on a value in use calculation, using cash flow projections based on business plan approved by the management covering a five year period.

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

- Management fees;
- Income from education division;
- Dividend income;
- Discount rate;

#### Management fees

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

#### Income from education division

Fee levels are based on expected fees benchmarked against comparable educational institutions.

#### Dividend income

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

#### Discount rate

Discount rate reflects management estimates of the rate of return required for the business and are calculated using the capital asset pricing model. Discount rates are calculated by using the weighted average cost of capital of the company.

#### Sensitivity to changes in assumptions

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

**13.4** Includes Rs. Nil (2010: Rs 1.757 million ) in respect of letter of credits.

**13.5** The market value of Non-Banking assets acquired in satisfaction of claims is Rs 317.812 million (2010: Rs 317.812 million).

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| **13.6 Provision held against other assets** | | |
| Opening balance | 11,528 | - |
| Charge for the year | 63,310 | 11,528 |
| Reversals | - | - |
| Closing balance | 74,838 | 11,528 |

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | --------- Rupees in `000 --------- | |
| **14** | BILLS PAYABLE | | | |
| | In Pakistan | | 798,853 | 563,020 |
| | Outside Pakistan | | - | - |
| | | | 798,853 | 563,020 |
| **15** | DUE TO FINANCIAL INSTITUTIONS | | | |
| | In Pakistan | | 800,000 | 353,000 |
| | Outside Pakistan | | - | - |
| | | | 800,000 | 353,000 |
| **15.1** | Details of due to financial institutions secured / unsecured | | | |
| | Secured | | | |
| | Borrowings from State Bank of Pakistan under Islamic Export Refinance Scheme | 15.1.1 | 800,000 | 353,000 |
| | | | 800,000 | 353,000 |

**15.1.1** Represents Musharaka contributions by the State Bank of Pakistan against Islamic Export Refinance Scheme. These carry expected profit rate of 10% per annum (2010: 8.5% to 9% per annum) and are secured against collateral.

**15.2** Particulars of due to financial institutions with respect to currencies

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| In local currency | 800,000 | 353,000 |
| In foreign currencies | - | - |
| | 800,000 | 353,000 |

| | | 2011 | 2010 |
|---|---|---|---|
| **16** | **DEPOSITS AND OTHER ACCOUNTS** | | |
| | Customers | | |
| | Fixed deposits | 24,442,027 | 18,796,560 |
| | Savings deposits | 14,256,139 | 9,982,409 |
| | Current accounts - non-remunerative | 10,101,628 | 8,975,862 |
| | Margin accounts – non-remunerative | 97,270 | 158,067 |
| | | 48,897,064 | 37,912,898 |
| | **Financial Institutions** | | |
| | Remunerative deposits | 1,524,716 | 169,587 |
| | Non-remunerative deposits | 46,894 | 27,305 |
| | | 50,468,674 | 38,109,790 |
| **16.1** | **Particulars of deposits** | | |
| | In local currency | 49,824,287 | 37,531,386 |
| | In foreign currencies | 644,387 | 578,404 |
| | | 50,468,674 | 38,109,790 |

| | Note | 2011 | 2010 |
|---|---|---|---|
| **17 OTHER LIABILITIES** | | --------- Rupees in `000 --------- | |
| Profit / return payable in local currency | | 517,962 | 300,870 |
| Profit / return payable in foreign currency | | 29 | - |
| Unearned fees and commission | | 1,180 | 5,212 |
| Accrued expenses | | 118,861 | 138,742 |
| Deferred Murabaha Income - Financing and IERS | 10.3.1 | 125,122 | 160,141 |
| Deferred Murabaha Income - Commodity Murabaha | 8.3 | 7,399 | 10,474 |
| Payable to defined benefit plan | 31 | 241 | 58,023 |
| Payable to defined contribution plan | 32 | 879 | 959 |
| Unearned rent | | 1,209 | 1,151 |
| Security deposits against Ijarah | | 434,375 | 390,706 |
| Branch adjustment account | | 1,517 | - |
| Sundry creditors | | 34,432 | 34,036 |
| Charity payable | 17.1 | 5,747 | 9,441 |
| Retention money | | 7,233 | 7,071 |
| Withholding tax payable | | 2,666 | 3,595 |
| WWF payable | | 13,934 | 1,218 |
| Others | | 69,447 | 35,066 |
| | | 1,342,233 | 1,156,705 |

| | Note | 2011 | 2010 |
|---|---|---|---|
| **17.1** Opening balance | | 9,441 | 8,071 |
| Additions during | | 4,806 | 5,770 |
| Payments during | 17.1.1 | (8,500) | (4,400) |
| Closing balance | | 5,747 | 9,441 |

**17.1.1 Charity in excess of Rs 100,000 was paid to the following:**

| | 2011 | 2010 |
|---|---|---|
| Deaf and Dumb Welfare Society | - | 300 |
| Fakhr-e-Imdad Foundation | - | 700 |
| The Citizen Foundation | 2,000 | 2,800 |
| Alamgir Welfare Trust Intl | 1,000 | |
| The Indus Hospital | 2,000 | - |
| The Memon Medical | 1,000 | - |
| Akhuwat Charity | 1,000 | - |
| Jamiat Taleem Ul Quran | 1,000 | - |
| Captain (Retd) Ibrahim | - | 600 |
| Mrs. Saba Zulfiqar | 500 | - |
| | 8,500 | 4,400 |

**17.1.2** Charity was not paid to any staff of the Group or to any individual / organisation in which a director or his spouse had any interest at any time during the year.

## 18 SHARE CAPITAL

### 18.1 Authorised capital

| 2011 | 2010 | | 2011 | 2010 |
|---|---|---|---|---|
| ------ Number of Shares ------- | | | --------- Rupees in `000 --------- | |
| 1,300,000,000 | 1,300,000,000 | Ordinary shares of Rs.10 each | 13,000,000 | 13,000,000 |

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

| 2011 | 2010 | | 2011 | 2010 |
|---|---|---|---|---|
| ------ Number of Shares ------- | | | --------- Rupees in `000 --------- | |
| | | Ordinary shares of Rs. 10 each | | |
| 527,967,898 | 527,967,898 | Fully paid in cash | 5,279,679 | 5,279,679 |
| 527,967,898 | 527,967,898 | | 5,279,679 | 5,279,679 |

**18.3** The State Bank of Pakistan through its BSD Circular No. 7 dated April 2009 had revised the Minimum Capital Requirement (MCR) for banks. As per the circular the Holding Company was required to have a minimum issued, subscribed and paid-up capital (free of losses) of Rs. 8 billion by December 31, 2011 and is required to raise it to Rs. 10 billion in a phased manner by December 31, 2013. The paid-up capital of the Holding Company (free of losses) amounted to Rs. 5.052 billion at December 31, 2011. As more fully explained in note 1.2 to this financial statements, the SBP vide its letter No. BSD/CSD/546/2012 dated January 13, 2012 has granted extension to the Holding Company in timeline for meeting MCR (free of losses) amounting to Rs. 6 billion till June 30, 2012.

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| **19** RESERVES | | | |
| Statutory Reserves | 19.1 | 91,221 | 9,310 |

**19.1** Under section 21 of the Banking Companies Ordinance, 1962 an amount of not less than 20% of the profit is to be transferred to create a reserve fund till such time the reserve fund and the share premium account equal the amount of the paid up capital. Thereafter, an amount of not less than 10% of the profit is required to be transferred to such reserve fund.

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| **20 SURPLUS ON REVALUATION OF ASSETS** | | |
| **20.1 Surplus on revaluation of available for sale securities** | | |
| Sukuk Certificates | 260,113 | 49,816 |
| Mutual Fund | 7 | 3 |
| Modaraba Certificates | - | - |
| | 260,120 | 49,819 |
| Related deferred tax liability | (91,042) | (17,437) |
| | 169,078 | 32,382 |

**21 CONTINGENCIES AND COMMITMENTS**

**21.1 Transaction-related contingent liabilities**

| | 2011 | 2010 |
|---|---|---|
| Contingent liabilities in respect of performance bonds, bid bonds, warranties, etc. given favoring | | |
| - Government | 689,949 | 869,935 |
| - Others | 631,196 | 110,245 |
| | 1,321,145 | 980,180 |

| | | 2011 | 2010 |
|---|---|---|---|
| **21.2** | **TRADE-RELATED CONTINGENT LIABILITIES** | **--------- Rupees in `000 ---------** | |
| | Import letter of Credit | 1,725,823 | 1,260,833 |
| | Acceptances | 235,229 | 176,571 |
| | | 1,961,052 | 1,437,404 |
| **21.3** | **CLAIM NOT ACKNOWLEDGED AS DEBT** | 861,907 | 982,606 |
| **21.4** | **COMMITMENTS IN RESPECT OF PROMISES** | | |
| | Purchase | 93,574 | 339,270 |
| | Sale | 127,607 | 373,661 |
| **21.5** | Commitments for the acquisition of operating fixed assets | 4,779 | 34,745 |

**21.6** Commitments in respect of financing facilities

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

| | | 2011 | 2010 |
|---|---|---|---|
| | | **--------- Rupees in `000 ---------** | |
| **21.7** | **Other commitments** | | |
| | Bills for collection | 244,596 | 320,132 |

| | | 2011 | 2010 |
|---|---|---|---|
| **22** | **PROFIT / RETURN EARNED** | | |
| | On financings to: | | |
| | - Customers | 2,546,663 | 1,960,781 |
| | - Financial institutions | 738,027 | 926,266 |
| | | 3,284,690 | 2,887,047 |
| On investments in available for sale securities | | 2,192,694 | 889,227 |
| On deposits / placements with financial institutions | | 9,051 | 21,140 |
| Others | | 18,304 | 13,529 |
| | | 5,504,739 | 3,810,943 |

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | **--------- Rupees in `000 ---------** | |
| **23** | **PROFIT / RETURN EXPENSED** | | | |
| | Deposits | | 2,801,431 | 2,013,589 |
| | Other short term fund generation | | 55,851 | 35,864 |
| | Others | | 15,837 | - |
| | | | 2,873,119 | 2,049,453 |
| **24** | **OTHER INCOME** | | | |
| | Rent on property | | 8,268 | 10,523 |
| | Gain on termination of ijarah financing | | 10,485 | 7,208 |
| | Gain on sale of property and equipment | 11.2.1 | 12,787 | 20,260 |
| | Other | | 21,707 | 14,857 |
| | | | 53,247 | 52,848 |

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| **25** | **ADMINISTRATIVE EXPENSES** | | **--------- Rupees in `000** | **---------** |
| | Salaries, allowances, and other benefits | 25.3 | 790,933 | 604,739 |
| | Charge for defined benefit plan | 31 | 25,944 | 20,914 |
| | Contribution to defined contribution plan | 32 | 26,566 | 25,464 |
| | Worker's Welfare Fund | | 12,795 | 1,377 |
| | Non-executive directors' fees, allowances and other expenses | | 1,550 | 1,550 |
| | Insurance on consumer car Ijarah | | 31,334 | 31,999 |
| | Rent, taxes, insurance, electricity, etc. | | 313,048 | 293,516 |
| | Legal and professional charges | | 10,492 | 11,525 |
| | Communications | | 83,419 | 78,515 |
| | Repairs and maintenance | | 150,578 | 143,281 |
| | Stationery and printing | | 25,476 | 22,800 |
| | Advertisement and publicity | | 67,203 | 46,179 |
| | Auditors' remuneration | 25.1 | 3,917 | 5,589 |
| | Depreciation | 11.2 | 311,474 | 331,722 |
| | Amortisation | 25.2 | 33,791 | 43,881 |
| | CDC and share registrar services | | 3,903 | 4,137 |
| | Entertainment expense | | 19,188 | 15,800 |
| | Security service charges | | 66,574 | 60,358 |
| | Brokerage and commission | | 5,577 | 7,793 |
| | Travelling and conveyance | | 15,923 | 11,287 |
| | Remuneration to Shariah Board | | 250 | 250 |
| | Fees and subscription | | 80,322 | 82,040 |
| | Vehicle running and maintenance | | 25,409 | 24,838 |
| | Others | | 47,511 | 27,851 |
| | | | 2,153,177 | 1,897,405 |
| **25.1** | **Auditors' remuneration** | | | |
| | Audit fee | | 1,850 | 1,575 |
| | Fee for the review of half yearly financial statements | | 650 | 420 |
| | Special certifications and sundry advisory services | | 900 | 3,105 |
| | Tax services | | - | 90 |
| | Out-of-pocket expenses | | 517 | 399 |
| | | | 3,917 | 5,589 |
| **25.2** | **Amortisation** | | | |
| | Intangible assets | 11.3 | 29,705 | 27,798 |
| | Deferred cost | 13.2 | 4,086 | 16,083 |
| | | | 33,791 | 43,881 |

**25.3** During the year, the Group has paid Long Service Award (LSA) to eligible employees. Only those employees were eligible for LSA who fulfilled time based condition. The amount under LSA relating to Chief Executive Officer and Key Management Personnel of the Group amounted to Rs. 5.613 million and Rs. 19.292 million respectively.

| | | 2011 | 2010 |
|---|---|---|---|
| | | **--------- Rupees in `000** | **---------** |
| **26** | **OTHER CHARGES** | | |
| | Penalties imposed by State Bank of Pakistan | 412 | 7,212 |
| | Others | 4,249 | 4,445 |
| | | 4,661 | 11,657 |

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | --------- Rupees in `000 --------- | |
| **27** | **TAXATION** | | | |
| | For the year | | | |
| | - Current | | 59,816 | 44,993 |
| | - Prior years | | 1,340 | - |
| | - Deferred | | 147,436 | (44,319) |
| | | | 208,592 | 674 |

The numerical reconciliation between average tax rate and the applicable tax rate has not been presented in these consolidated financial statements due to available tax losses brought forward from tax years 2006, 2007, 2008, 2009, 2010 and 2011. The provision for current year income tax has been made under section 113 of the Income Tax Ordinance 2001 (minimum tax on turnover).

Under Section 114 of the Income Tax Ordinance, 2001 (Ordinance), the returns of income for the tax years 2006, 2007, 2008, 2009, 2010 and 2011 have been filed on due dates. The said returns were deemed completed under the provisions of the prevailing income tax laws as applicable in Pakistan during the relevant accounting years.

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | --------- Rupees in `000 --------- | |
| **28** | **BASIC AND DILUTED EARNINGS PER SHARE** | | | |
| | Profit after taxation for the year | | 405,914 | 41,159 |
| | | | ------- Number of shares ----- | |
| | Weighted average number of ordinary shares in issue - Number | | 527,967,898 | 527,967,898 |
| | | | ------- Rupees ------- | |
| | Earning per share - basic / diluted | 28.1 | 0.77 | 0.08 |

**28.1** There were no convertible / dilutive potential ordinary shares outstanding as at December 31, 2011 and December 31, 2010

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | --------- Rupees in `000 --------- | |
| 29 | **CASH AND CASH EQUIVALENTS** | | | |
| | Cash and balances with treasury banks | 6 | 4,684,831 | 3,035,153 |
| | Balances with other banks | 7 | 549,411 | 570,858 |
| | | | 5,234,242 | 3,606,011 |
| **30** | **STAFF STRENGTH** | | ------ Number of employees------ | |
| | Permanent | | 1,116 | 920 |
| | Contractual basis | | 336 | 431 |
| | Total staff strength | | 1,452 | 1,351 |

**31 DEFINED BENEFIT PLAN**

**31.1** General description

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

The number of employees covered under the following defined benefit scheme are 1,112 (2010: 912). The present value of obligation under the scheme at the Statement of financial position date were as follows:

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | --------- Rupees in `000 --------- | |
| **31.2** | Reconciliation of payable to defined benefit plan | | | |
| | Present value of defined benefit obligations | | 63,884 | 50,735 |
| | Fair Value of any Plan assets | | (82,426) | - |
| | Net actuarial losses not recognised | | 18,783 | 7,288 |
| | Liability recognised in the balance sheet | | 241 | 58,023 |
| **31.3** | Amount charged to the profit and loss account | | | |
| | Current service cost | | 19,117 | 16,070 |
| | Finance cost | | 7,012 | 4,844 |
| | Actuarial loss recognised | | (185) | - |
| | | | 25,944 | 20,914 |
| **31.4** | Movement in fair value of plan assets | | | |
| | Opening balance | | - | - |
| | Contributions | | 83,726 | - |
| | Benefits paid | | (1,300) | - |
| | Acturial Gain / (Loss) on Assets | | - | - |
| | Closing balance | | 82,426 | - |
| **31.5** | Movement in the liability recognised in the balance sheet | | | |
| | Opening balance | | 58,023 | 37,411 |
| | Expense for the year | | 25,944 | 20,914 |
| | Benefits paid | | - | (302) |
| | Contributions during the year | | (83,726) | - |
| | Closing balance | | 241 | 58,023 |
| **31.6** | Movement in present value of defined benefit obligation | | | |
| | Opening balance | | 50,735 | 34,755 |
| | Current service cost | | 19,117 | 16,070 |
| | Finance cost | | 7,012 | 4,844 |
| | Benefits Paid | | (1,300) | (302) |
| | Actuarial gain | | (11,680) | (4,632) |
| | Closing balance | | 63,884 | 50,735 |
| **31.7** | Actuarial loss to be recognised | | | |
| | Corridor limit | | | |
| | The limits of the corridor at the beginning of the year | | | |
| | 10% of obligations | | 5,074 | 3,476 |
| | 10% of plan assets | | - | - |
| | Which works out to | | 5,074 | 3,476 |
| | Unrecognised actuarial gains /(losses) at the beginning of the year | | 7,288 | 2,656 |
| | Limit of corridor as at 1 January 2011 | | 5,074 | - |
| | Excess | | 2,214 | 2,656 |

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Average expected remaining working lives in years | | 12 | 13 |
| Actuarial loss to be recognised | | 185 | - |

**31.8** Unrecognised actuarial losses

| | 2011 | 2010 |
|---|---|---|
| Unrecognised actuarial gains / (losses) at the beginning of the year | 7,288 | 2,656 |
| Actuarial gains on obligation | 11,680 | 4,632 |
| Subtotal | 18,968 | 7,288 |
| Actuarial loss recognised | (185) | - |
| Unrecognised actuarial gains / (losses) at the end of the year | 18,783 | 7,288 |

**Principal actuarial assumptions used are as follows:**

| | 2011 | 2010 |
|---|---|---|
| Expected rate of increase in salary level | 12% | 13% |
| Valuation discount rate | 12.5% | 14% |
| Expected return on plan assets | 5% | 0% |

**31.9 Historical information**

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | -------------------------------- Rupees in '000 | | | | -------------------------------- |
| As at December 31 | | | | | |
| Present value of defined benefit obligation | 63,884 | 50,735 | 34,755 | 19,092 | 10,150 |
| Fair value of plan assets | - | - | - | - | - |
| Deficit | 63,884 | 50,735 | 34,755 | 19,092 | 10,150 |
| Experience adjustments on plan liabilities | (11,680) | (4,632) | (2,928) | (357) | (505) |

## 32 DEFINED CONTRIBUTION PLAN (PROVIDENT FUND)

The Group operates a contributory provident fund scheme for permanent employees. The employer and employee both contribute 10% of basic salary to the funded scheme every month. Equal monthly contribution by employer and employees during the year amounted to Rs.26.566 million (2010: Rs.25.464 million) each.

## 33 COMPENSATION OF DIRECTORS AND EXECUTIVES

| | President / Chief Executive | | Directors | | Executives | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | ----------------------- | | Rupees in '000 | | ----------------------- | |
| Fees | - | - | 1,550 | 1,550 | - | - |
| Managerial remuneration | *14,183 | 9,781 | - | - | 94,279 | 87,780 |
| Bonus - | - | - | - | - | - | |
| Charge for defined benefit plan | 1,181 | 815 | - | - | 8,500 | 7,312 |
| Salary in lieu of provident fund | *1,418 | 978 | - | - | - | - |
| Contribution to defined contribution plan | - | - | - | - | 8,894 | 8,220 |
| Rent and house maintenance | *391 | 270 | - | - | 29,691 | 24,522 |
| Utilities | *1,418 | 978 | - | - | 9,428 | 8,778 |
| Medical | *1,418 | 978 | - | - | 9,428 | 8,623 |
| Increment Allowance | - | - | - | - | 36,535 | 12,117 |
| Others | - | - | - | - | 1,633 | 22,15 |
| | *20,009 | 13,800 | 1,550 | 1,550 | 198,388 | 157,352 |
| Number of persons | 1 | 1 | 4 | 4 | 106 | 100 |

* Included in this amount are arrears amounting to Rs. 3.571 million (2010: Nil)

**33.1** The remuneration and other benefits paid to the Chief Executive Officer of the subsidiary company amounted to Rs. 3.019 million (2010: Rs. 2.245 million).

**33.2** The Group's President / Chief Executive and certain Executives are provided with free use of Group's maintained cars in accordance with the Group's service rules.

In addition to above all eligible executives, including the Chief Executive Officer of the Group are also entitled to certain short term employee benefits which are disclosed in note 25.3 to these financial statements.

## 34 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of quoted investments is based on quoted market prices. Unquoted equity securities are valued at 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.

The 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 38 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.

**34.1** Off-balance sheet financial instruments

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Book value | Fair value | Book value | Fair value |
| | ---------- Rupees in '000 ---------- | | | |
| Forward purchase of foreign exchange | 93,579 | 93,574 | 382,146 | 373,661 |
| Forward sale of foreign exchange | 127,887 | 127,607 | 63,402 | 63,269 |

## 35 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

| | Trading & Sales | Retail Banking | Commercial Banking | Support Centre | Modaraba Management | Total |
|---|---|---|---|---|---|---|
| | ----------Rupees in '000---------- | | | | | |
| **2011** | | | | | | |
| Total income | 571,690 | 3,355,588 | 1,757,459 | 44,126 | 2,528 | 5,731,391 |
| Total expenses | 46,669 | 2,850,309 | 1,328,810 | 884,578 | 6,519 | 5,116,885 |
| Net income / (loss) | 525,021 | 505,279 | 428,649 | (840,452) | (3,991) | 614,506 |
| Segment Assets (Gross) | 31,232,461 | 7,122,751 | 18,773,042 | 1,985,460 | 49,469 | 59,163,183 |
| Segment Non Performing Assets | 74,790 | 324,241 | 536,213 | 12 | | 935,256 |
| Segment Provision | 34,790 | 183,849 | 227,999 | 12 | | 446,650 |
| Segment Liabilities | 618,920 | 34,873,291 | 17,859,574 | 56,713 | 1,262 | 53,409,760 |
| Segment Return on Assets (ROA) (%) | 1.68% | 7.08% | 2.28% | - | - | - |
| Segment Cost of funds (%) * | 12.76% | 6.80% | 8.33% | - | - | - |

* In case of Trading and Sales in Commercial Banking , the cost of funds includes the cost of funds borrowed from Head Office.

| | Trading & Sales | Retail Banking | Commercial Banking | Support Centre | Modaraba Management | Total |
|---|---|---|---|---|---|---|
| | ----- | ----- | Rupees in '000 | ----- | ----- | ----- |
| **2010** | | | | | | |
| Total income | 80,237 | 2,422,415 | 1,277,774 | 232,887 | 3,809 | 4,017,122 |
| Total expenses | 37,532 | 2,202,997 | 954,175 | 763,689 | 16,896 | 3,975,289 |
| Net income /(loss) | 42,705 | 219,418 | 323,599 | (530,802) | (13,087) | 41,833 |
| Segment Assets (Gross) | 20,655,460 | 4,643,858 | 17,743,245 | 2,124,987 | 141,046 | 45,308,596 |
| Segment Non Performing Assets | 61,418 | 152,202 | 517,670 | - | - | 731,290 |
| Segment Provision Required | 21,418 | 140,065 | 200,435 | - | - | 361,918 |
| Segment Liabilities | 377,520 | 26,583,538 | 12,876,337 | 342,416 | 2,704 | 40,182,515 |
| Segment Return on Assets (ROA) (%) | 0.21% | 4.72% | 1.82% | - | - | - |
| Segment Cost of funds (%) * | 13.81% | 6.61% | 8.74% | - | - | - |

* In case of Trading and Sales in Commercial Banking , the cost of funds includes the cost of funds borrowed from Head Office.

## 36 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, principal shareholders, retirement benefit funds, directors and their close family members, and key management personnel.

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

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

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

Transactions with related parties other than remuneration and benefits to key management personnel including Chief Executive Officer under the terms of the employment as disclosed in note 33 are as follows:

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 | --------- |
| **Associates** | | |
| **Financings** | | |
| At beginning of the year | 167,663 | 150,000 |
| Disbursements | 66,122 | 17,663 |
| Repayments | (11,943) | - |
| At the end of the year | 221,842 | 167,663 |
| **Deposits** | | |
| At beginning of the year | 123,065 | 76,177 |
| Deposits during the year | 598,059 | 811,835 |
| Withdrawals during the year | (602,448) | (764,947) |
| At the end of the year | 118,676 | 123,065 |

| | 2011 | 2010 |
|---|---|---|
| | --------- Rupees in `000 --------- | |
| **Transactions, income and expenses** | | |
| Profit earned on financings | 31,810 | 18,311 |
| Return on deposits expensed | 5,989 | 6,395 |
| Repairs and maintenance | 49,468 | 47,036 |
| Advance against financing | 4,215 | - |
| Sale of investment | 248,148 | - |
| **Key management personnel** | | |
| **Financings** | | |
| At beginning of the year | 61,167 | 48,796 |
| Disbursements | 21,149 | 18,062 |
| Repaid during the year | (4,232) | (5,691) |
| At the end of the year | 78,084 | 61,167 |
| **Deposits** | | |
| At beginning of the year | 16,563 | 6,973 |
| Deposits | 94,531 | 84,541 |
| Withdrawals during the year | (106,529) | (74,951) |
| At the end of the year | 4,565 | 16,563 |
| **Transactions, income and expenses** | | |
| Profit earned on financing | 2,769 | 2,242 |
| Return on deposits expensed | 364 | 317 |
| Remuneration | 58,929 | 38,222 |
| Disposal of vehicle | 2,115 | 17,420 |
| **Employee benefit plans** | | |
| Contribution to Employees Gratuity Fund | 25,944 | 20,914 |
| Contribution to Employees Provident Fund | 26,566 | 25,464 |

## 37 CAPITAL ASSESSMENT AND ADEQUACY

**37.1** Capital management

Capital Management aims to safeguard the Group'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 the Group ensures strong capital position and efficient use of capital as determined by the underlying business strategy i.e. maximizing growth on continuing basis. The Group 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 Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

**37.2** Goals of managing capital

The goals of managing capital of the Group are as follows: Our objectives for a sound capital management are: 1) to ensure that the Group complies with the regulatory Minimum Capital Requirement (MCR) 2) maintain a strong credit rating 3) maintain healthy capital ratios to support business and to maximize shareholder value and 4) to operate with a Revolving Planning Horizon and be able to take advantage of new investment opportunities when they appear.

**37.3** Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 7 dated April 2009 has revised the Minimum Capital Requirement (MCR) for banks. As per the circular the Holding Company was required to have a minimum issued, subscribed and paid-up capital (free of losses) of Rs. 8 billion by December 31, 2011 and is required to raise it to Rs. 10 billion in a phased manner by December 31, 2013. The paid-up capital of the Holding Company (free of losses) amounted to Rs. 5.052 billion at December 31, 2011. As more fully explained in note 1.2 to this financial statements, the SBP vide its letter No. BSD/CSD/546/2012 dated January 13, 2012 has granted extension to the Holding Company in timeline for meeting MCR (free of losses) amounting to Rs. 6 billion till June 30, 2012.

**37.4** Capital Structure

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

- Tier 1 capital, which includes fully paid up capital, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for deficit on revaluation of available for sale investments and 50% deduction for investments in the equity of subsidiary companies being commercial entities and book value of goodwill and intangibles.
- Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25% of risk weighted assets), reserves on revaluation of fixed assets and equity investments up to a maximum of 45% of the balance, foreign exchange translation reserves, etc after 50% deduction for investments in the equity of subsidiary companies being commercial entities.
- Tier 3 capital has also been prescribed by the State Bank of Pakistan. However the Group is not eligible for the Tier 3 capital.

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

Group 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.

**37.5** 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

| | | 2011 | 2010 |
|---|---|---|---|
| | | --------- Rupees in `000 --------- | |
| Tier I Capital | | | |
| Shareholders Capital | | 5,279,679 | 5,279,679 |
| Reserves as disclosed on the Statement of Financial Position | | 91,221 | 8,232 |
| Accumulated loss | | (233,205) | (556,130) |
| | | 5,137,695 | 4,731,781 |
| Less: Deficit on account of revaluation of investment held in AFS | | - | - |
| Less: Book value of goodwill and intangibles | | (132,862) | (140,523) |
| | | 5,004,833 | 4,591,258 |
| Tier II Capital | | | |
| General provisions for loan losses-up to maximum of 1.25% of Risk Weighted Assets | | 28,972 | 32,291 |
| Revaluation Reserves up to 45% | | 117,054 | 22,419 |
| Total Tier II Capital | | 146,026 | 54,710 |
| Eligible Tier III Capital | | - | - |
| Total Regulatory Capital Base | (a) | 5,150,859 | 4,645,968 |

| Risk-weighted exposures | | Capital Requirements | | Risk Weighted Assets | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | | ------------------------------ Rupees in '000 ------------------------------ | | | |
| Portfolios subject to standardized approach (Simple Approach for CRM) | | | | | |
| Corporate Portfolio | | 1,144,451 | 997,571 | 11,444,506 | 9,975,714 |
| Retail Portfolio | | 22,280 | 24,781 | 222,795 | 247,814 |
| Mortgage Portfolio | | 64,118 | 65,259 | 641,176 | 652,587 |
| Past due financings | | 56,383 | 27,580 | 563,828 | 275,801 |
| Claims on Banks | | 162,268 | 123,013 | 1,622,684 | 1,230,134 |
| Fixed Assets | | 174,323 | 196,756 | 1,743,233 | 1,967,563 |
| Others | | 616,918 | 385,759 | 6,169,181 | 3,857,592 |
| | | 2,240,741 | 1,820,719 | 22,407,403 | 18,207,205 |
| **Portfolios subject to off balance sheet exposure –non market/market related** | | | | | |
| Corporate Portfolio | | 81,911 | 38,720 | 819,106 | 387,196 |
| **Market risk** | | | | | |
| Capital requirement for portfolios subject to standardized approach | | | | | |
| Foreign Exchange risk | | 6,143 | 18,248 | 61,429 | 182,483 |
| Interest Rate Risk | | 218,266 | 280,547 | 2,182,660 | 2,805,465 |
| Equity Risk | | 474 | 712 | 4,740 | 7,116 |
| **Operational risk** | | | | | |
| Capital Requirement for operational risks subject to Basic Indicator Approach | | 383,321 | 163,294 | 3,833,213 | 1,632,941 |
| Total | (b) | 2,930,856 | 2,322,240 | 29,308,551 | 23,222,406 |
| Capital adequacy ratio | | | | | |
| Total eligible regulatory capital held | (a) | 5,150,859 | 4,645,968 | | |
| Total risk weighted assets | (b) | 29,308,551 | 23,222,406 | | |
| Capital adequacy ratio | [(a / b) x 100] | 17.57% | 20.01% | | |

## 38 RISK MANAGEMENT

The objective of Risk Management is to effectively manage uncertainties that arise in the normal course of business activities. The risk management function is one of the most important areas of the banking business, and covers a wide spectrum of financial business risk class; including Credit, Market, Liquidity, Operational etc. The Group follows effective risk governance which commensurate well with its current size and structure.

The implementation of Basel II (B2) provides for a risk-based capital requirement. The Group adheres to the regulatory requirement in this respect, and conducts its business accordingly.

As a prelude to countering the financial debacle of the recent past, the Basel Committee (Internationally) is raising the resilience of the banking sector by strengthening the regulatory capital framework, essentially building on the three pillars of the Basel II structure. The reforms raise both the quality and quantity of the regulatory capital base and enhance the risk coverage of the capital framework. The SBP (State Bank of Pakistan) while being cognizant of the various reforms in the offing, is reviewing the impact of Basel III (B3) guidelines on the capital structure and CAR (Capital Adequacy Ratio) through quantitative impact studies.

### RISK MANAGEMENT FRAMEWORK

A well formulated policy and procedure is critical to an effective Risk Management framework; it then needs to be reinforced through a strong control culture that promotes sound risk governance. The Group's Risk Management Framework has been developed keeping in mind, that:

- To be effective, control activities should be an integral part of the regular activities of the Group;
- Every loss or near miss event should provide some Key Learning Outcome (KLO), helping and promoting a better risk identification and mitigation,
- While the reward may well commensurate the level of risk, it has to be viewed in entirety and not in isolation; and
- Critical decision making should be based on relevant research, proper analysis and effective communication within the Group.

### Strategic Level

At the strategic level, the risk related functions are approved by the senior management and the Board. These include: defining risks, setting parameters, ascertaining the institutions risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that overall risk remains within acceptable level and the reward compensates' for the risk taken.

### Macro Level

It encompasses risk management within a business area or across business lines. Generally the risk management activities performed by middle management or units devoted to risk reviews fall into this category. Periodical review of various portfolios; stress test and scenario analysis for portfolio resilience; application of statistical tools and information in time series for developing strong inferences are all performed at this level.

### Micro Level

Risk management at micro level, is of critical importance. This function if performed with diligence and understanding, can be of maximum benefit to the organization. Micro level risk management includes:

- Business line acquisition, strong adherence to the credit and other related criteria.
- Middle Office monitoring function for a sound risk assessment of various risks inherent in treasury operations.
- Detailed review of various processes and operating procedures, for operational and other risk related assessments.

**Risk appetite of the Group**

The risk appetite of the Group is an outcome of its corporate goal, economic profitability, available resources (size and business life cycle) and most significantly; the controls. The Group believes in a cautious yet steady approach towards its business objectives and takes a holistic view of its investment and financing requirement.
This approach is primarily based on a viable portfolio build-up with a long-term view; key consideration being the health of various portfolios.

**Risk organization**

A strong organizational set-up, with clearly defined roles and responsibilities permits a higher level of articulation of the Groups risk mandate, establishment of a structure that provides for authority, delegation and accountability, and development of control framework. Risk management cannot live in a vacuum; in order to be effective, it has to be run at an enterprise level. Risk governance must involve all relevant parties and should be sanctioned by the Group's leadership

The risk management function at the Group, along with the different committees including ALCO (Asset Liability Committee) and MCC (Management Credit Committee), RMC (Risk Management Committee of the Board) manage and adhere to the risk management policies and procedures, with an explicit aim to mitigate/ manage risk in line with the Groups objectives.

Business line accountability

One of the most important features of the risk management process is the business line accountability. Business has to understand the risk implication of specific transaction on the business / portfolio. Some specific risks e.g. reputation risk affects the entire Group business and is not limited to one business line or the other. At the Group, as in any other reputable organization, responsibility comes with accountability. Each business segment is responsible for the profit / loss of the business. The management of risk is as much a line function as it is supports'.

Business lines are equally responsible for the risks they are taking. Because line personnel understand the risks of the business. Lack of an understanding of this by the line management may lead to risk management in isolation.

**38.1 Credit Risk**

The Group manages credit risk by effective credit appraisal mechanism, approving and reviewing authorities, limit structures, internal credit risk rating system, collateral management and post disbursement monitoring so as to ensure prudent financing activities and sound financing portfolio under the umbrella of a comprehensive Credit Policy approved by the Board of Directors. Credit Risk has certain sub-categories as follows:

**i) Price risk**

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

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

### iii) Settlement risk

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

### iv) Country risk

Country Risk can be defined as the risk of adverse impact of certain factors on a country's specific economic, political and social scenario which affects the ability of the country (or a borrower in that country) to repay its obligations. Country risk may be a combination of Transfer Risk and Sovereign Risk.

### 38.1.1 Segmental information

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

### 38.1.1.1 Segments by class of business

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Financings (Gross) | | Deposits | | Contingencies and Commitments | |
| | Rupees in '000 | Percent | Rupees in '000 | Percent | Rupees in '000 | Percent |
| Agriculture, Forestry, Hunting and Fishing | 2,619,273 | 12.80% | 2,378,082 | 4.71% | 39,283 | 0.85% |
| Mining and Quarrying | - | 0.00% | 677,889 | 1.34% | - | 0.00% |
| Textile | 1,865,069 | 9.12% | 561,080 | 1.11% | 1,572,926 | 34.09% |
| Chemical and Pharmaceuticals | 200,214 | 0.98% | 571,377 | 1.13% | 90,928 | 1.97% |
| Cement | 1,095,733 | 5.36% | 271,959 | 0.54% | 15,035 | 0.33% |
| Sugar | 1,611,042 | 7.87% | 1,605,441 | 3.18% | 16 | 0.00% |
| Footwear and Leather garments | 52,060 | 0.25% | 67,304 | 0.13% | 27,795 | 0.60% |
| Automobile and transportation equipment | 46,632 | 0.23% | 242,384 | 0.48% | 274,646 | 5.95% |
| Education | 5,135 | 0.03% | 234,430 | 0.46% | - | 0.00% |
| Electronics and electrical appliances | 337,796 | 1.65% | 203,315 | 0.40% | 341,872 | 7.41% |
| Production and transmission of energy | 900,000 | 4.40% | 15,625 | 0.03% | - | 0.00% |
| Construction | 1,057,136 | 5.17% | 1,348,100 | 2.67% | 136,318 | 2.95% |
| Power (electricity), Gas, Water, Sanitary | 2,914,014 | 14.24% | 12,363 | 0.02% | 500,508 | 10.85% |
| Wholesale and Retail Trade | 322,539 | 1.58% | 2,534,288 | 5.02% | 150,000 | 3.25% |
| Exports/Imports | - | 0.00% | 81,118 | 0.16% | 86,837 | 1.88% |
| Transport, Storage and Communication | 293,304 | 1.43% | 404,083 | 0.80% | - | 0.00% |
| Financial | 1,664,258 | 8.13% | 1,471,499 | 2.92% | 139,274 | 3.02% |
| Insurance | 11,933 | 0.06% | 69,789 | 0.14% | - | 0.00% |
| Services | 148,216 | 0.72% | 1,339,464 | 2.65% | 25,323 | 0.55% |
| Individuals | 3,044,917 | 14.88% | 20,306,491 | 40.24% | 54,916 | 1.19% |
| Others* | 2,271,525 | 11.10% | 16,072,593 | 31.85% | 1,158,983 | 25.12% |
| | 20,460,796 | 100.00% | 50,468,674 | 100.00% | 4,614,660 | 100.00% |

*Others include Sole Proprietors, trusts, fund accounts and Govt deposits etc.

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Financings (Gross) | | Deposits | | Contingencies and Commitments | |
| | Rupees in '000 | Percent | Rupees in '000 | Percent | Rupees in '000 | Percent |
| Agriculture, Forestry, Hunting and Fishing | 1,506,050 | 8.86% | 2,081,573 | 5.46% | - | 0.00% |
| Mining and Quarrying | - | 0.00% | 565,914 | 1.48% | - | 0.00% |
| Textile | 2,421,300 | 14.24% | 320,016 | 0.84% | 925,288 | 20.62% |
| Chemical and Pharmaceuticals | 97,898 | 0.58% | 449,386 | 1.18% | 84,419 | 1.88% |
| Cement | 1,004,234 | 5.91% | 76,446 | 0.20% | 25,134 | 0.56% |
| Sugar | 1,220,185 | 7.18% | 981,071 | 2.57% | - | 0.00% |
| Footwear and Leather garments | 134,753 | 0.79% | 68,407 | 0.18% | 51,368 | 1.14% |
| Automobile and transportation equipment | 34,678 | 0.20% | 170,968 | 0.45% | 460,441 | 10.26% |
| Education | 4,789 | 0.03% | 109,534 | 0.29% | - | 0.00% |
| Electronics and electrical appliances | 129,000 | 0.76% | 75,275 | 0.20% | 50,292 | 1.12% |
| Production and transmission of energy | 2,551,685 | 15.01% | 51,285 | 0.13% | - | 0.00% |
| Construction | 488,511 | 2.87% | 492,808 | 1.29% | 92,931 | 2.07% |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Financings (Gross) | | Deposits | | Contingencies and Commitments | |
| | Rupees in '000 | Percent | Rupees in '000 | Percent | Rupees in '000 | Percent |
| Power (electricity), Gas, Water, Sanitary | - | 0.00% | 12,742 | 0.03% | - | 0.00% |
| Wholesale and Retail Trade | 280,973 | 1.65% | 2,206,127 | 5.79% | - | 0.00% |
| Exports/Imports | 18,021 | 0.11% | 122,656 | 0.32% | 80,661 | 1.80% |
| Transport, Storage and Communication | 350,516 | 2.06% | 451,346 | 1.18% | 138,921 | 3.10% |
| Financial | 1,954,021 | 11.49% | 196,891 | 0.52% | 444,665 | 9.91% |
| Insurance | 1,085 | 0.01% | 37,622 | 0.10% | - | 0.00% |
| Services | 133,502 | 0.79% | 1,030,130 | 2.70% | 73,915 | 1.65% |
| Individuals | 2,832,463 | 16.66% | 15,289,283 | 40.12% | 1,001,806 | 22.33% |
| Others* | 1,835,433 | 10.80% | 13,320,310 | 34.95% | 1,057,357 | 23.56% |
| | 16,999,097 | 100.00% | 38,109,790 | 100.00% | 4,487,198 | 100.00% |

*Others include Sole Proprietors, trusts, fund accounts and Govt deposits etc.

### 38.1.1.2 Segment by sector

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Financings (Gross) | | Deposits | | Contingencies and Commitments | |
| | Rupees in '000 | Percent | Rupees in '000 | Percent | Rupees in '000 | Percent |
| Public / Government | 1,860,205 | 9% | 1,218,171 | 2% | 689,950 | 15% |
| Private | 18,600,591 | 91% | 49,250,503 | 98% | 3,924,710 | 85% |
| | 20,460,796 | 100% | 50,468,674 | 100% | 4,614,660 | 100% |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Financings | | Deposits | | Contingencies and Commitments | |
| | Rupees in '000 | Percent | Rupees in '000 | Percent | Rupees in '000 | Percent |
| Public / Government | 2,450,606 | 14% | 1,342,625 | 4% | 869,935 | 19% |
| Private | 14,548,491 | 86% | 36,767,165 | 96% | 3,617,263 | 81% |
| | 16,999,097 | 100% | 38,109,790 | 100% | 4,487,198 | 100% |

**38.1.1.3** Details of non-performing advances and specific provisions by class of business segment:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Classified Financings | Specific Provisions Held | Classified Financings | Specific Provisions Held |
| | ---------------------- Rupees in '000 ---------------------- | | | |
| Wholesale and Retail trade | 22,598 | 2,299 | 45,256 | 6,045 |
| Textile | 122,691 | 84,653 | 162,032 | 128,032 |
| Chemical and Pharmaceuticals | 295 | - | 907 | - |
| Power (electricity), Gas, Water, Sanitary | 5,274 | 70 | 12,371 | 30 |
| Cement | 23,750 | 11,006 | 23,750 | 12,422 |
| Automobile & Transportation equipment | 5,333 | - | 8,000 | - |
| Construction | 70,997 | 57,105 | 71,733 | 32,643 |
| Services | 2,703 | 586 | 1,445 | 578 |
| Paper Product* | 137,096 | 9,068 | 85,672 | - |
| Transport, Storage and Communication | 14,312 | 2,363 | 13,312 | 1,194 |
| Individuals | 374,950 | 150,750 | 212,552 | 115,737 |
| Others | 19,002 | 3,523 | 23,017 | - |
| | 799,001 | 321,423 | 660,047 | 296,681 |

* Provision has been made under subjective evaluation

**38.1.1.4 Details of non-performing financings and specific provisions by sector:**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Classified Financings | Specific Provisions Held | Classified Financings | Specific Provisions Held |
| | ---------------------- Rupees in '000---------------------- | | | |
| Public / Government | - | - | - | - |
| Private | 799,001 | 321,423 | 660,047 | 296,681 |
| | 799,001 | 321,423 | 660,047 | 296,681 |

**38.1.1.5 GEOGRAPHICAL SEGMENT ANALYSIS**

| | 2011 | | | |
|---|---|---|---|---|
| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | ---------------------- Rupees in '000---------------------- | | | |
| Pakistan | 614,506 | 58,716,533 | 5,306,773 | 4,614,660 |

| | 2010 - (Restated) | | | |
|---|---|---|---|---|
| | Profit before taxation | Total assets employed | Net assets employed | Contingencies and commitments |
| | ---------------------- Rupees in '000---------------------- | | | |
| Pakistan | 41,833 | 44,946,678 | 4,764,163 | 4,487,198 |

**38.1.2 Credit risk - Standardized Approach**

Credit risk arises due to the risk of a borrower defaulting on his commitment either in part or as a whole. The Group has currently employed standardized approach for evaluation of credit risk. It uses CRM (Credit Risk Mitigation) technique where applicable. The Group carries a strong desire to move towards the FIRB and Advanced approach.

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

The Group uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures, where available. The Group has also recently employed a credit rating model, which is compatible to the rating guidelines of SBP, which will support the Group in internally rating the credit clients.

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

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| **Exposures** | JCR - VIS | PACRA | Others | JCR - VIS | PACRA | Others |
| Corporate | ✓ | ✓ | N/A | ✓ | ✓ | N/A |
| Banks | ✓ | ✓ | ✓ | ✓ | ✓ | N/A |

**Credit Exposures subject to Standardised approach**

| | | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|---|
| **Exposures** | **Rating Category** | **Amount Outstanding** | **Deduction CRM** | **Net amount** | **Amount Outstanding** | **Deduction CRM** | **Net amount** |
| | | ---------------------------------------- **Rupees in '000** ---------------------------------------- | | | | | |
| Corporate | 0% | - | - | - | - | - | - |
| | 20% | 3,423,412 | - | 3,423,412 | 1,588,142 | - | 1,588,142 |
| | 50% | 1,239,277 | 154,832 | 1,084,445 | 1,034,212 | - | 1,034,212 |
| | 100% | 211,259 | - | 211,259 | 10,988 | - | 10,988 |
| | 150% | 320,500 | - | 320,500 | - | - | - |
| | Unrated | 9,637,174 | 111,582 | 9,525,592 | 9,001,056 | 179,764 | 8,821,292 |
| | | 14,831,622 | 266,414 | 14,565,208 | 11,634,398 | 179,764 | 11,454,634 |
| Retail | 0% | - | - | - | - | - | - |
| | 20% | - | - | - | - | - | - |
| | 50% | - | - | - | - | - | - |
| | 75% | 609,867 | 312,807 | 297,060 | 541,360 | 210,941 | 330,419 |
| | | 609,867 | 312,807 | 297,060 | 541,360 | 210,941 | 330,419 |
| **Total** | | 15,441,489 | 579,221 | 14,862,268 | 12,175,758 | 390,705 | 11,785,053 |

**CRM = Credit Risk Mitigation**

38.1.2.2 **Credit Risk Disclosures with respect to Credit Risk Mitigation for Standard and IRB Approaches- Basel II Specific.**

The Group obtains capital relief for both on and off-balance sheet non-market related exposures by using simple approach for Credit risk mitigation (CRM). Off-balance sheet items under the simplified standardized approach are converted into credit exposure equivalents through the use of credit conversion factors. Under the standardized approach the Group has taken advantage of the cash collaterals available with the Group in the form of security deposits and cash margins.

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

The Group takes the benefit of CRM against its claims on corporate and retail portfolio. Under the standardized approach for on-balance sheet exposures, the corporate portfolio of Rs.14,831.622 million (2010: Rs. 11,634.398 million) is subject to the CRM of Rs.266.414 million (2010: Rs. 179.764 million) whereas a claim on retail portfolio of Rs.609.867 million (2010: Rs. 541.360 million) is subject to CRM of Rs 312.807 million (2010: Rs. 210.941 million). The total benefit of Rs.579.221 million (2010: Rs. 390.705 million) was availed through CRM against total on-balance sheet exposure of Rs.15,441.489 million (2010: Rs. 12,175.758 million).

Under off-balance sheet, non-market related exposures; the corporate portfolio of Rs 301.039 million (2010: Rs. 1,473.667 million) is subject to the CRM of Rs.7.023 million (2010: Rs. 100.907 million). Hence total benefit of Rs 7.023 million (2010: Rs. 100.907 million) was availed by the Group through CRM against total off-balance sheet, non-market related exposure of Rs.301.039 million (2010: Rs. 1,473.667 million).

During the year, total amount of cash collateral used for CRM purposes was Rs.586.244 as against amount of Rs 491.612 million in year 2010.The difference in the value of cash collateral is due to the changes in the exposure amounts and resultant amount of cash collateral obtained.

38.2 **Equity Position Risk in the Banking book –Basel II Specific**

Equity position includes the following:
- Strategic investments
- Investment in equities for generating revenue in short term

These equity investments are accounted for and disclosed as per the provisions and directives of SBP,SECP and the requirements of approved International Accounting Standards as applicable in Pakistan.

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

38.3 **Yield / Profit Rate Risk in the banking book – Basel II specific**

It includes all material yield risk positions of the Group taking into account all repricing and maturity data. It includes current balances and contractual yield rates, the Group understands that its financing shall be repriced as per their respective contracts.

The Group estimates changes in the economic value of equity due to changes in the yield rates on on-balance sheet positions by conducting duration gap analysis. It also assesses yield rate risk on earnings of the Group by applying upward and downward shocks.

38.4 **Market Risk**

Market risk is defined as the risk of losses in on-and-off balance sheet positions arising from movements in market prices e.g. fluctuations in values in tradable, marketable or leasable assets. The risks relate to the current and future volatility of market values of specific assets and of foreign exchange rates and benchmark yields.

The Group uses various tools and techniques to assess market risk including but not limited to full valuation, stress testing, scenario analysis. These assessment methods enables the Group to estimate changes in the value of the portfolio, if exposed to various risk factors.

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

38.4.1 **Foreign Exchange Risk**

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

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

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

| | 2011 | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Off-balance sheet items | Net foreign currency exposure |
| | ---- Rupees in '000 ---- | | | |
| Pakistan rupee | 57,976,692 | 52,765,344 | 34,034 | 5,245,382 |
| United States dollar | 562,738 | 502,211 | (16,605) | 43,922 |
| Great Britain pound | 84,128 | 83,576 | - | 552 |
| Deutsche mark | | - | - | - |
| Japanese yen | 1,521 | - | - | 1,521 |
| Euro | 77,556 | 58,629 | (17,429) | 1,498 |
| UAE Dirham | 426 | - | - | 426 |
| ACU | 7,777 | - | - | 7,777 |
| CHF | 840 | - | - | 840 |
| AUD | 1,985 | - | - | 1,985 |
| Saudi Riyal | 2,869 | - | - | 2,869 |
| | 58,716,533 | 53,409,760 | - | 5,306,773 |

| | 2010 | | | |
|---|---|---|---|---|
| | Assets | Liabilities | Off-balance sheet items | Net foreign currency exposure |
| | ---- Rupees in '000 ---- | | | |
| Pakistan rupee | 44,151,400 | 39,604,111 | 34,391 | 4,581,680 |
| United States dollar | 555,343 | 387,130 | (8,058) | 160,155 |
| Great Britain pound | 92,775 | 87,802 | - | 4,973 |
| Deutsche mark | - | - | - | - |
| Japanese yen | 559 | - | - | 559 |
| Euro | 130,923 | 103,472 | (26,333) | 1,118 |
| UAE Dirham | 168 | - | - | 168 |
| ACU | 12,106 | - | - | 12,106 |
| CHF | 627 | - | - | 627 |
| AUD | 37 | - | - | 37 |
| Saudi Riyal | 2,740 | - | - | 2,740 |
| | 44,946,678 | 40,182,515 | - | 4,764,163 |

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

**2011**

| | Effective yield / Profit rate | Total | 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 | Non-profit bearing financial instruments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance sheet financial instruments** | | Rupees in '000 | | | | | | | | | | |
| ***Assets*** | | | | | | | | | | | | |
| Cash and balances with Treasury Banks | | 4,684,831 | - | - | - | - | - | - | - | - | - | 4,684,831 |
| Balances with other Banks | 5.00% | 549,411 | 244 | - | - | - | - | - | - | - | - | 549,167 |
| Due from financial institutions | 11.77% | 4,436,264 | 4,436,264 | - | - | - | - | - | - | - | - | - |
| Investments | 12.41% | 20,891,908 | 965,291 | 6,474,972 | 13,449,275 | - | - | - | - | - | - | 2,370 |
| Financings | 13.28% | 20,110,401 | 8,071,685 | 5,350,475 | 3,545,632 | 50,288 | 113,266 | 132,098 | 392,290 | 304,776 | 1,379,586 | 770,305 |
| Other assets | | 1,021,474 | - | - | - | - | - | - | - | - | - | 1,021,474 |
| | | 51,694,289 | 13,473,484 | 11,825,447 | 16,994,907 | 50,288 | 113,266 | 132,098 | 392,290 | 304,776 | 1,379,586 | 7,028,147 |
| ***Liabilities*** | | | | | | | | | | | | |
| Bills payable | | 798,853 | - | - | - | - | - | - | - | - | - | 798,853 |
| Due to financial institutions | 10.00% | 800,000 | - | 350,000 | 450,000 | - | - | - | - | - | - | - |
| Deposits and other accounts | 7.01% | 50,468,674 | 3,840,202 | 2,415,427 | 2,606,264 | 4,866,637 | 8,704,729 | 8,813,278 | 4,769,060 | 4,207,397 | - | 10,245,680 |
| Other liabilities | | 1,182,288 | - | - | - | - | - | - | - | - | - | 1,182,288 |
| | | 53,249,815 | 3,840,202 | 2,765,427 | 3,056,264 | 4,866,637 | 8,704,729 | 8,813,278 | 4,769,060 | 4,207,397 | - | 12,226,821 |
| **On-balance sheet gap** | | 1,555,526) | 9,633,282 | 9,060,020 | 13,938,643 | (4,816,349) | (8,591,463) | (8,681,180) | (4,376,770) | (3,902,621) | 1,379,586 | (5,198,674) |
| **NON FINACIAL ASSETS** | | | | | | | | | | | | |
| Operating fixed assets | | 1,816,863 | | | | | | | | | | |
| Deferred tax assets | | 188,442 | | | | | | | | | | |
| Other assets | | 4,959,849 | | | | | | | | | | |
| | | 6,965,154 | | | | | | | | | | |
| NON FINACIAL LIABILITIES | | | | | | | | | | | | |
| Other liabilities | | 159,945 | | | | | | | | | | |
| TOTAL NET ASSETS | | 5,249,683 | | | | | | | | | | |
| Total Yield / Profit Risk Sensitivity Gap | | | 9,633,282 | 9,060,020 | 13,938,643 | (4,816,349) | (8,591,463) | (8,681,180) | (4,376,770) | (3,902,621) | 1,379,586 | (5,198,674) |
| Cumulative Yield/Profit Risk Sensitivity Gap | | | 9,633,282 | 18,693,302 | 32,631,945 | 27,815,596 | 19,224,133 | 10,542,953 | 6,166,183 | 2,263,562 | 3,643,148 | (5,198,674) |

**2010**

| | Effective yield / Profit rate | Total | 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 | Non-profit bearing financial instruments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **On-balance sheet financial instruments** | | Rupees in '000 | | | | | | | | | | |
| ***Assets*** | | | | | | | | | | | | |
| Cash and balances with Treasury Banks | - | 3,035,153 | - | - | - | - | - | - | - | - | - | 3,035,153 |
| Balances with other Banks | 9.43% | 570,858 | 1,591 | - | - | - | - | - | - | - | - | 569,267 |
| Due from financial institutions | 12.14% | 4,513,132 | 4,513,132 | - | - | - | - | - | - | - | - | - |
| Investments | 13.33% | 13,564,654 | 1,544,373 | 3,917,061 | 8,053,563 | - | 6,094 | - | - | 40,000 | - | 3,563 |
| Financings | 14.00% | 16,670,125 | 5,907,981 | 1,044,727 | 2,490,011 | 549,049 | 1,371,082 | 1,001,139 | 1,000,714 | 2,459,451 | 843,713 | 2,258 |
| Other assets | | 645,627 | - | - | - | - | - | - | - | - | - | 545,627 |
| | | 38,999,549 | 11,967,077 | 4,961,788 | 10,543,574 | 549,049 | 1,377,167 | 1,001,139 | 1,000,714 | 2,499 | 843,713 | 4,255,868 |
| ***Liabilities*** | | | | | | | | | | | | |
| Bills payable | - | 563,020 | - | - | - | - | - | - | - | - | - | 563,020 |
| Due to financial institutions | 6.50% | 353,000 | - | 303,000 | 50,000 | - | - | - | - | - | - | - |
| Deposits and other accounts | 6.74% | 38,109,790 | 2,180,107 | 2,230,040 | 1,698,298 | 4,328,688 | 6,086,418 | 6,150,664 | 3,999,615 | 2,274,726 | - | 9,161,234 |
| Other liabilities | - | 365,858 | - | - | - | - | - | - | - | - | - | 365,858 |
| | | 39,391,668 | 2,180,107 | 2,533,040 | 1,748,298 | 4,328,688 | 6,086,418 | 6,150,664 | 3,999,615 | 2,274,726 | - | 10,090,112 |
| **On-balance sheet gap** | | (392,119) | 9,786,970 | 2,428,748 | 8,795,276 | (3,779,639) | (4,709,242) | (5,149,525) | (2,998,901) | 224,725 | 843,713 | (5,834,244) |
| **NON FINACIAL ASSETS** | | | | | | | | | | | | |
| Operating fixed assets | | 2,048,855 | | | | | | | | | | |
| Deferred tax assets | | 409,483 | | | | | | | | | | |
| Other assets | | 3,488,791 | | | | | | | | | | |
| | | 5,947,129 | | | | | | | | | | |
| **NON FINACIAL LIABILITIES** | | | | | | | | | | | | |
| Other liabilities | | 790,847 | | | | | | | | | | |
| **TOTAL NET ASSETS** | | 4,764,163 | | | | | | | | | | |
| Total Yield / Profit Risk Sensitivity Gap | | | 9,786,970 | 2,428,748 | 8,795,276 | (3,779,639) | (4,709,242) | (5,149,525) | (2,998,901) | 224,725 | 843,713 | (5,834,244) |
| Cumulative Yield/Profit Risk Sensitivity Gap | | | 9,786,970 | 12,215,718 | 21,010,994 | 17,231,355 | 12,522,113 | 7,372,588 | 4,373,687 | 4,598,412 | 5,442,125 | (5,834,244) |

## 38.5 Liquidity Risk

Liquidity risk is the potential loss to the Group arising from its inability either to meet its obligations (financial) or to fund increases in assets as they fall due without incurring unacceptable costs or losses.

BIPL's liquidity at various levels (day to day, short term, long term) is managed by the Treasury along with the Asset and Liability Management Committee (ALCO), which is one of the most important management level committees. Its role cannot be overemphasized here, it serves as a part of the critical trio with risk management and treasury department. Monitoring and maintaining key liquidity ratios, a viable funding mix, depositor concentration, reviewing contingency plans etc.

### 38.5.1 MATURITIES OF ASSETS AND LIABILITIES

| | 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Upto 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |
| | Rupees in '000 | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 4,684,831 | 4,684,831 | - | - | - | - | - | - | - | - |
| Balances with other banks | 549,411 | 549,411 | - | - | - | - | - | - | - | - |
| Due from financial institutions | 4,436,264 | 4,436,264 | - | - | - | - | - | - | - | - |
| Investments | 20,891,908 | 40,000 | 2,017,600 | - | 846,173 | 7,618,000 | 9,131,228 | 563,656 | 672,909 | 2,342 |
| Financings | 20,110,401 | 6,476,897 | 4,140,756 | 819,439 | 1,419,325 | 781,982 | 933,996 | 3,458,122 | 761,022 | 1,318,862 |
| Operating fixed assets | 1,816,863 | - | - | 35,360 | - | - | - | 295,468 | 512,924 | 973,111 |
| Deferred tax assets | 188,442 | - | - | - | - | - | - | 188,442 | - | - |
| Other assets | 6,038,413 | 383,301 | 4,974,843 | 271,497 | 110,977 | - | - | 64,223 | 233,572 | - |
| | 58,716,533 | 16,570,704 | 11,133,199 | 1,126,296 | 2,376,475 | 8,399,982 | 10,065,224 | 4,569,911 | 2,180,427 | 2,294,315 |
| **Liabilities** | | | | | | | | | | |
| Bills payable | 798,853 | 798,853 | - | - | - | - | - | - | - | - |
| Due to financial institutions | 800,000 | - | 350,000 | 450,000 | - | - | - | - | - | - |
| Deposits and other accounts | 50,468,674 | 5,459,749 | 2,415,427 | 2,606,264 | 4,866,637 | 13,017,240 | 13,126,900 | 4,769,060 | 4,207,397 | - |
| Other liabilities | 1,342,233 | 717,016 | 34,432 | 125,122 | 24,989 | - | - | 440,674 | - | - |
| | 53,409,760 | 6,975,618 | 2,799,859 | 3,181,386 | 4,891,626 | 13,017,240 | 13,126,900 | 5,209,734 | 4,207,397 | - |
| Net assets | 5,306,773 | 9,595,086 | 8,333,340 | (2,055,090) | (2,515,151) | (4,617,258) | (3,061,676) | (639,823) | (2,026,970) | 2,294,315 |
| Share capital | 5,279,679 | | | | | | | | | |
| Reserves | 91,221 | | | | | | | | | |
| Accumulated loss | (233,205) | | | | | | | | | |
| Surplus on revaluation of assets | 169,078 | | | | | | | | | |
| | 5,306,773 | | | | | | | | | |

| | 2010 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Upto 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |
| | Rupees in '000 | | | | | | | | | |
| **Assets** | | | | | | | | | | |
| Cash and balances with treasury banks | 3,035,153 | 3,035,153 | - | - | - | - | - | - | - | - |
| Balances with other banks | 570,858 | 570,858 | - | - | - | - | - | - | - | - |
| Due from financial institutions | 4,513,132 | 4,513,132 | - | - | - | - | - | - | - | - |
| Investments | 13,564,654 | 210,000 | - | - | 284,050 | 3,139,825 | 8,038,500 | 1,216,012 | 672,730 | 3,537 |
| Financings | 16,670,125 | 5,908,192 | 1,044,800 | 2,490,259 | 550,775 | 1,371,082 | 1,001,139 | 1,000,714 | 2,459,451 | 843,713 |
| Operating fixed assets | 2,048,855 | - | - | 25,140 | - | - | - | 434,893 | 577,339 | 1,011,483 |
| Deferred tax assets | 409,483 | - | - | - | - | - | - | 409,483 | - | - |
| Other assets | 4,134,418 | 758,136 | 2,895,585 | 24,112 | 120,471 | 25,000 | - | 59,232 | 251,882 | - |
| | 44,946,678 | 14,995,471 | 3,940,385 | 2,539,511 | 955,296 | 4,535,907 | 9,039,639 | 3,120,334 | 3,961,402 | 1,858,733 |
| **Liabilities** | - | | | | | | | | | |
| Bills payable | 563,020 | 563,020 | - | - | - | - | - | - | - | - |
| Due to financial institutions | 353,000 | - | 303,000 | 50,000 | - | - | - | - | - | - |
| Deposits and other accounts | 38,109,790 | 3,697,906 | 2,230,040 | 1,698,298 | 4,328,688 | 9,903,872 | 9,976,646 | 3,999,614 | 2,274,726 | - |
| Other liabilities | 1,156,705 | 489,965 | 34,036 | 160,141 | 22,875 | - | - | 449,688 | - | - |
| | 40,182,515 | 4,750,891 | 2,567,076 | 1,908,439 | 4,351,563 | 9,903,872 | 9,976,646 | 4,449,302 | 2,274,726 | - |
| **Net assets** | 4,764,163 | 10,244,580 | 1,373,309 | 631,072 | (3,396,267) | (5,367,965) | (937,007) | (1,328,968) | 1,686,676 | 1,858,733 |
| Share capital | 5,279,679 | | | | | | | | | |
| Reserves | 8,232 | | | | | | | | | |
| Accumulated loss | (556,130) | | | | | | | | | |
| Advance against future issue of share capital | 32,382 | | | | | | | | | |
| | 4,764,163 | | | | | | | | | |

## 38.6 Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external / internal events. The risk is different from the others, since it has a greater level of uncertainty and may be termed as a little difficult to measure. The Group believes that (prudence) should be lived and breathed through the organizational culture.

At a more formal level, the Group has strengthened its risk management framework by developing polices, guidelines and manuals. Operational and other risk assessment tool e.g. ORAF is being effectively used to assess, mitigate and monitor possible risk that may arise in any of the Group's financial product or department. Operational Loss Database (OLD) records all the internal/external potential operational losses which helps the management understand the causes and impact of these risks.

**38.7 Strategic Risk**

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

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

**38.8 Systemic Risk**

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

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

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

**38.9 Shariah Non-compliance**

Shariah non-compliance risk is the risk that arises from the Group's failure to comply with the Shariah rules and principles prescribed by the State Bank of Pakistan and/or the Shariah Advisor of the Group. It remains' the most important operational risk for the Group. Compliance of shariah guidelines must permeate throughout the organization and its adherence should be reflected in the products and activities.

**39 GENERAL**

**39.1** Captions, as prescribed by BSD Circular No. 04 of 2006 dated February 17, 2006 issued by the SBP, in respect of which there are no amounts, have not been reproduced in these financial statements, except for captions of the Statement of Financial Position and profit and loss account. The figures in the financial statements have been rounded off to the nearest thousand rupee.

**39.2 Corresponding figures**

Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparisons. No significant reclassifications were made during the current year except for the following:

| Reclassified from | Reclassified to | Rupees in '000 |
|---|---|---|
| Other income | Profit / return earned | 988 |
| Other income | Fee, commission and brokerage income | 2,673 |
| Income from dealing in foreign currencies | Fee, commission and brokerage income | 3,713 |
| Other income | Income from dealing in foreign currencies | 2,561 |

**40 DATE OF AUTHORISATION FOR ISSUE**

These financial statements were authorised for issue on March 07,2012 by the Board of Directors of the Group.

**President / Chief Executive** **Director** **Director** **Director**

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## Annexure 1 to the Consolidated Financial Statements

Details of disposals of fixed assets whose original cost or the book value exceeds Rs. 1 million or Rs. 250,000 whichever is less and assets disposed off to the chief executive or to a director or to executives or to any related party, irrespective of the value, are as follows:

| | Cost | Accumulated depreciation | Net book value | Sale proceeds | Gain / (loss) on sale of property and equipment | Mode of disposal | Particular of purchaser |
|---|---|---|---|---|---|---|---|
| | -----------(Rupees in '000)----------- | | | | | | |
| Honda Civic | 1,386 | 1,363 | 23 | 1,077 | 1,054 | Auction | Muhammed Shabir |
| Honda Civic | 1,932 | 348 | 1,584 | 1,725 | 141 | Auction | Suzuki South |
| Honda Civic | 1,652 | 833 | 819 | 1,455 | 636 | Auction | Aqeel Akhtar |
| Honda City | 663 | 376 | 287 | 287 | - | Group Policy | Zulfiqar Ali - Employee |
| Toyota Corolla | 919 | 637 | 282 | 1,026 | 744 | Auction | Noman H Khan |
| Suzuki Liana | 852 | 530 | 322 | 557 | 235 | Auction | Salman Ahmed |
| Suzuki Liana | 852 | 551 | 301 | 647 | 346 | Auction | Umar Farooq |
| Suzuki Liana | 1,027 | 452 | 575 | 657 | 82 | Auction | Salman Ahmed |
| Suzuki Liana | 1,070 | 323 | 747 | 704 | (43) | Auction | Musmat Sakina |
| Suzuki Liana | 1,000 | 450 | 550 | 691 | 141 | Auction | Sikandar Ali |
| Suzuki Liana | 829 | 230 | 599 | 766 | 167 | Auction | Waseem Mirza |
| Suzuki Liana | 1,029 | 453 | 576 | 686 | 110 | Auction | Sultan Hassan Khan |
| Suzuki Liana | 1,042 | 458 | 584 | 551 | (33) | Auction | Saif ur Rehman |
| Suzuki Liana | 1,029 | 453 | 576 | 716 | 140 | Auction | Irfan Ullah Ansari |
| Suzuki Liana | 822 | 309 | 513 | 613 | 100 | Auction | Sultan Hassan Khan |
| Suzuki Cultus | 750 | 334 | 416 | 728 | 312 | Auction | Muhammed Arif |
| Suzuki Cultus | 756 | 357 | 399 | 618 | 219 | Auction | Muhammed Alam |
| Suzuki Cultus | 750 | 330 | 420 | 718 | 298 | Auction | Waseem Mirza |
| Suzuki Cultus | 832 | 247 | 585 | 757 | 172 | Auction | Abdul Waheed |
| Suzuki Cultus | 750 | 334 | 416 | 676 | 260 | Auction | Muhammed Ali Akbar Khan |
| Suzuki Bolan | 296 | 4 | 292 | 321 | 29 | Auction | Shahid Ahmed Abbassi |
| Toyota Corolla | 965 | 665 | 300 | 338 | 38 | Group Policy | Mufti Irshad Ahmed Aijaz - Employee |
| Suzuki Liana | 1,019 | 458 | 561 | 616 | 55 | Group Policy | Muhammed Nadeem Aslan - Employee |
| Suzuki Cultus | 750 | 335 | 415 | 710 | 295 | Group Policy | Asif Ullah Khan - Employee |
| Suzuki Cultus | 699 | 223 | 476 | 544 | 68 | Group Policy | Syed Adib Haider - Employee |
| Suzuki Cultus | 699 | 223 | 476 | 710 | 234 | Group Policy | Fawad Iqbal Khan - Employee |
| Toyota Corolla | 1,052 | 957 | 95 | 765 | 670 | Group Policy | Ahmed Mustafa - Employee |
| Suzuki Cultus | 759 | 350 | 409 | 544 | 135 | Group Policy | Irfan Manzoor Khokhar - Employee |
| Suzuki Cultus | 832 | 257 | 575 | 566 | (9) | Group Policy | Syed Kashif Iqbal - Employee |
| Suzuki Cultus | 750 | 367 | 383 | 518 | 135 | Group Policy | Ershad Ahmed - Employee |
| Toyota Corolla | 1,048 | 751 | 297 | 297 | - | Group Policy | Muhammed Imran - Employee |
| Toyota Corolla | 1,068 | 736 | 332 | 332 | - | Group Policy | Syed Mujtaba Hussain Kazmi - Employee |
| Honda City | 1,225 | 1,213 | 12 | 675 | 663 | Group Policy | Mehmood Rashid - Employee |
| Suzuki Cultus | 750 | 404 | 346 | 548 | 202 | Group Policy | Zakir Siraj Uddin - Employee |
| Suzuki Liana | 1,019 | 564 | 455 | 617 | 162 | Group Policy | Muhammed Shakir Abbasi - Employee |
| Suzuki Cultus | 815 | 471 | 344 | 700 | 356 | Group Policy | Syed Azmat Ali - Employee |
| Suzuki Liana | 929 | 340 | 589 | 651 | 62 | Auction | Noman Baig |
| Suzuki Liana | 955 | 437 | 518 | 540 | 22 | Group Policy | Muhammed Shafi Ullah - Employee |
| | 35,572 | 18,123 | 17,449 | 25,647 | 8,198 | | |
| Other property and equipment (having book value less than 250,000 or cost less than Rs. 1,000,000) | 7,693 | 5,467 | 2,226 | 6,815 | 4,589 | | |
| | 43,265 | 23,590 | 19,675 | 32,462 | 12,787 | | |

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# PATTERN OF SHAREHOLDING

| No. of Shareholders | Shareholding From | To | Total Shares Held | Total Shares Held % |
|---|---|---|---|---|
| 289 | 1 | 100 | 12,713 | 0.002 |
| 16978 | 101 | 500 | 8,077,731 | 1.530 |
| 4232 | 501 | 1000 | 3,242,818 | 0.614 |
| 2680 | 1001 | 5000 | 5,530,948 | 1.048 |
| 374 | 5001 | 10000 | 2,860,431 | 0.542 |
| 125 | 10001 | 15000 | 1,599,971 | 0.303 |
| 73 | 15001 | 20000 | 1,335,649 | 0.253 |
| 41 | 20001 | 25000 | 929,898 | 0.176 |
| 31 | 25001 | 30000 | 856,474 | 0.162 |
| 26 | 30001 | 35000 | 847,032 | 0.160 |
| 16 | 35001 | 40000 | 609,698 | 0.115 |
| 11 | 40001 | 45000 | 463,219 | 0.088 |
| 15 | 45001 | 50000 | 731,454 | 0.139 |
| 9 | 50001 | 55000 | 479,897 | 0.091 |
| 8 | 55001 | 60000 | 469,199 | 0.089 |
| 4 | 60001 | 65000 | 254,600 | 0.048 |
| 2 | 65001 | 70000 | 138,439 | 0.026 |
| 9 | 70001 | 75000 | 657,091 | 0.124 |
| 3 | 75001 | 80000 | 234,162 | 0.044 |
| 6 | 80001 | 85000 | 504,754 | 0.096 |
| 4 | 85001 | 90000 | 352,436 | 0.067 |
| 9 | 95001 | 100000 | 897,500 | 0.170 |
| 4 | 100001 | 105000 | 419,148 | 0.079 |
| 5 | 105001 | 110000 | 544,271 | 0.103 |
| 1 | 110001 | 115000 | 112,141 | 0.021 |
| 1 | 120001 | 125000 | 120,787 | 0.023 |
| 2 | 125001 | 130000 | 257,500 | 0.049 |
| 3 | 130001 | 135000 | 400,829 | 0.076 |
| 2 | 135001 | 140000 | 279,887 | 0.053 |
| 1 | 140001 | 145000 | 140,531 | 0.027 |
| 1 | 145001 | 150000 | 150,000 | 0.028 |
| 1 | 150001 | 155000 | 153,000 | 0.029 |
| 1 | 160001 | 165000 | 161,640 | 0.031 |
| 1 | 170001 | 175000 | 175,000 | 0.033 |
| 1 | 175001 | 180000 | 178,750 | 0.034 |
| 2 | 180001 | 185000 | 365,406 | 0.069 |
| 1 | 185001 | 190000 | 185,937 | 0.035 |
| 2 | 195001 | 200000 | 400,000 | 0.076 |
| 2 | 200001 | 205000 | 403,000 | 0.076 |
| 1 | 205001 | 210000 | 208,787 | 0.040 |
| 2 | 245001 | 250000 | 500,000 | 0.095 |
| 1 | 250001 | 255000 | 251,000 | 0.048 |

| No. of Shareholders | Shareholding From | To | Total Shares Held | Total Shares Held % |
|---|---|---|---|---|
| 1 | 255001 | 260000 | 258,328 | 0.049 |
| 1 | 280001 | 285000 | 285,000 | 0.054 |
| 1 | 295001 | 300000 | 300,000 | 0.057 |
| 1 | 320001 | 325000 | 322,374 | 0.061 |
| 1 | 355001 | 360000 | 357,192 | 0.068 |
| 1 | 365001 | 370000 | 370,000 | 0.070 |
| 1 | 370001 | 375000 | 372,009 | 0.070 |
| 2 | 395001 | 400000 | 800,000 | 0.152 |
| 1 | 415001 | 420000 | 416,825 | 0.079 |
| 1 | 420001 | 425000 | 422,000 | 0.080 |
| 1 | 475001 | 480000 | 475,175 | 0.090 |
| 1 | 510001 | 515000 | 512,082 | 0.097 |
| 1 | 515001 | 520000 | 519,084 | 0.098 |
| 2 | 595001 | 600000 | 1,199,368 | 0.227 |
| 1 | 690001 | 695000 | 692,000 | 0.131 |
| 1 | 705001 | 710000 | 708,500 | 0.134 |
| 1 | 735001 | 740000 | 739,079 | 0.140 |
| 1 | 820001 | 825000 | 825,000 | 0.156 |
| 1 | 895001 | 900000 | 898,394 | 0.170 |
| 1 | 930001 | 935000 | 931,961 | 0.177 |
| 1 | 965001 | 970000 | 968,555 | 0.183 |
| 1 | 1025001 | 1030000 | 1,027,405 | 0.195 |
| 1 | 1195001 | 1200000 | 1,197,262 | 0.227 |
| 1 | 1225001 | 1230000 | 1,227,140 | 0.232 |
| 1 | 1290001 | 1295000 | 1,291,500 | 0.245 |
| 1 | 1340001 | 1345000 | 1,341,693 | 0.254 |
| 1 | 1600001 | 1605000 | 1,601,943 | 0.303 |
| 1 | 2025001 | 2030000 | 2,026,055 | 0.384 |
| 1 | 2660001 | 2665000 | 2,663,585 | 0.504 |
| 1 | 2970001 | 2975000 | 2,973,525 | 0.563 |
| 1 | 3195001 | 3200000 | 3,200,000 | 0.606 |
| 1 | 4440001 | 4445000 | 4,441,357 | 0.841 |
| 1 | 5240001 | 5245000 | 5,242,000 | 0.993 |
| 1 | 5700001 | 5705000 | 5,702,050 | 1.080 |
| 1 | 6600001 | 6605000 | 6,603,975 | 1.251 |
| 1 | 7295001 | 7300000 | 7,300,000 | 1.383 |
| 1 | 7650001 | 7655000 | 7,650,500 | 1.449 |
| 1 | 10995001 | 11000000 | 11,000,000 | 2.083 |
| 1 | 20770001 | 20775000 | 20,771,500 | 3.934 |
| 1 | 46680001 | 46685000 | 46,682,493 | 8.842 |
| 2 | 51420001 | 51425000 | 102,847,766 | 19.480 |
| 1 | 111255001 | 111260000 | 111,256,116 | 21.073 |
| 1 | 131050001 | 131055000 | 131,053,379 | 24.822 |
| **25,026** | | | **527,967,898** | **100** |

# Categories of Shareholders
## As at December 31, 2011

| PARTICULARS | SHAREHOLDERS | SHAREHOLDING | PERCENTAGE |
|---|---|---|---|
| **Directors, Chief Executive Officer, and their Spouse and Minor Children** | 5 | 103,477,674 | 19.60 |
| **Associated Companies, Undertakings, and related parties** | 2 | 242,309,495 | 45.89 |
| **Banks, Development Financial Institutions and Non Banking Financial Institutions** | 6 | 1,209,411 | 0.23 |
| **Insurance Companies** | 2 | 6,618,975 | 1.25 |
| **Modaraba & Mutual Funds** | 15 | 33,520,703 | 6.35 |
| **General Public** | | | |
| **a: Local** | 24,907 | 95,020,605 | 18.00 |
| **b: Foreign** | 7 | 2,884,881 | 0.55 |
| **Others** | 82 | 42,926,154 | 8.13 |
| **TOTAL** | **25,026** | **527,967,898** | **100.00** |

**ADDITIONAL INFORMATION**
**AS AT DECEMBER 31, 2011**

| PARTICULARS | SHAREHOLDERS | SHAREHOLDING | PERCENTAGE |
|---|---|---|---|
| **Associated Companies & Shareholders with More than 10 % Shareholding** | | | |
| Jahangir Siddiqui & Co. Ltd. | 1 | 111,256,116 | 21.07 |
| Dubai Bank PJSC | 1 | 131,053,379 | 24.82 |
| **NIT & ICP** | | | |
| National Bank of Pakistan - Trustee Department | 1 | 599,368 | 0.11 |
| **Directors, Chief Executive Officer, and their Spouse and Minor Children** | | | |
| Hasan A. Bilgrami | 1 | 499,079 | 0.10 |
| Ahmed Goolam Mahomed Randeree | 1 | 51,423,883 | 9.74 |
| Chief Justice (Retd.) Mahboob Ahmed | 1 | 130,829 | 0.02 |
| Shabbir Ahmed Randeree | 1 | 51,423,883 | 9.74 |
| **Public Sector Companies, Corporations, Banks, DFI's NBFI's, Insurance Companies, Modaraba, Modaraba Funds and Other Organisations** | 112 | 86,560,756 | 16.40 |
| **General Public** | 24907 | 95,020,605 | 18.00 |
| **TOTAL** | **25026** | **527,967,898** | **100.00** |

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# CORRESPONDENT BANKING NETWORK

| COUNTRY | NAME OF BANK |
|---|---|
| AUSTRALIA | COMMONWEALTH BANK OF AUSTRALIA<br>JPMORGAN CHASE BANK NATIONAL ASSOCIATION<br>KEB AUSTRALIA LIMITED |
| AUSTRIA | RAIFFISENLANDESBANK OBEROESTERREICH |
| BAHRAIN | KOREA EXCHANGE BANK<br>NATIONAL BANK OF PAKISTAN |
| BANGLADESH | BANK ALFALAH LIMITED<br>BANK ASIA LIMITED<br>HABIB BANK LIMITED |
| BELARUS | JOINT-STOCK SAVINGS BANK BELARUSBANK |
| BELGIUM | HABIB BANK LIMITED |
| BRAZIL | BANCO KEB DO BRASIL S.A. |
| CANADA | HABIB CANADIAN BANK<br>KOREA EXCHANGE BANK OF CANADA |
| CHINA | BANK OF JIANSU CO LTD.<br>CHINA EVERBRIGHT BANK<br>HARBIN COMMERCIAL BANK<br>JPMORGAN CHASE BANK<br>KOREA EXCHANGE BANK<br>ZHEJIANG CHOUZHOU COMMERCIAL BANK CO., LTD<br>ZHEJIANG PINGHU RURAL COOPERATIVE BANK |
| DENMARK | DANSKE BANK A/S |
| DJIBOUTI | BNAQUE POUR LE COMMERCE ET I'INDUSTRIE-MER GROUGE |
| FINLAND | DANSKE BANK A/S<br>NORDEA BANK FINLAND PLC<br>SAMPO BANK |
| FRANCE | HABIB BANK LIMITED<br>KOREA EXCHANGE BANK<br>NATIONAL BANK OF PAKISTAN<br>UNION DE BANQUES ARABES ET FRANCAISES |
| GERMANY | COMMERZ BANK AG<br>DANSKE BANK A/S<br>KOREA EXCHANGE BANK (DEUTSCHLAND) AG<br>NATIONAL BANK OF PAKISTAN<br>UNICREDIT BANK AG |
| HONG KONG | COMMONWEALTH BANK OF AUSTRALIA<br>HABIB BANK LIMITED<br>HBZ FINANCE LIMITED<br>JPMORGAN CHASE BANK NATIONAL ASSOCIATION<br>KOREA EXCHANGE BANK<br>MASHREQ BANK |

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|---|---|
| | NATIONAL BANK OF PAKISTAN<br>UNION BANK OF INDIA<br>UNION DE BANQUES ARABES ET FRANCAISES |
| INDIA | JPMORGAN CHASE BANK NATIONAL ASSOCIATION<br>MASHREQBANK<br>UNION BANK OF INDIA |
| INDONESIA | JPMORGAN CHASE BANK NATIONAL ASSOCIATION<br>KOREA EXCHANGE BANK DANAMON<br>PT BANK MANDIRI (PERSERO) TBK |
| IRAN | BANK MELLI IRAN<br>BANK MILLAT<br>BANK SADERAT IRAN |
| IRELAND | DANSKE BANK A/S |
| ITALY | BANCA INTESA S.P.A.<br>BANCA POPOLARE DI VICENZA SCPARL<br>BANCA UBAE SPA<br>BANCO POPOLARE DI VERONA<br>UNICREDIT BANK |
| JAPAN | COMMONWEALTH BANK OF AUSTRALIA<br>KOREA EXCHANGE BANK<br>NATIONAL BANK OF PAKISTAN<br>UNION DE BANQUES ARABES ET FRANCAISES |
| KENYA | GULF AFRICAN BANK LIMITED<br>HABIB BANK LIMITED<br>KENYA COMMERCIAL BANK LIMITED |
| KOREA | JPMORGAN CHASE BANK NATIONAL ASSOCIATION<br>KOREA EXCHANGE BANK<br>NATIONAL BANK OF PAKISTAN<br>UNION DE BANQUES ARABES ET FRANCAISES<br>WOORI BANK |
| KUWAIT | COMMERCIAL BANK OF KUWAIT SAK, THE |
| LUXEMBOURG | DANSKE BANK INTERNATIONAL SA |
| MALAYSIA | AFFIN BANK BERHAD<br>BANK MUAMALAT MALAYSIA BERHAD<br>EON BANK BERHAD<br>JPMORGAN CHASE BANK BERHAD |
| MAURITIUS | HABIB BANK LIMITED MAURITIUS |
| NEPAL | HIMALAYAN BANK LIMITED |
| NETHERLANDS | HABIB BANK LIMITED<br>KOREA EXCHANGE BANK |
| NIGERIA | PLATINUMHABIB BANK PLC |
| NORWAY | DANSKE BANK A/S |
| OMAN | HABIB BANK OMAN |

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|---|---|
| PAKISTAN | ALBARAKA BANK (PAKISTAN) LIMITED<br>ALLIED BANK LIMITED<br>ASKARI BANK LIMITED<br>BANK AL HABIB LIMITED<br>BANK ALFALAH LIMITED<br>BANK OF KHYBER (THE)<br>BANK OF PUNJAB (THE)<br>BURJ BANK LIMITED<br>DUBAI ISLAMIC BANK (PAKISTAN) LIMITED<br>FAYSAL BANK LIMITED<br>HABIB BANK LIMITED<br>HABIB METROPOLITAN BANK LIMITED<br>JS BANK LIMITED<br>KASB BANK LIMITED<br>MCB BANK LIMITED<br>MEEZAN BANK LIMITED<br>NATIONAL BANK OF PAKISTAN<br>NIB BANK LIMITED<br>SAMBA BANK LIMITED<br>SILKBANK LIMITED<br>SINDH BANK LIMITED<br>SONERI BANK LIMITED<br>SUMMIT BANK LIMITED<br>UNITED BANK LIMITED |
| PANAMA | KOREA EXCHANGE BANK |
| PHILIPPINE | KOREA EXCHANGE BANK |
| POLAND | DANSKE BANK A/S |
| QATAR | QATAR ISLAMIC BANK<br>UNITED BANK LIMITED |
| ROMANIA | ROMANIAN INTERNATIONAL BANK SA |
| RUSSIA | OPEN JOINT STOCK COMPANY 'RBS' |
| SAUDI ARABIA | ALRAJHI BANKING & INVESTMENT CORPORATION<br>JPMORGAN CHASE BANK NATIONAL ASSOCIATION<br>NATIONAL BANK OF PAKISTAN<br>NATIONAL COMMERCIAL BANK<br>SAUDI HOLLANDI BANK |
| SINGAPORE | COMMONWEALTH BANK OF AUSTRALIA<br>HABIB BANK LIMITED<br>JPMORGAN CHASE BANK NATIONAL ASSOCIATION<br>KOREA EXCHANGE BANK<br>UNION DE BANQUES ARABES ET FRANCAISES<br>WOORI BANK |
| SLOVAKIA | COMMERZBANK AG |
| SOUTH AFRICA | FIRST RAND BANK LIMITED<br>HABIB OVERSEAS BANK LIMITED<br>HBZ BANK LIMITED |
| SPAIN | BANCO ESPANOL DE CREDITO<br>CAJA DE AHORROS DEL MEDITERRANEED |

| | |
|---|---|
| SRI LANKA | HATTON NATIONAL BANK LIMITED |
| SWEDEN | DANSKE BANK A/S<br>SVENSKA HANDELSBANKEN |
| SWITZERLAND | ARAB BANK (SWITZERLAND) LIMITED<br>HABIB BANK AG ZURICH<br>HABIBSONS BANK LIMITED<br>KOREA EXCHANGE BANK (SCHWEIZ) AG<br>UNITED BANK A.G. |
| TAIWAN | JPMORGAN CHASE BANK NATIONAL ASSOCIATION |
| THAILAND | JPMORGAN CHASE BANK NATIONAL ASSOCIATION<br>KOREA EXCHANGE BANK |
| TURKEY | HABIB BANK LIMITED<br>KUVEYT TURK KATILIM BANKASI SA<br>TEKSTIL BANKASI S.A.<br>TURKIYE FINANS KATILIM BANK<br>TURKIYE VAKIFLAR BANKKASI T.A.O. |
| U.K. | BANCA INTESA S.P.A.<br>COMMONWEALTH BANK OF AUSTRALIA<br>DANSKE BANK A/S<br>HABIB – UK PLC<br>HABIB BANK AG ZURICH<br>HABIBSONS BANK LIMITED<br>ISLAMIC BANK OF BRITAIN PLC<br>JPMORGAN CHASE BANK N.A.<br>KOREA EXCHANGE BANK<br>MASHREQ BANK<br>NORTHERN BANK LIMITED<br>UNITED NATIONAL BANK<br>WOORI BANK |
| U.S.A. | ATLANTIC BANK OF NEW YORK<br>COMMONWEALTH BANK OF AUSTRALIA<br>DEUTSCHE BANK TRUST COMPANY AMERICAS<br>HABIB AMERICAN BANK<br>HABIB BANK LIMITED<br>JPMORGAN CHASE BANK NATIONAL ASSOCIATION<br>KEB NY FINANCIAL CORPORATION<br>MASHREQ BANK<br>NATIONAL BANK OF PAKISTAN<br>SAEHAN BANK, LOS ANGELES<br>UNITED BANK LIMITED |
| UAE | ABU DHABI COMMERCIAL BANK<br>ABU DHABI ISLAMIC BANK<br>DUBAI BANK PJSC<br>HABIB BANK AG ZURICH<br>HABIB BANK LIMITED<br>KUWAIT TURKISH PARTICIPATION BANK DUBAI LTD.<br>MASHREQ BANK |
| UKRAINE | CREDIT DNEPR BANK<br>DEMARK BANK JS |
| VIETNAM | ASIA COMMERCIAL BANK<br>JPMORGAN CHASE BANK NATIONAL ASSOCIATION<br>KOREA EXCHANGE BANK, HANOI BRANCH<br>VIETNAM ASIA COMMERCIAL JOINT-STOCK BANK<br>VINASIAM BANK |
| YEMEN | SABA ISLAMIC BANK |

# BRANCH NETWORK*

## SINDH

**Main Branch Clifton (Karachi)**
11th Floor, Executive Tower, Dolmen City,
Marine Drive, Block-4, Clifton, Karachi
Tel: (021) 35839906
Fax: (021) 35378373

**26th Street D.H.A. Branch (Karachi)**
31-C, Badar Commercial Street No.1, 26th Street,
Phase V, D.H.A. Karachi
Tel: (021) 35349244-5
Fax: (021) 35349243

**Al Hilal Society Branch (Karachi)**
Shop No.1 Ground Floor, Jawwad Court, Plot
No. SC-11, KDA Scheme No. 7, Main University Road,
Chandni Chowk, Karachi
Tel: (021) 34860713-16, 34860728
Fax: (021) 34860704

**Baloch Colony Branch (Karachi)**
Plot No, SA-2/1 Block-3 Administrative Society, Karachi
Tel: (021) 34300036-42
Fax: (021) 34300043

**Baqai Medical University Branch (Karachi)**
51-DHTOR, Baqai Medical Centre,
Super Highway, near Toll Plaza, Karachi
Tel: (021) 34410220-34410201
Fax: (021) 34410219

**Burns Road Branch (Karachi)**
Land Survey Sheet No. AM 51, Artillery Maidan Quarters,
Burns Road, Karachi
Tel: (021) 32215505, 32215527, 32215689, 32215542
Fax : (021) 32215480

**Cloth Market Branch (Karachi)**
Shop-05, Cochinwala Market,
Laxmidas Street, Karachi
Tel: (021) 32469031-35
Fax: (021) 32469030

**D.H.A. Phase IV Branch (Karachi)**
Plot No.36-C, Sunset Commercial Street No.2,
D.H.A. Phase IV, Karachi
Tel: (021) 35313191-7
Fax: (021) 35313190

**Dhoraji Branch (Karachi)**
Al-Madina Heights, Plot Survey No. 35-C/449 CP Berar
Cooperative Housing Society, Dhoraji, Karachi
Tel: (021) 34860407-10, 34860566-68
Fax: (021) 34860569

**F.B. Area Branch (Karachi)**
Plot No. C-6, Block 4, F.B. Area,
KDA Scheme No. 16, Karachi
Tel: (021) 36362278, 36807782
Fax: (021) 36364659

**Gulshan-e-Maymar Branch (Karachi)**
Areeba Heaven, SB-3, Sector X-II, Karachi
Tel: (021) 36833354-5
Fax: (021) 36833445

**Jodia Bazar Branch (Karachi)**
Ibrahim Manzil, Darya Lal Street,
Jodia Bazar, Karachi
Tel: (021) 32462487-9, 32462831-4
Fax: (021) 32416368

**Karachi Stock Exchange Branch (Karachi)**
Room No. 520, 5th Floor, K.S.E. Building, Karachi
Tel: (021) 32462861-67
Fax: (021) 32462490

**Korangi Branch (Karachi)**
Plot No. 51/9-B, Sector 15,
Korangi Industrial Area, Karachi
Tel: (021) 35114488-91
Fax: (021) 35114494

**Malir Cantt Branch (Karachi)**
Plot No. 35, Block-5, Cantt Bazar,
Malir Cantt, Karachi
Tel: ( 021) 34491481-82
Fax: (021) 34491483

**Nazimabad No. 7 Branch (Karachi)**
Plot No.4, Row No I, Sub Block-B, Block-III,
Nazimabad No. 7, Karachi
Tel: (021) 36707492-96
Fax: (021) 36707497

**North Nazimabad Block A Branch (Karachi)**
Shop No. 3A, 3B, 3C, 2B Unique Centre,
Block A, North Nazimabad, Karachi
Tel: (021) 36722504-6
Fax: (021) 36722507

**North Nazimabad Branch (Karachi)**
D-5, Block-L,
North Nazimabad, Karachi
Tel: (021) 36676474-75
Fax: (021) 36676488

**Orangi Town Branch (Karachi)**
Plot No. LS 55 & 56, ST 11-A, Sector 1,
Block D, Orangi Town, Karachi
Tel: (021)-36664031-34, 36692257-59
Fax: (021) 36662257

**Power House Branch (Karachi)**
ST-3 AS-28 Commercial Area, Sector 5-H,
Power House, New Karachi
Tel: (021) 36901356-9, 36901362
Fax: (021) 36901364

**Rashid Minhas Road Branch (Karachi)**
Plot No. FL-3/13 & 14, Block-5,
Gulshan-e-Iqbal, Karachi
Tel: (021) 34818227-9
Fax: (021) 34818135

**S.I.T.E. Branch (Karachi)**
Shop Nos. 8 & 9, Anum Trade Center,
E-31-B, Ghani Chowrangi, S.I.T.E., Karachi
Tel: (021) 32587661-2, 32587665
Fax: (021) 32587510

**Shadman Town Branch (Karachi)**
Shop No. 1-5, KDA Flats, Phase 3,
Sector 14/B, Shadman Town No.1,
North Nazimabad, Karachi
Tel: (021) 36950027-33
Fax: (021) 36950034

**Shah Faisal Colony Branch (Karachi)**
Shop No. 1 & 2, Plot No A/6, Shop No. 1 & 2,
Plot No. A/7 Survey No. 135, Deh Drigh Colony,
Shah Faisal Colony, Karachi
Tel: (021) 34686121-25
Fax: (021) 34686126

**Shaheed-e-Millat Branch (Karachi)**
Shop No. 15 & 16, Adam Arcade, B.M.C.H.S.,
Shaheed-e-Millat Road, Karachi
Tel: (021) 34145305-8
Fax: (021) 34145311

**Shahra-e-Faisal Branch (Karachi)**
Shop No. 1, Faisal Tower, Plot No. 25/3,
Survey Sheet No. 35/1, Block 7 & 8,
Maqbool C.H.S. Ltd., Karachi
Tel: (021) 34555985-87
Fax: (021) 34555991

**University Road Branch (Karachi)**
Adjacent to Dolphin Bakery, Saleem Plaza,
Block 16, Gulshan-e-Iqbal,
Karachi
Tel: (021) 34801540, 34839031-34
Fax: (021) 34801541

**UP More Branch (Karachi)**
LS-7, Street No. 8, Sub Sector 11-I,
North Karachi Township, Karachi
Tel: (021) 36950158-59-61-66
Fax: (021) 36950167

**Gulistan-e-Jauhar Branch (Karachi)**
Shop No. W-12, Eastern Pride, Block 15,
KDA Scheme 36, Gulistan-e-Johar,
Karachi
Tel: (021) 34619514-18, 34619563, 34619573-4
Fax: (021) 34619583

**Saddar Branch (Karachi)**
Habib Shopping Mall, Bohri Bazaar,
Raja Ghazanfar Ali Road, Karachi
Tel: (021) 35219891-94
Fax: (021) 35219895

**Heerabad Branch (Hyderabad)**
A/113-261, Jail Road, Heerabad,
Hyderabad
Tel: (022) 2636768-70, 2636862 -3
Fax: (022) 2636864

**Auto Bahan Branch (Hyderabad)**
Plot No. C-10-8, C-10- 3,
Block C, Auto Bhan Road, Hyderabad
Tel: (022) 3820301-7
Fax: (022) 3820308

**Mirpurkhas Branch**
New Town Station Road, Mirpur Khas
Tel: (0233) 874287
Fax: (0233) 875802

**Sukkur Branch**
Umar Welding Store City, Survey No. 3/21,
Station Road, Sukkur
Tel: (071) 5617322-8
Fax: (071) 5617329

**Tando Allah Yar Branch**
Mir Pur Khas Road,
Tando Allahyar
Tel: (022) 3891559, 3891661
Fax: (022) 3892243

**Nawabshah Branch**
City Survey No. 225
Ward A Masjid Road, Nawabshah
Tel: (0244) 330920-4, 330926-7
Fax: (0244) 330928

**Larkana Branch**
City Survey No.1806
Word-A Bank Square Road, Larkana
Tel: (074) 4059833-6, 4059884-6
Fax: (074) 4059887

## BALOCHISTAN

**Jinnah Road Branch (Quetta)**
Jinnah Road, Quetta
Tel: (081) 2821743-2821758
Fax: (081) 2821650

**Iqbal Road Branch (Quetta)**
Shop No. 605, Khewat No. 200,
Khatooni No. 234, Ward No. 18, Urban No. 1,
Sharah-e-Iqbal, Quetta
Tel: (081) 2866510-13-36
Fax: (081) 2829739

**Airport Road Branch (Quetta)**
Alam Khan Chowk, Airport Road, Quetta
Tel: (081) 2864627-29, 2840114, 2840121
Fax: (081) 2840135

**Kuchlak Branch (Quetta)**
Chaman Road, Quetta
Tel: (081) 2891591-2
Fax: (081) 2891580

**Muslimbagh Branch**
Muslimbagh, Balochistan
Tel: (0823) 669823-29
Fax: (0823) 669830

**Qila Saifullah Branch**
Main Junction Road, Qila Saifullah
Tel: (0823) 610895-899, 610804-806
Fax: (0823) 610806

**Chaman Branch**
Trench Road, Chaman
Tel: (0826) 618032-37
Fax: (0826) 618039

**Pishin Branch**
Bund Road, Opp Madina Hardware,
Pishin
Tel: (0826) 421381 421384
Fax: (0826) 421387

**Loralai Branch**
Bhagi Bazar, Loralai
Tel: (0824) 661696-700
Fax: (0824) 661701

**Zhob Branch**
Market Road, Zhob
Tel: (0822) 412130-31, 412047-49
Fax: (0822) 412136

**Dukki Branch**
Masjid Road, Dukki
Tel: (0824) 667301-303
Fax: (0824) 667306

## PUNJAB

**Jail Road Branch (Lahore)**
Plot No. 5-A, House No.5, Main Gulberg Road,
Near EFU Building, Jail Road,
Lahore
Tel: (042) 35790571
Fax: (042) 35790573

**Akbar Chowk Branch (Lahore)**
883-D, Peco Road, Faisal Town,
Akbar Chowk, Lahore
Tel: (042) 35221731-7
Fax: (042) 35221738

**Circular Road Branch (Lahore)**
Circular Road, Near Mochi Gate, Lahore
Tel: (042) 37374009-15
Fax: (042) 37374016

**Azam Cloth Market Branch (Lahore)**
F-1207 Azam Cloth Market, Lahore
Tel: (042) 37670188, 37658602, 37670256
Fax: (042) 37658232

**Badami Bagh Branch (Lahore)**
23-Peco Road, Badami Bagh, Lahore
Tel: (042) 37723865-68, 37723881
Fax: (042) 37723882

**Darogha wala gate Branch (Lahore)**
326 G.T.Road (Link Shalimar Road),
Lahore
Tel: (042) 36530512-16
Fax: (042) 36530517

**D.H.A. Y Block Branch (Lahore)**
153, Y Block, D.H.A., Lahore
Tel: (042) 35733841-44, 35734709-11
Fax: (042) 35734713

**Ferozepur Road Branch (Lahore)**
Plot No. 174, Feroz Pur Road, Lahore
Tel: (042) 37524321-24-25-27
Fax: (042) 37524331

**G-Block, D.H.A. Branch (Lahore)**
47-G, Commercial Area, Phase I, Block-G,
Stadium Road, D.H.A., Lahore
Tel: (042) 35691066-72
Fax: (042) 35691073

**Thokar Niaz Baig Branch (Lahore)**
3/D- Nawab Town, Raiwind Road,
Thokar Niaz Baig, Lahore
Tel: (042) 35315636-40
Fax: (042) 35315641

**Johar Town Branch (Lahore)**
M-Block, Johar Town, Lahore
Tel: (042) 35315710
Fax: (042) 35315711

**Airport Road Branch (Lahore)**
Plot No. 595/8, Airport Road, Main Defence Road,
Lahore Cantt (Adjacent to Phase VIII), Lahore
Tel: (042) 35741536-8
Fax: (042) 35741540

**Walton Road Branch (Lahore)**
Plot 48-E, Super Town,
Walton Road, Cantt., Lahore
Tel: (042) 36603701
Fax: (042) 36603702

**Gujranwala Branch**
Gujranwala BX-11-75-7S-10-12,
GT Road, Gujranwala
Tel: (055) 3820511-16
Fax: (055) 3820517

**Jhang Branch**
95-A College Chowk, Jhang
Tel: (047) 7651401-05
Fax: (047) 7651406

**Abdali Road Branch (Multan)**
Abdali Road, Chowk Nawan Sher,
Multan
Tel: (061) 4500356-59
Fax: (061) 4500360

**Gulgusht Branch (Multan)**
Jalal Masjid Chowk, Multan
Tel: (061) 6210371- 5
Fax: (061) 6210376

**Vehari Road Branch (Multan)**
Vehari Road, Multan
Tel: (061) 6761900-6
Fax: (061) 6761907

**SIE 1 Branch (Gujrat)**
Danish Metal Work, SIE-1, Gujrat
Tel: (053) 3538010 -15
Fax: (053) 3538016

**D.G. Khan Branch**
Jampur Road, Near District Hospital, D.G. Khan
Tel: (064) 2473201-7
Fax: (064) 2473208

**Kotwali Road Branch (Faisalabad)**
P-16, Kotwali Road, Faisalabad
Tel: (041) 2412123-29
Fax: (041) 2412130

**Susan Road Branch (Faisalabad)**
Plot No. S-8, Madina Town,
Main Susan Road, Faisalabad
Tel: (041) 8728626-8, 8728631
Fax: (041) 8728671 / 8728708

**Mian Channu Branch**
Ghazi Mor, G.T Road, Mian Chunnu
Tel: (065) 2664001-7
Fax: (065) 2664008

**Rahimyar khan Branch**
21-A, Model Town, Rahim Yar Khan
Tel: (068) 5886971-77
Fax: (068) 5886978

**Sadiqabad Branch**
Allama Iqbal Road, Opp. Ghalla Mandi,
Sadiqabad
Tel: (068) 5700594-7, 5800591
Fax: (068) 5800598

**Sargodha Branch**
65/2, Railway Road, Sargodha
Tel: (048) 3768264-68
Fax: (048) 3768269

**Bhawalpur Branch**
Block No. 915, Circular Road,
Bahawalpur
Tel: (062) 2732235-38
Fax: (062) 2732239 / 2732240

**Okara Branch**
69/1, M.A.Jinnah Road, Okara
Tel: (044) 2522901-6
Fax: (044) 2552907

**Kashmir Road Branch (Sialkot)**
B-III-116/99/2, Kashmir Road, Sialkot
Tel: (052) 4270419-20, 4270429-30, 4270439-40
Fax: (052) 4270426

**Mainwali Branch**
Mouza urra khel Pacca,
Main Sargodha Road, Mianwali
Tel: (0459) 237531
Fax: (0459) 237532

**Sahiwal Branch**
418, High Street, Sahiwal
Tel: (040) 4228284-88, 4467688
Fax: (040) 4462688

**Chaklala Scheme No. 3 (Rawalpindi)**
Plot No.11, Commercial Bazar,
Chaklala Scheme III, Rawalpindi
Tel: (051) 5766140-43
Fax: (051) 5766144

**Satellite Town Branch (Rawalpindi)**
69/B, 4th Road, Commercial Market,
Satellite Town, Rawalpindi
Tel: (051) 4572001-4
Fax: (051) 4572005

**Saddar Branch (Rawalpindi)**
60-Bank Road, RWP Cantt, Rawalpindi
Tel: (051) 5120381-4
Fax: (051) 5120385

**Jehlum Branch**
Tehsil Road, Near Shandar Chowk, Jehlum
Tel: (0544) 620503-4-8
Fax: (0544) 620498

**Hazro Branch**
Circular Road, Hazro
Tel: (057) 2310048-51
Fax: (057) 2310019

**Taxila Branch**
Faisal Shaheed Road, Taxila
Tel: (051) 4535055- 8
Fax: (051) 4534985 / 4535047

**Turnol Branch**
Muhammad Ayub Plaza, Main G.T Road,
Islamabad
Tel: (051) 2217022
Fax: (051) 2217021

**Wah Cantt. Branch**
A-12, Shahwali Colony, Mall Road, Wah Cantt
Tel: (051) 4539046-7
Fax: (051) 4539044

**Chakwal Branch**
Khasra No. 4516, Jhelum Road, Chakwal
Tel: (0543) 552739, 44,45,56
Fax: (0543) 552742 / 552760

## KHYBER PAKHTUNKHWA

**Khyber Bazar Branch (Peshawar)**
Shop No.6 & 7, Ground Floor, Survey No. 412/B(1)
Haji Khan Building, Opposite U Plaza
Situated at Khyber Bazar, Peshawar
Tel: (091) 2590341-6
Fax: (091) 2590347-8

**Jamrud Road Branch (Peshawar)**
Near Hotel Grand, Jamrud Road, Peshawar
Tel: (091) 5711482-4
Fax: (091) 5711489

**Haripur Branch**
Circular Road, Haripur
Tel: (0995) 613570-3
Fax: (0995) 613574

**Mansehra Branch**
Swati Arcade, Abbottabad Road,
Tehsil & District Mansehra
Tel: (0997) 307761- 4
Fax: (0997) 303479

**Dera Ismail Khan Branch**
West Circular Road, Near Taank Adda,
Dera Ismail Khan
Tel: (0966) 715018-20
Fax: (0966) 715021

**Abottabad Branch**
Abbottabad Business Complex (ABC Plaza),
Aamir Shaheed Road, Supply Bazar, Abottabad
Tel: (0992) 343959-63
Fax: (0992) 343957, 343964

**Chitral Branch**
Attalique Bazar, Chitral
Tel: (0943) 414501,414530,414550
Fax: (0943) 414591

**Gilgit Branch**
Askari Bakers, Gilgit Cantt
Tel: (05811) 457832-6
Fax: (05811) 457837

## ISLAMABAD & AZAD KASHMIR

**Blue Area Branch (Islamabad)**
5-6, Chenab Center, Block-104-E,F-7/G-7,
Jinnah Avenue, Islamabad
Tel: (051) 2804271-74
Fax: (051) 2804275

**I-9 Branch (Islamabad)**
Plot No-2 E, I-9 Markaz, Islamabad.
Tel: (051) 4858403-08
Fax: (051) 4445852

**I-8 Branch (Islamabad)**
Executive Centre, I-8 Markaz, Islamabad
Tel: (051) 4861017, 4861029, 4861117
Fax: (051) 4861118

**F-10 Markaz Branch (Islamabad)**
Plot No.6-C, Insaf Plaza, F-10 Markaz, Islamabad
Tel: (051) 2222961-64
Fax: (051) 2222965-6

**Mirpur Branch**
Plot No. 2- B/3, Sub Sector A/2,
Mian Muhammad Road, Mirpur, AJK
Tel: (05827) 439700-04
Fax: (05827) 439705

**Islamgarh Branch**
Ground Floor, Main Kotli Road,
Islam Garh Tehsil, District Mirpur, AJK
Tel: (05827) 423971-74
Fax: (05827) 423970

# PROXY FORM

## 8th Annual General Meeting

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

I/We ______________________________ of ____________ being a member(s) of

BankIslami Pakistan Limited and holder of ______________________ ordinary shares as per

Share Register Folio No. __________________________________ and / or CDC Investor

Account No./Participant I.D. No. ____________ and sub Account No. ______________ do

hereby appoint ________________________ of ________________________

or failing him / her __________________ of ________________ as my/our proxy to vote

and act for me / us on my / our behalf at the 8th Annual General Meeting of BankIslami Pakistan Limited, to be held on Friday, March 30, 2012 at 12:00 noon at Hotel Regent Plaza, Shahra-e-Faisal, Karachi, and at any adjournment thereof.

Signed this ____________ day of _________ 2012.

Witness:

Name: ______________

Address: ______________

Signature of Member(s)

CNIC or Passport No. ______________

Notes:

1. Proxies in order to be effective, must be received by the company not less than 48 hours before the meeting.

2. CDC Shareholders and their Proxies are each requested to attach an attested photocopy of their Computerized National Identity Card or Passport with this proxy form before submission to the Company.

Please affix
correct
postage

The Company Secretary

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

## Our Value Added Services

**24 Hours Call Centre:** Just call us at 111-ISLAMI (111-475264) any time of the week

**Online Banking:** Access your funds from our online network of 102 branches in 49 cities

**VISA Debit Card:** Access to over 1 million ATMs and 10 million merchant outlets globally

**FREE Internet Banking:** Access your account information and transaction history at home or office 24 hours a day, 7 days a week

**eStatement:** Enjoy daily, weekly, monthly or yearly statement of your account whenever and wherever required

**Safe Deposit Lockers:** Enjoy safety of your valuables in strong heat resistant steel lockers with 24 hours security

**Interbank Funds Transfer:** Enjoy Branchless, Cashless & Chequeless transfer of funds to your friends, relatives & business associates via ATM

## Our Products

- Islami Auto Ijarah
- Islami Current Account
- Islami Sahulat Account
- Islami Mahana Munafa Account
- Islami Amadni Certificate
- Ijarah
- Salam Financing
- Musharakah Financing
- MUSKUN - Home Financing
- Islami Bachat Account
- Islami Dollar Bachat Account
- Murabahah Financing
- Islami Export Re-finance Scheme
- Istisna Financing
- Diminishing Musharakah Financing

**BankIslami Pakistan Limited**

11th Floor, Executive Tower, Dolmen City, Marine Drive, Clifton Block-4, Karachi-Pakistan.
Tel: (92-21) 111-247-111 (111-BIP-111) Fax: (92-21) 35378373
www.bankislami.com.pk