

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed statement of financial position of AlBaraka Bank (Pakistan) Limited (the Bank) as at 31 December 2013, 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 unaudited certified returns from the branches except for nine 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 Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with 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 case of loans and advances covered more than sixty percent of the total loans and advances of the Bank, we report that:

- (a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - (i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in note 5.1 to the financial statements, with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;

hmv

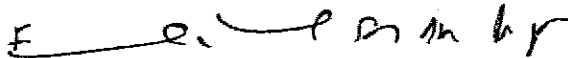


Building a better
working world

-:2:-

- (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 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 31 December 2013 and its true balance of the loss, comprehensive loss, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

We draw attention to note 1.2 to the financial statements. As more fully explained in the said note, the banks are required by the State Bank of Pakistan (SBP) to have a minimum paid up capital (net of losses) of Rs 10 billion as of 31 December 2013, whereas the the Bank's paid up capital (net of losses) amounts to Rs. 5,830.76 million. In this regard, the SBP has allowed the Bank to meet the capital requirement in a phased manner as per the recapitalization plan of the Bank subject to certain conditions as stated in the said note. Our opinion is not qualified in respect of this matter.



Chartered Accountants

Audit Engagement Partner: Arslan Khalid

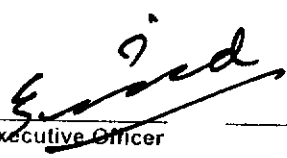
Date: 05 March 2014

Karachi

ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	2013	2012	2011	
Note	(Rupees '000)			
5.1	Restated	Restated	Restated	
ASSETS				
Cash and balances with treasury banks	6	5,727,407	4,221,381	3,945,481
Balances with other banks	7	16,565,377	6,712,477	7,577,186
Due from financial institutions		-	1,100,000	-
Investments	8	22,161,963	27,421,461	26,179,416
Islamic financing and related assets	9	37,020,644	28,782,448	29,155,476
Operating fixed assets	10	2,725,753	2,629,176	2,798,165
Deferred tax assets	11	1,431,064	1,292,139	1,030,852
Other assets	12	2,127,196	1,707,476	1,858,488
		87,759,404	73,866,558	72,545,064
LIABILITIES				
Bills payable	13	725,609	746,651	451,030
Due to financial institutions	14	2,201,945	1,991,738	1,736,120
Deposits and other accounts	15	75,647,097	63,278,655	61,559,026
Sub-ordinated loans	16	1,158,571	-	-
Liabilities against assets subject to finance lease		-	-	5,123
Deferred tax liabilities		-	-	-
Other liabilities	17	2,177,989	1,830,054	2,269,097
		81,911,211	67,847,098	66,020,396
NET ASSETS		5,848,193	6,019,460	6,524,668
REPRESENTED BY				
Share capital	18	8,935,200	8,935,200	8,935,200
Discount on issuance of shares		(767,290)	(767,290)	(767,290)
Reserves		82,074	82,074	82,074
Accumulated loss		(2,419,224)	(2,368,938)	(1,723,543)
		5,830,760	5,881,046	6,526,441
Surplus / (Deficit) on revaluation of assets - net of tax	19	17,433	138,414	(1,773)
		5,848,193	6,019,460	6,524,668
CONTINGENCIES AND COMMITMENTS	20			

The annexed notes from 1 to 47 form an integral part of these financial statements.


 Chief Executive Officer


 Director


 Director


 Director

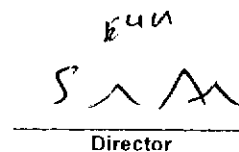
ALBARAKA BANK (PAKISTAN) LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2013

		2013		2012
	Note	------(Rupees '000)-----		Restated
	5.1			
Profit / return earned on islamic financing and related assets, investments and placements	21	6,131,232		6,271,140
Return on deposits and other dues expensed	22	<u>4,340,094</u>		<u>4,725,249</u>
Net spread earned		1,791,138		1,545,891
Provision against non-performing islamic financing and related assets - net	9.6	<u>67,143</u>		<u>749,888</u>
Provision for diminution in the value of investments	8.3.1	<u>103,990</u>		<u>52,603</u>
Bad debts written off directly		-		-
Net spread after provisions		1,711,133		802,491
		<u>1,620,005</u>		<u>743,400</u>
Other income				
Fee, commission and brokerage income		<u>280,884</u>		<u>243,006</u>
Dividend income		-		-
Income from dealing in foreign currencies		-		-
Gain / (loss) on sale of securities - net	23	<u>218,867</u>		<u>154,520</u>
Unrealized gain / (loss) on revaluation of investments classified as held for trading		<u>64,903</u>		<u>(5,406)</u>
Other income	24	<u>28,876</u>		<u>14,031</u>
Total other income		593,530		406,151
		<u>2,213,535</u>		<u>1,149,551</u>
Other expenses				
Administrative expenses	25	<u>2,118,613</u>		<u>1,994,544</u>
Other provisions / write offs	25.3	<u>109,828</u>		<u>111,360</u>
Other charges	26	<u>18,696</u>		<u>60</u>
Total other expenses		2,247,137		2,105,964
		<u>(33,602)</u>		<u>(956,413)</u>
Extra ordinary / unusual items		-		-
LOSS BEFORE TAXATION		(33,602)		(956,413)
Taxation - Current		<u>(67,248)</u>		<u>(33,388)</u>
- Prior years		-		-
- Deferred		<u>59,619</u>		<u>344,861</u>
	27	<u>(7,629)</u>		<u>311,473</u>
LOSS AFTER TAXATION		(41,231)		(644,940)
Basis / diluted loss per share (Rupee)	28	<u>(0.05)</u>		<u>(0.72)</u>

The annexed notes from 1 to 47 form an integral part of these financial statements.


 Chief Executive Officer


 Director


 Director


 Director

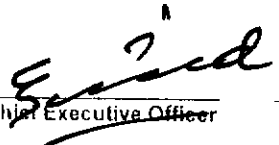

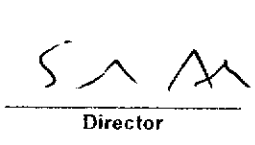
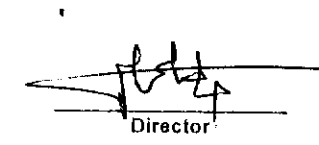
ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 ------(Rupees '000)-----	2012 Restated
Loss for the year - after taxation		(41,231)	(644,940)
Other comprehensive income / (loss)			
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement of defined benefit plan	31.11	(13,930)	(699)
Income tax effect		4,875	245
		(9,055)	(454)
Total comprehensive loss for the year		(50,286)	(645,394)

As per the requirement of the State Bank of Pakistan, surplus / deficit on revaluation of available-for-sale securities is required to be taken to a separate account 'Surplus / deficit on revaluation of assets' shown in the statement of financial position below equity. Accordingly, it has not been recognized as other comprehensive income / expense.

The annexed notes from 1 to 47 form an integral part of these financial statements.

ECM

 _____ Chief Executive Officer	 _____ Director	 _____ Director	 _____ Director
---	--	---	--

ALBARAKA BANK (PAKISTAN) LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

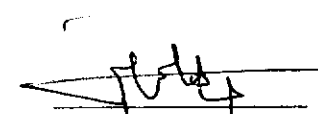
	Note	2013 ------(Rupees '000)-----	2012 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(33,602)	(956,413)
Adjustments for non-cash and other items:			
Depreciation		111,907	104,529
Depreciation on ijarah assets held under IFAS 2		865,104	894,978
Amortisation		89,297	85,316
Leasehold renovation written-off		9,101	-
Provision against non-performing islamic financing and related assets-net		67,143	749,888
Provision for diminution in the value of investments		103,990	52,603
(Reversal of provision) / provision against other assets		(25,113)	48,441
Gain on sale of operating fixed assets		(9,449)	(8,542)
		1,211,980	1,927,213
		1,178,378	970,800
(Increase) / decrease in operating assets			
Due from financial institutions		1,100,000	(1,100,000)
Islamic financing and related assets-net		(9,170,443)	(1,271,839)
Others assets		(414,105)	146,508
		(8,484,548)	(2,225,331)
Increase / (decrease) in operating liabilities			
Bills payable		(21,042)	295,621
Due to financial institutions		210,207	255,618
Deposits and other accounts		12,368,442	1,719,629
Other liabilities		347,935	(439,043)
		12,905,542	1,831,825
Income tax paid		(61,680)	(78,024)
Net cash inflow from operating activities		5,537,692	499,270
CASH FLOWS FROM INVESTING ACTIVITIES			
Net disposals / (additions) to investments		4,960,096	(1,070,643)
Net investments in operating fixed assets		(304,024)	(23,761)
Received on disposal of operating fixed assets		6,591	11,448
Net cash inflow / (outflow) from investing activities		4,662,663	(1,082,956)
CASH FLOWS FROM FINANCING ACTIVITIES			
Sub-ordinated loans		1,158,571	-
Payment of lease obligation		-	(5,123)
Net cash inflow / (outflow) from financing activities		1,158,571	(5,123)
Net increase / (decrease) in cash and cash equivalents		11,358,926	(588,809)
Cash and cash equivalents at beginning of the year		10,933,858	11,522,667
Cash and cash equivalents at end of the year	29	22,292,784	10,933,858

The annexed notes from 1 to 47 form an integral part of these financial statements.


 Chief Executive Officer


 Director


 Director


 Director


ALBARAKA BANK (PAKISTAN) LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Issued, subscribed and paid-up share capital	Discount on issuance of shares	Statutory Reserve *	Accumulated loss	Total
	(Rupees in '000)				
Balance as at 01 January 2012	8,935,200	(767,290)	82,074	(1,723,728)	6,526,256
Effect of retrospective change in accounting policy for actuarial gains and losses on defined benefit plan as referred in note 5.1 - net of tax	-	-	-	184	184
Balance as at 01 January 2012 - Restated	8,935,200	(767,290)	82,074	(1,723,544)	6,526,440
Loss for the year - Restated	-	-	-	(644,940)	(644,940)
Other comprehensive loss - Restated	-	-	-	(454)	(454)
	-	-	-	(645,394)	(645,394)
Balance as at 31 December 2012 - Restated	8,935,200	(767,290)	82,074	(2,368,938)	5,881,046
Loss for the year	-	-	-	(41,231)	(41,231)
Other comprehensive loss	-	-	-	(9,055)	(9,055)
Total comprehensive loss for the year	-	-	-	(50,286)	(50,286)
Balance as at 31 December 2013	8,935,200	(767,290)	82,074	(2,419,224)	5,830,760

* This represents reserve created under section 21(1)(a) of the Banking Companies Ordinance, 1962.

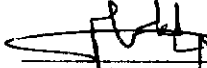
The annexed notes from 1 to 47 form an integral part of these financial statements.

EYU


 Chief Executive Officer

Director


 Director


 Director

ALBARAKA BANK (PAKISTAN) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 AlBaraka Bank (Pakistan) Limited (the Bank) was incorporated in Pakistan on 20 December 2004 as a public limited company under the Companies Ordinance, 1984.

The main objective of the Bank is to carry on Islamic banking business in Pakistan in accordance and in conformity with Shariah. The Bank was granted an Islamic Banking License BL(i)-01(07), issued by the Banking Policy and Regulations Department of the State Bank of Pakistan (SBP) vide its letter no. BPRD (LCGD-02)/625-76/D/2007/521 dated 18 January 2007 under section 27 of the Banking Companies Ordinance, 1962 read with Islamic Banking Department circular no. 2 of 2004. Subsequently, the Bank was also granted approval for commencement of business as a scheduled bank with effect from 13 February 2007 by the SBP vide its letter no. BPRD (LCGD-02)/625-76/X/JD/2007/1269 dated 12 February 2007. Upon merger of the Pakistan branches of AlBaraka Islamic Bank B.S.C. (c) with and into the Bank, fresh license no. BL(i)-01(2011) was issued by SBP vide its letter no. BPRD (R&P-01)/2011-3087 dated 12 March 2011, effective from close of business on 29 October 2010.

The Bank is a subsidiary of AlBaraka Islamic Bank B.S.C. (c) (AlBaraka) incorporated and domiciled in Bahrain (the parent bank) and a member of AlBaraka Banking Group.

The Bank's registered office is located at 162, Bangalore Town, Main Sharah-e-Faisal, Karachi. The Bank operates 110 branches including 2 sub-branches (2012: 94 branches including 2 sub-branches) in Pakistan.

Based on the financial statements of the Bank for the year ended 31 December 2012, Pakistan Credit Rating Agency Limited (PACRA) has determined the Bank's long-term rating at "A" and short term rating as 'A1'. JCR-VIS, has also determined long-term and short-term ratings of "A" and 'A1' respectively with a stable outlook.

- 1.2 As per the requirements of SBP, the banks/DFIs are required to have a minimum paid up capital (net of losses) of Rs 10 billion as of 31 December 2013. Further the banks / DFIs are also required to maintain a capital adequacy ratio of 10% at all times.

In order to meet the regulatory capital requirements, the Bank has prepared a capitalization plan which was submitted to SBP. The SBP vide its letter no. BPRD/BA&CP/608/019652/2013 dated 28 December 2013 has allowed the Bank to proceed with the plan as follows:

- i) The Bank is required to maintain a minimum paid up capital (net of losses) (MCR) of at least Rs. 6 billion at all times and will have to meet the full MCR of Rs 10 billion by 31 December 2016.
- ii) As a short term arrangement, the Bank has been allowed to raise a foreign currency sub-ordinated debt of Rs. 1,158.571 million (USD 11 million) from its sponsor (AlBaraka). The said sub-ordinated debt has been deposited as non-remunerative deposit with SBP.
- iii) The above foreign currency deposit with the SBP shall be increased to Rs. 2.1 billion by 31 December 2014 and Rs. 2.8 billion by 31 December 2015.
- iv) The foreign currency sub-ordinated debt will not be withdrawn unless the Bank achieves full compliance with MCR. However any withdrawal will be subject to prior approval of the SBP. In the event the Bank is not MCR compliant by 31 December 2016, the sub-ordinated debt will be converted into the paid up capital of the Bank.
- v) For regulatory purposes, the foreign currency sub-ordinated debt is allowed to be included in the Bank's capital and the Bank will be required to maintain a capital adequacy ratio (CAR) of at least 16% which may be reduced depending on the level of increase in the MCR.

As of 31 December 2013, the Bank's paid up capital (net of losses) amounts to Rs. 5,830.76 and the CAR stands at 11.97%.

2. BASIS OF PRESENTATION

These financial statements have been prepared in conformity with the format of financial statements prescribed by the SBP vide BSD Circular No. 04 dated 17 February 2006.

The Bank provides Islamic financing mainly through Shariah compliant financial products. Except for Murabaha transactions (which are accounted for under the Islamic Financial Accounting Standard - 1), 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 rental / profit thereon. Income, if any received, which does not comply with the principles of Shariah is recognised as charity payable.

kan

3. STATEMENT OF COMPLIANCE

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

The SBP vide BSD Circular No. 10 dated 26 August 2002 has deferred the applicability of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" (IAS 39) and International Accounting Standard 40, "Investment Property" (IAS 40) for banking companies till further instructions. Further, according to the notification of SECP dated 28 April 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements of various circulars issued by the SBP.

4. BASIS OF MEASUREMENT

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below:

New and amended standards

The Bank has adopted the following revised standard, amendments and interpretation of IFRSs which became effective during the year:

IAS 1 - Presentation of Financial Statements – Presentation of items of other comprehensive income (Amendment)
 IAS 19 - Employee Benefits – (Revised)
 IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine

Improvements to Accounting Standards Issued by the IASB

IAS 1 – Presentation of Financial Statements - Clarification of the requirements for comparative information
 IAS 16 –Property, Plant and Equipment – Clarification of Servicing Equipment
 IAS 32 – Financial Instruments: Presentation – Tax Effects of Distribution to Holders of Equity Instruments
 IAS 34 – Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities

The adoption of the above revision and amendments of the standards did not have any effect on these financial statements except for as described in note 5.1 below:

5.1 Change in accounting policy

During the year, the Bank has adopted Revised IAS 19 - 'Employee Benefits'. As per revised standard, actuarial gains and losses for defined benefit plans are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognized in other comprehensive income with no subsequent recycling to profit and loss.

The adoption of above revised standard has resulted in change in accounting policy of the Bank related to recognition of actuarial gains and losses to recognise actuarial gains and losses in total in other comprehensive income in the period in which they occur. Previously, actuarial gains or losses in excess of 10% of the actuarial liability or plan assets were recognised in profit and loss account over the expected average working life of the employees. The impact of the said changes on these financial statements is as under:

See

ALBARAKA BANK (PAKISTAN) LIMITED

	2013	2012	2011
	------(Rupees in '000)-----		
Impact on statement of financial position			
Increase / (Decrease) in other assets	(20,309)	(3,834)	283
(Decrease) / Increase in deferred tax assets	7,108	1,342	(99)
Decrease / (Increase) in accumulated losses - net of tax	(13,201)	(2,492)	184

	2013	2012
	------(Rupees in '000)-----	
Impact on profit and loss account		
Increase in administrative expenses	2,545	3,418
Increase in loss before taxation	2,545	3,418
Decrease in taxation	891	1,196
Increase in loss after taxation	1,654	2,222
Increase in loss per share (Rs.)	0.0019	0.0025

Impact on statement of comprehensive income		
Decrease in loss for the year	(1,654)	(2,222)
Decrease in actuarial loss on defined benefit plan	(13,930)	(699)
Income tax effect	4,875	245
Decrease in total comprehensive loss for the year	(10,709)	(2,676)

IAS 19 (revised 2011) also requires more extensive disclosures. These have been provided in Note 31.

5.2 Cash and cash equivalents

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

5.3 Investments

Investments are classified as follows:

(a) Held for trading

These are securities, which are either acquired for generating a profit from short-term fluctuations in market prices, profit rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

(b) Held to maturity

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

(c) Available for sale

These are investments, other than those in subsidiaries and associates, that do not fall under the held for trading or held to maturity categories.

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

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.

In accordance with the requirements of the State Bank of Pakistan, quoted securities / Government securities other than those classified as 'held to maturity', investments in subsidiaries and investments in associates (which qualify for accounting under International Accounting Standard - 28), are subsequently re-measured to market value. Surplus / (deficit) arising on revaluation of quoted securities classified as 'available for sale', is taken to a separate account shown in the statement of financial position below equity. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account. Investments classified as 'held to maturity' are carried at amortised cost.

Signature

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 financial statements. In cases where the break up value of such shares is less than the cost, the difference of the cost and break up value is provided for accordingly by charging to the profit and loss account.

Provision for diminution in the values of securities (except sukuk certificates) is made after considering impairment, if any, in their value and charged to profit and loss account. Provision for diminution in value of sukuk certificates is made as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Investment in subsidiaries and associates are carried at cost less impairment in the value of such investments.

5.4 Islamic financing and related assets

Islamic financing and related assets (advance, inventories etc.) are stated net of specific and general provisions against non-performing Islamic financing, if any, which are charged to the profit and loss account.

Under murabaha financing, funds disbursed for purchase of goods are recorded as 'advance against murabaha finance'. On culmination of murabaha i.e. sale of goods to customers, murabaha financing are recorded at the deferred sale price net of deferred profit. Goods purchased but remaining unsold at the statement of financial position date are recorded as inventories.

Ijarah financing booked on or after 01 January 2009 is accounted for as per the requirements of IFAS 2, whereby assets leased out under ijarah and depreciated over the term of ijarah and the related rental income is recognised in the profit and loss account on an accrual basis.

Ijarah financing booked before 01 January 2009 is accounted for as a finance lease whereby assets under ijarah arrangements are presented as a receivable at an amount equal to net investment in ijarah. Unearned income i.e. excess of aggregate rentals over the cost of the asset is recorded at the inception of the ijarah and is amortised over the term of the ijarah so as to produce a constant rate of return on net investment in ijarah.

Specific provision against non-performing Islamic financing is determined in accordance with the Prudential Regulations and other directives issued by the SBP. The Bank maintains general reserve (provision) in accordance with the applicable requirements of prudential regulations for consumer finance and small and medium enterprise financing.

Islamic financing and related assets are written off when there is no realistic prospect of recovery.

5.5 Inventories

As stated in note 5.4 to these financial statements, goods purchased but remaining unsold (if any) at the statement of financial position date are recorded as inventories. The Bank values its inventories at the lower of cost and net realisable value. Cost of inventories represents the actual purchase price paid by the customer as an agent on behalf of the Bank from the funds disbursed for the purpose of culmination of murabaha.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated cost necessary to make the sale.

5.6 Operating fixed assets - Tangible

(a) Owned

Tangible fixed assets, other than land, are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Land is stated at cost.

Depreciation is charged using the straight-line method in accordance with the rates specified in note 10.2 to these financial statements and after taking into account residual value, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate at each statement of financial position date. Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Gains / losses on sale of fixed assets are credited / charged to the profit and loss account.

Subsequent costs are included in the assets' carrying amount and 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. All other repairs and maintenance are charged to income as and when incurred.

KUM

(b) Leased assets

Assets acquired under finance lease (in respect of contracts entered into before 01 January 2009) are stated at lower of fair value or present value of minimum lease payments at inception less accumulated depreciation. The outstanding obligation under lease is shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Bank.

(c) Capital work in progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when assets become available for use.

(d) Impairment

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

5.7 Operating fixed assets - Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised from the month, when these assets are available for use, using the straight line method, whereby the cost of the intangible asset is amortised on the basis of the estimated useful life over which economic benefits are expected to flow to the Bank. The residual value, useful life and amortisation method are reviewed and adjusted, if appropriate, at each statement of financial position date. Amortization rates are specified in note 10.3 to these financial statements.

Intangible assets with indefinite useful lives are not amortized but tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit and loss account when the asset is derecognized.

5.8 Non-banking assets acquired in satisfaction of claims

These are initially measured at the settlement value assigned for the purpose of extinguishment of borrowers' liabilities. Subsequent to initial recognition, these are carried at lower of their carrying values and fair values. Any resulting impairment loss is taken to profit and loss account. For subsequent increase in fair value, gain is recognized only to the extent it reverses previously recognized impairment loss (if any).

5.9 Deposits

Deposits are generated on the basis of two modes i.e. Qard and Mudaraba. Deposits taken on Qard basis are classified as 'Current Accounts' and Deposits generated on Mudaraba basis are classified as 'Savings Account' and 'Fixed Deposit Accounts'.

No profit or loss is passed on to current account depositors. Profits realized in pool are distributed in pre-agreed profit sharing ratio. Rab-ul-Maal share is distributed among depositors according to weightages assigned at the inception of profit calculation period.

Mudarib (the Bank) can distribute its share of profit to Rab-ul-Maal upto a maximum of 60% of its profit.

ECU

5.10 Revenue recognition

- Profit on murabaha transactions is recognised on accrual basis. Profit on Murabaha transactions for the period from the date of disbursement to the date of culmination of murabaha is recognized immediately upon the later date.
- Rental income on ijarah financing booked on or after January 1, 2009 is recognised on accrual basis
- The Bank follows the finance method in recognising income on ijarah contracts booked before 01 January 2009. Under this method the unearned income i.e. the excess of aggregate ijarah rentals over the cost of the asset is deferred and then amortised over the term of the ijarah, so as to produce a constant rate of return on net investment in ijarah. Gains / losses on termination of ijarah contracts are recognised as income / expense on a receipt basis. Income on ijarah is recognised from the date of delivery of the respective assets to the mustajir.
- Profit on diminishing musharaka is recognized on accrual basis.
- Profit on service ijara is recognized on accrual basis.
- Profit on Istisna is recognized on accrual basis commencing from the time of sale of goods till the realization of sale proceeds by the Bank.
- Commission on letters of credit, acceptances and letters of guarantee is recognised on receipt basis.
- Dividend income is recognised when the Bank's right to receive the dividend is established.
- Profit from investment in sukuk is recognised on accrual basis. Premium and discount on purchase of sukuk are being amortized through profit and loss account over the remaining maturity.
- Gains / losses on sale of investments is included in income currently.
- Income earned from Shariah non-compliant avenues is not recognised in the profit and loss account. This income is classified as charity payable in accordance with the recommendation of the Shariah Advisor of the Bank.
- Profit suspended in compliance with the Prudential Regulations issued by SBP is recorded on receipt basis.

5.11 Taxation

(a) Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration tax credits and rebates available, if any.

(b) Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities 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 at the rates that are expected to apply to the period when the differences are expected to reverse, based on tax rates that have been enacted at the statement of financial position 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 deferred tax asset is reviewed at each statement of financial position 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 a deferred tax asset / liability on the deficit / surplus on revaluation of securities which is adjusted against the related surplus / deficit in accordance with the requirements of the International Accounting Standard (IAS) 12, 'Income Taxes'.

5.12 Staff retirement benefits

(a) Defined benefit plan

The Bank operates an approved gratuity fund for all its confirmed employees, which is administered by the Trustees. The Bank's costs and contributions are determined based on actuarial valuation carried out at each year end using Projected Unit Credit Actuarial Method. All actuarial gains and losses are recognised in 'other comprehensive income' as they occur and are not reclassified to profit or loss in subsequent periods.

KUM

(b) Defined contribution plan

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

5.13 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation arising as a result of past events when 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 statement of financial position date and are adjusted to reflect the current best estimates.

Contingent assets are not recognised unless inflow of economic benefits is virtually certain.

Contingent liabilities are not recognised and are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

5.14 Provision for guarantee claims and other off-balance sheet obligations

The Bank, in the ordinary course of business, issues letters of credit, acceptances, guarantees, bid bonds, performance bonds etc. The commission against such contracts is recognized in the profit and loss account under "Fee, commission and brokerage income" on receipt basis. The Bank's liability under such contracts is measured at the best estimate of the amount expected to settle any financial obligation arising under such contracts.

5.15 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.

5.16 Foreign currency transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak rupees at the exchange rates prevailing at the reporting date. Exchange gains or losses are included in profit and loss account currently.

5.17 Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are translated into Pak Rupees at the exchange rates ruling on the reporting date.

5.18 Financial instruments**(a) Financial assets and financial liabilities**

Financial assets and financial liabilities are initially recognized at the time when the Bank becomes a party to the contractual provisions of the instrument. These include regular way purchases or sales of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the market place. Financial assets are de-recognized when the contractual right to future cash flows from the asset expires or is transferred along with the risk and rewards of ownership of the asset. Financial liabilities are de-recognized when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial assets and liabilities is recognized in the profit and loss account of the current period.

(b) Off-setting

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5.19 Earnings per share

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

EYK

5.20 Segment reporting

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

(a) Business segments

The business segments within the Bank have been categorised into the following classifications of business segments in accordance with the requirements specified by the SBP.

- Corporate finance

Corporate banking includes services provided in connection with mergers and acquisitions, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

- Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

- Retail banking

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

- Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange and deposits.

(b) Geographical segments

Currently, the operations of the Bank are carried out in Pakistan only.

5.21 Pool Management

The Bank operates general and specific pools for depositors.

Under the general deposits pool, the Bank accepts funds on Mudaraba basis from depositors (Rab-ul-Maal) where the Bank acts as Manager (Mudarib) and invests the funds in the Shariah Compliant modes of Islamic financing and related assets, investments and placements.

Specific pools are operated for funds acquired / accepted from State Bank of Pakistan for Islamic Export Refinance under the Musharaka modes.

The profit of each deposit pool is calculated on all the remunerative assets booked by utilizing the funds from the pool after deduction of expenses directly incurred in earning the income of such pool, if any. No provisions against any non performing assets of the pool is passed on to the pool. The profit of the pool is shared among the members of the pool on pre-defined mechanism based on the weightages announced before the profit calculation period.

The deposits and funds under the above mentioned pools are provided to diversified sectors and avenues of the economy / business as mentioned in the note 38.1.1 and are also invested in Government of Pakistan backed ijarah sukuk. Musharaka investments from State Bank of Pakistan under Islamic Export Refinance are channelled towards the export sector of the economy.

5.22 Accounting judgments and estimates

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

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

a) Provision against non-performing islamic financing

The Bank reviews its financing portfolio to assess amount of non-performing islamic financing and determine provision required there against on a quarterly basis. While assessing this requirement various factors including the past dues, delinquency in the account, financial position of the borrower, value of collateral held and requirements of Prudential Regulations are considered.

The amount of general provision against consumer and Small and Medium Enterprises islamic financing are determined in accordance with the relevant Prudential Regulations and SBP directives.

b) Impairment of available-for-sale investments

The Bank considers that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost except for investments where relaxation has been allowed by SBP. This determination of what is significant or prolonged requires judgement, in addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance.

c) Income taxes

In making the estimates for current and deferred taxes, the management looks at the income tax law and the decisions of appellate authorities on certain issues in the past. There are certain matters where the Bank's view differs with the view taken by the income tax department and such amounts have been disclosed as contingent liability.

d) Operating fixed assets, depreciation and amortization

In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern.

e) Employees' benefit plans

The liabilities for employees' benefits are determined using actuarial valuations. The actuarial valuations involve assumptions about discount rates, expected rates of return on assets and future salary increases as disclosed in note 31. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

5.23 Standards, interpretations and amendments to approved accounting standards that are not yet effective

The following amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (accounting periods beginning on or after)
IAS 32 – Offsetting Financial Assets and Financial liabilities – (Amendment)	01 January 2014
IAS 36 – Recoverable Amount for Non-Financial Assets – (Amendment)	01 January 2014
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	01 January 2014
IFRIC 21 – Levies	01 January 2014
IFAS 3 - Profit and loss sharing on Deposits	12 June 2013

The Bank expects that the adoption of the above amendments and interpretation of the standards will not affect the Bank's financial statements in the period of initial application other than certain additional disclosures as required under IFAS 3.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	IASB effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2015
IFRS 10 – Consolidated Financial Statements	01 January 2013
IFRS 11 - Joint Arrangements	01 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 - Fair Value Measurement	01 January 2013

Edw

	Note	2013 ----- (Rupees '000) -----	2012
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
- local currency		808,790	757,536
- foreign currency		213,299	243,174
		1,022,089	1,000,710
With State Bank of Pakistan in			
- local currency current account	6.1	2,428,682	2,350,157
- foreign currency current account	6.2	28,329	10,690
- foreign currency deposit account	6.3	494,030	493,158
- foreign currency capital account	16	1,158,571	-
		4,109,612	2,854,005
With National Bank of Pakistan in			
- local currency current account		334,666	366,660
- local currency deposit account		261,040	6
		5,727,407	4,221,381

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

6.2 This represents US dollar settlement account maintained with the SBP.

6.3 This represents balances maintained with SBP in US Dollars in respect of cash reserve requirement and special cash reserve requirement against the Bank's foreign currency deposits. The balances are maintained on a non - remunerative basis.

	Note	2013 ----- (Rupees '000) -----	2012
7. BALANCES WITH OTHER BANKS			
In Pakistan			
- on current accounts		22,306	13,389
- on deposit accounts	7.1	16,051,330	6,188,766
		16,073,636	6,202,155
Outside Pakistan			
- on current accounts		490,667	276,721
- on deposit accounts		1,074	233,601
		491,741	510,322
		16,565,377	6,712,477

7.1 The expected return on these deposits ranges from 5% to 9.40% (2012: 5% to 9.25%) per annum.

Em

8. INVESTMENTS

8.1 Investments by types

	Note	2013			2012		
		Held by Bank	Given as Collateral	Total	Held by Bank	Given as Collateral	Total
Rupees in '000							
Available for sale securities							
Sukuk certificates		22,264,509	-	22,264,509	27,211,781	-	27,211,781
Ordinary shares of listed company	8.5	28,768	-	28,768	28,754	-	28,754
Ordinary shares of unlisted company Takaful Pakistan Limited (a related party)	8.6	52,200	-	52,200	52,200	-	52,200
		<u>22,345,477</u>	-	<u>22,345,477</u>	<u>27,292,735</u>	-	<u>27,292,735</u>
Held to maturity securities							
Sukuk certificates	8.4	-	-	-	12,838	-	12,838
Investments at cost		<u>22,345,477</u>	-	<u>22,345,477</u>	<u>27,305,573</u>	-	<u>27,305,573</u>
Less: Provisions for diminution in the value of investments	8.3	(210,334)	-	(210,334)	(106,344)	-	(106,344)
Investments (net of provisions)		<u>22,135,143</u>	-	<u>22,135,143</u>	<u>27,199,229</u>	-	<u>27,199,229</u>
Surplus on revaluation of 'available for sale' securities	19	26,820	-	26,820	222,232	-	222,232
Total investments at market value		<u>22,161,963</u>	-	<u>22,161,963</u>	<u>27,421,461</u>	-	<u>27,421,461</u>

8.2 Investments by segments

Sukuk certificates

Federal Government Securities
Others

Note	2013 ----- (Rupees '000) -----	2012
	16,294,109	21,047,000
	5,970,400	6,177,619
8.4	<u>22,264,509</u>	<u>27,224,619</u>

Fully paid-up ordinary shares

Ordinary shares of listed company
Ordinary shares of unlisted company - related party

8.5	28,768	28,754
8.6	52,200	52,200

Total Investments at cost

Less: Provisions for diminution in the value of investments

	<u>22,345,477</u>	<u>27,305,573</u>
8.3	(210,334)	(106,344)

Investments (net of provisions)

Surplus on revaluation of 'available for sale' securities

	<u>22,135,143</u>	<u>27,199,229</u>
19	26,820	222,232

Total investments at market value

	<u>22,161,963</u>	<u>27,421,461</u>
--	-------------------	-------------------

8.3 Particulars of provisions for diminution in value of investments:

8.3.1 Opening balance

Charged during the year
Reversal during the year

	106,344	53,741
	119,436	53,990
	(15,446)	(1,387)

Closing balance

	<u>103,990</u>	<u>52,603</u>
	<u>210,334</u>	<u>106,344</u>

8.3.2 Particulars of provisions in respect of type and segment

Available for sale**Investment in Sukuk certificates**

New Allied Electronics Industries (Private) Limited
Coastal Refinery Limited

	11,820	25,000
	164,249	52,074

Unlisted Company (ordinary shares)

Takaful Pakistan Limited

	25,088	27,353
--	--------	--------

Listed Company (ordinary shares)

Agritech Limited

8.3.3	9,177	1,917
	<u>210,334</u>	<u>106,344</u>

8.3.3 The mark to market impairment loss on this investment as of 31 December 2013 amounts to Rs. 18.354 (2012 : Rs. 19.167) million. However, SBP vide its letters BPRD/BRD-(Policy)/2013-11339 dated 25 July 2013 read with letter no. BPRD/BRD-(Policy)/2013-1857 dated 15 February 2013 has allowed relaxation from recognition of full impairment loss to recognize the same in a phased manner by 31 December 2014. As per such relaxation the Bank is required to book atleast 50% of impairment loss as of 31 December 2013 which amounts to Rs.9.177 (2012 : Rs.1.917) million.

8.4 Sukuk certificates / bonds

Name of the investee company	Note	2013	2012	2013	2012
		Number of certificates / units		Cost ----- (Rupees '000) -----	
Available for sale					
Federal Government Securities					
Government of Pakistan Ijara Sukuk		162,579	210,470	16,294,109	21,047,000
Unquoted Securities					
Coastal Refinery Limited	8.4.2	-	-	340,000	340,000
New Allied Electronics Industries (Private) Limited		80,000	80,000	11,820	25,000
National Industrial Parks Development and Management Company		396,000	396,000	1,980,898	1,982,377
Engro Chemical Limited		10,000	10,000	50,023	50,036
House Building Finance Corporation Limited		-	34,000	-	50,852
Educational Excellence Limited		-	54,000	-	67,414
PACE Pakistan Limited		80,000	80,000	360,000	359,773
AL Razi Healthcare Private Limited		60,000	60,000	260,000	296,000
Pakistan Stone Development Company		80,000	80,000	250,000	350,000
WAPDA Third Sukuk Company Limited		85,000	-	425,000	-
				3,677,741	3,521,452
Quoted Securities					
Abu Dhabi Islamic Bank Sukuk	8.4.3	45,000	67,000	483,595	659,885
Emirates Islamic Bank Sukuk	8.4.3	46,000	68,000	495,457	671,095
Dubai Islamic Bank Sukuk		-	39,000	-	382,128
Qatar Islamic Bank Sukuk		-	46,500	-	453,039
Qatar International Islamic Bank Sukuk		-	49,000	-	477,182
Sharjah Islamic Bank Sukuk	8.4.3	40,000	-	421,298	-
Saudi Electricity Global Sukuk	8.4.3	85,000	-	892,309	-
				2,292,659	2,643,329
				22,264,509	27,211,781
Held to maturity securities					
Unquoted Securities					
Sitara Chemical Industries Limited		-	30,000	-	12,838
				22,264,509	27,224,619

8.4.1 Other particulars of sukuk bonds are as follows:

Particulars	Certificates / units denomination in PKR / USD	Profit rate per annum	Profit payments	Redemption terms and Maturity
Government of Pakistan Ijara Sukuk	PKR 100,000	6 month Treasury Bills	Semi annually	The principal will be redeemed on maturity in March 2014, May 2014, December 2014, March 2015, June 2015, September 2015 and March 2016.
Coastal Refinery Limited	PKR 5,000	6 month KIBOR + 3.75 %	Semi annually	Payable in 10 consecutive semi annual instalments commencing from the 18th month from the date of first drawdown. These will mature by September 2013. However, the certificates have not yet been issued.
New Allied Electronics Industries (Private) Limited	PKR 312.5	3 month KIBOR + 2.6 %	Quarterly	Payable in 16 equal quarterly instalments commencing from the 15th month from the date of first drawdown. These will mature by July 2014.
National Industrial Parks Development and Management Company	PKR 5,000	6 month KIBOR + 0.6 %	Semi annually	Bullet payment on maturity. These will mature by August 2014.
Engro Chemical Limited	PKR 5,000	3 month KIBOR + 1.5 %	Semi annually	In 2 consecutive, equal, semi-annual instalments, the first such instalment falling due on the 90th month from the date of first contribution. These will mature by September 2015.
Pace Pakistan Limited	PKR 5,000	3 month KIBOR + 3.5 %	Quarterly	Payable in 10 equal quarterly instalments along with principal and profit commencing from 12th month of drawdown. These will mature by April 2014.
AL Razi Healthcare Private Limited	PKR 5,000	6 month KIBOR + 2.5 % for first 2 years 6 month KIBOR + 3.6 % for remaining years Revised 6 month KIBOR + 2.0 % for remaining years	Monthly	Payable in equal monthly instalments starting from December 2012. These will mature by Nov. 2017.
Pakistan Stone Development Company	PKR 5,000	6 month KIBOR + 1.00 %	Semi annually	In 8 equal semi annual instalments. First instalment will be due after the 18th Month. These will mature by March 2016.
WAPDA Third Sukuk Company Limited	PKR 5,000	6 month KIBOR + 1.0 %	Semi annually	Bullet payment on maturity. These will mature by October 2021
Abu Dhabi Islamic Bank Sukuk (note 8.4.3)	USD 100	3.78%	Half Yearly	Bullet payment on maturity. These will mature by November 2016.
Emirates Islamic Bank Sukuk (note 8.4.3)	USD 100	4.72%	Half Yearly	Bullet payment on maturity. These will mature by January 2017.
Sharjah Islamic Bank Sukuk (note 8.4.3)	USD 100	2.95%	Half Yearly	Bullet payment on maturity. These will mature by April 2018.
Saudi Electricity Global Sukuk (note 8.4.3)	USD 100	3.47%	Half Yearly	Bullet payment on maturity. These will mature by April 2023.

8.4.2 Total participation of Rs. 340 (2012: Rs. 340) million has been made by the Bank, however the sukuk certificates are yet to be issued.

8.4.3 These are listed on London Stock Exchange.

8.5 Particulars of investments in ordinary shares of listed company

Company Name	2013			2012		
	Number of shares	Cost	Market Value	Number of shares	Cost	Market Value
		----- Rupees in '000 -----			----- Rupees in '000 -----	
Available for sale						
AgriTech Limited	821,937	28,768	10,414	821,555	28,754	9,588
		28,768	10,414		28,754	9,588

8.5.1 Quality of available for sale securities

Note	2013		2012		
	Amount (Rupees in '000)	Rating	Amount (Rupees in '000)	Rating	
Sukuk certificates					
Government of Pakistan Ijara Sukuks	16,294,109	GOP Guaranteed	21,047,000	GOP Guaranteed	
Coastal Refinery Limited	340,000	Non-performing	340,000	Non-performing	
New Allied Electronics Industries (Private) Limited	11,820	Non-performing	25,000	Non-performing	
National Industrial Parks Development and Management Company	1,980,898	GOP Guaranteed	1,982,377	GOP Guaranteed	
Engro Chemical Limited	50,023	A	50,036	A	
House Building Finance Corporation Limited	-	-	50,852	A	
Educational Excellence Limited	-	-	67,414	Unrated	
PACE Pakistan Limited	360,000	Non-performing	359,773	Non-performing	
AL Razi Healthcare Private Limited	260,000	Unrated	296,000	Unrated	
Pakistan Stone Development Company	250,000	GOP Guaranteed	350,000	GOP Guaranteed	
WAPDA Third Sukuk Company Limited	425,000	GOP Guaranteed	-	-	
Abu Dhabi Islamic Bank Sukuk	483,595	A2	659,885	A2	
Emirates Islamic Bank Sukuk	495,457	Baa1	671,095	Unrated	
Dubai Islamic Bank Sukuk	-	-	382,128	Baa1	
Qatar Islamic Bank Sukuk	-	-	453,039	A-	
Qatar International Islamic Bank Sukuk	-	-	477,182	A3	
Sharjah Islamic Bank Sukuk	421,297	BBB+	-	-	
Saudi Electricity Global Sukuk	892,310	AA-	-	-	
Ordinary shares					
Takaful Pakistan Limited	8.6	52,200	BBB+	52,200	BBB+
Agritech Limited		28,768	Non-performing	28,754	Non-performing
Total		<u>22,345,477</u>		<u>27,292,735</u>	

8.6 Unlisted Company (ordinary shares)

	2013	2012	2013	2012	Percentage of equity holding %	Latest available audited financial statements	Name of the chief executive officer
	Number of shares		Rupees in '000				
Takaful Pakistan Limited* (related party)	5,100,000	5,100,000	52,200	52,200	17	31 December 2012	Syed Arif Hussain
Crown Textile Mills Limited **	444,656	444,656	-	-	-	-	-
			<u>52,200</u>	<u>52,200</u>			

* The breakup value of Takaful Pakistan Limited is Rs. 5.32 (un-audited) per share as per the available financial statements for the period ended 30 September 2013.

** These were transferred at nil value upon amalgamation of Pakistan branches of AlBaraka with and into the Bank.

9. ISLAMIC FINANCING AND RELATED ASSETS

In Pakistan

Islamic financing and related assets

Note	2013 (Rupees '000)	2012 (Rupees '000)
9.1	18,195,145	14,493,691
- Murabaha finance	985,545	1,158,835
- Advance against murabaha finance	2,455,955	2,160,057
- Export refinance under Islamic scheme	2,881,097	2,089,490
- Ijarah assets under IFAS 2	129,091	269,483
9.2	303,652	99,496
- Net investment in ijarah	394,608	512,255
- Advance against ijarah	7,136,647	5,911,172
- Service ijarah	562,235	713,114
- Diminishing musharaka financing	180,826	90,641
- Over due acceptances	4,349,501	3,359,048
- Salam financing	428,963	164,993
- Advance against salam	374,405	-
- Financing against bills - payable outside Pakistan	1,414,360	458,000
- Istasna finance	22,432	28,814
- Advance against istasna	-	34
- Qarz-e-Hasna	39,814,462	31,509,123
- Rahnuma travel services		
Islamic financing and related assets - gross		
9.6	2,778,875	2,714,908
Provisions for non-performing financing - specific	14,943	11,767
9.6	2,793,818	2,726,675
Provisions for non-performing financing - general		
Islamic financing and related assets - net of provisions	<u>37,020,644</u>	<u>28,782,448</u>
9.1	18,786,157	15,021,254
Murabaha receivable - gross	(591,012)	(527,563)
Deferred murabaha income	<u>18,195,145</u>	<u>14,493,691</u>
Murabaha finance		

9.2 Net investment in ijarah

	2013				2012			
	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	101,530	18,744	-	120,274	156,627	59,993	-	216,620
Residual value	33,636	3,215	-	36,851	74,351	10,684	-	85,035
Minimum ijarah payments	135,166	21,959	-	157,125	230,978	70,677	-	301,655
Profit for future periods	24,608	3,426	-	28,034	28,092	4,080	-	32,172
Present value of minimum ijarah payments	110,558	18,533	-	129,091	202,886	66,597	-	269,483

9.3 This represents profit free islamic financing to staff under the Bank's human resource policies.

9.4 Particulars of Islamic financing and related assets

	2013	2012
	----- (Rupees '000) -----	
9.4.1 In local currency	35,611,192	28,405,184
In foreign currencies	1,409,452	377,264
	<u>37,020,644</u>	<u>28,782,448</u>
9.4.2 Short-term	26,402,418	20,525,754
Long term	10,618,226	8,256,694
	<u>37,020,644</u>	<u>28,782,448</u>

9.5 Islamic financing and related assets include Rs. 5,248.051 (2012: Rs 6,093.026) million which have been placed under non-performing status as detailed below:

Category of classifications	2013			Provision required	Provision held
	Domestic	Overseas	Total		
	----- Rupees in '000 -----				
Other assets especially mentioned	-	-	-	-	-
Substandard	570,385	-	570,385	91,467	91,467
Doubtful	251,312	-	251,312	70,992	70,992
Loss	4,426,354	-	4,426,354	2,616,416	2,616,416
	<u>5,248,051</u>	<u>-</u>	<u>5,248,051</u>	<u>2,778,875</u>	<u>2,778,875</u>

Category of classifications	2012			Provision required	Provision held
	Domestic	Overseas	Total		
	----- Rupees in '000 -----				
Other assets especially mentioned	-	-	-	-	-
Substandard	477,608	-	477,608	16,843	16,843
Doubtful	1,461,380	-	1,461,380	421,685	421,685
Loss	4,154,038	-	4,154,038	2,276,380	2,276,380
	<u>6,093,026</u>	<u>-</u>	<u>6,093,026</u>	<u>2,714,908</u>	<u>2,714,908</u>

9.6 Particulars of provisions against non-performing islamic financing and related assets

	2013			2012		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
Opening balance	2,714,908	11,767	2,726,675	1,979,064	12,052	1,991,116
Charge for the year	713,160	3,176	716,336	1,066,032	-	1,066,032
Reversals for the year	(649,193)	-	(649,193)	(315,859)	(285)	(316,144)
	63,967	3,176	67,143	750,173	(285)	749,888
Written off during the year	-	-	-	(14,329)	-	(14,329)
Closing balance	<u>2,778,875</u>	<u>14,943</u>	<u>2,793,818</u>	<u>2,714,908</u>	<u>11,767</u>	<u>2,726,675</u>

9.6.1 The above provision against non-performing islamic financing has been computed after considering the benefit of forced sale value (FSV) of collateral amounting to Rs. 2,167.125 (2012: Rs. 2,701.616) million. The FSV benefit recognized is not allowed for distribution of cash or stock dividend to shareholders.

9.6.2 The Bank maintains general reserve (provisions) in accordance with the applicable requirements of prudential regulations for consumer, small and medium enterprise islamic financing.

9.6.3 SBP vide its letter BPRD/BLRD-3/DMG/2011-1035 dated 26 January 2011 has allowed relaxation from provisioning requirement against certain credit exposures having a provisioning impact of Rs. 40.581 (2012 :Rs. 472.24) million.

9.6.4 Particulars of provisions against non-performing islamic financing

	2013			2012		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
In local currency	2,765,891	14,943	2,780,834	2,701,924	11,767	2,713,691
In foreign currencies	12,984	-	12,984	12,984	-	12,984
	<u>2,778,875</u>	<u>14,943</u>	<u>2,793,818</u>	<u>2,714,908</u>	<u>11,767</u>	<u>2,726,675</u>

9.6.5 Particulars of write offs

	Note	2013	2012
		----- (Rupees '000) -----	
9.6.5.1 Against provision		-	14,329
Directly charged to profit and loss account		-	-
		<u>-</u>	<u>14,329</u>
9.6.5.2 Write offs Rs. 500,000 and above		-	14,329
Write offs below Rs. 500,000		-	-
		<u>-</u>	<u>14,329</u>

9.7 Particulars of Islamic financing to executives, directors, associated companies etc.

Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other person*			
Balance at the beginning of the year		415,761	365,422
Islamic financing during the year		245,371	159,880
Repayments during the year		(201,918)	(109,541)
Balance at the end of the year		<u>459,214</u>	<u>415,761</u>
Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of the year		-	-
Islamic financing during the year		-	-
Repayments during the year		-	-
Balance at end of the year		-	-
Debts due by associated and subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at the beginning of the year		-	-
Islamic financing during the year		-	-
Repayments during the year		-	-
Balance at the end of the year		<u>-</u>	<u>-</u>

* These represent Islamic financing given by the Bank to its employees as per the terms of their employment.

10. OPERATING FIXED ASSETS

Capital work-in-progress	10.1	357,074	540,040
Property and equipments	10.2	1,453,553	1,090,095
Intangible assets	10.3	915,126	999,041
		<u>2,725,753</u>	<u>2,629,176</u>
10.1. Capital work-in-progress			
Advances to suppliers and contractors	10.1.1	357,074	414,200
Advance for purchase of property		251,680	251,680
Provisions for impairment against advance for purchase of property		(251,680)	(125,840)
		-	125,840
		<u>357,074</u>	<u>540,040</u>

10.1.1 This includes advance payment amounting to Rs.121.049 (2012: Rs.218.761) million for implementation of new core banking system of the Bank.

10.2 Property and equipment

	2013								
	COST			ACCUMULATED DEPRECIATION				Net book value as at 31 December 2013	Rate of depreciation %
	As at 01 January 2013	Additions / (disposals) / (write offs*)	As at 31 December 2013	As at 01 January 2013	Charge for the year / (on disposals) / (on write offs*)	As at 31 December 2013			
	Rupees in '000								
Leasehold land	534,701	172,403	707,104	-	-	-	707,104	-	
Building and improvements on leasehold land	406,105	135,551	522,575	97,907	28,007	115,934	406,641	5% - 10%	
		(19,081) *			(9,980) *				
Furniture and fixtures	144,730	5,255	149,900	58,395	15,425	73,781	76,119	10%	
		(85)			(39)				
Computer and office equipments	421,038	159,326	580,364	286,966	55,227	342,193	238,171	10% - 50%	
		-			-				
Vehicles	35,717	12,305	37,608	11,792	10,422	12,090	25,518	20%	
		(10,414)			(10,124)				
	1,542,291	484,840	1,997,551	455,060	109,081	543,998	1,453,553		
		(10,499)			(10,163)				
		(19,081) *			(9,980) *				
Assets held under finance lease									
Vehicles	46,088	-	14,789	43,224	2,826	14,789	-	20%	
		(31,299)			(31,261)				
2013	1,588,379	484,840	2,012,340	498,284	111,907	558,787	1,453,553		
		(41,798)			(41,424)				
		(19,081) *			(9,980) *				
	Rupees in '000								
	2012								
	COST			ACCUMULATED DEPRECIATION			Net book value as at 31 December 2012	Rate of depreciation %	
	As at 01 January 2012	Additions / (disposals) / (write offs*)	As at 31 December 2012	As at 01 January 2012	Charge for the year / (on disposals) / (on write offs*)	As at 31 December 2012			
	Rupees in '000								
Leasehold land	532,600	2,101	534,701	-	-	-	534,701	-	
Building and improvements on leasehold land	402,792	3,313	406,105	69,802	28,105	97,907	308,198	5% - 10%	
Furniture and fixtures	144,528	554	144,730	43,322	15,425	58,395	86,335	10%	
		(352)			(352)				
		- *			- *				
Computer and office equipments	417,207	4,227	421,038	245,462	41,900	286,966	134,072	10% - 50%	
		(396)			(396)				
		- *			- *				
Vehicles	36,951	2,102	35,717	5,020	9,324	11,792	23,925	20%	
		(3,336)			(2,552)				
	1,534,078	12,297	1,542,291	363,606	94,754	455,060	1,087,231		
		(4,084)			(3,300)				
		- *			- *				
Assets held under finance lease									
Vehicles	76,733	-	46,088	61,135	9,775	43,224	2,864	20%	
		(30,645)			(27,686)				
2012	1,610,811	12,297	1,588,379	424,741	104,529	498,284	1,090,095		
		(34,729)			(30,986)				
		- *			- *				

Note	2013	2012
	----- (Rupees '000) -----	
10.3 Intangible assets		
Computer software and core deposits	531,981	615,896
Brand with indefinite useful life	383,145	383,145
	<u>915,126</u>	<u>999,041</u>

10.3.1

	2013							Rate of amortisation %
	COST		ACCUMULATED AMORTISATION			Net book value		
	As at 01 January 2013	Additions	As at 31 December 2013	As at 01 January 2013	Amortisation for the year	As at 31 December 2013	as at 31 December 2013	
	Rupees in '000							
Computer software	214,543	5,381	219,924	146,072	26,513	172,585	47,339	20%-33%
Core deposits	684,000	-	684,000	136,575	62,783	199,358	484,642	8.33%-10%
	<u>898,543</u>	<u>5,381</u>	<u>903,924</u>	<u>282,647</u>	<u>89,296</u>	<u>371,943</u>	<u>531,981</u>	

	2012							Rate of amortisation %
	COST		ACCUMULATED AMORTISATION			Net book value		
	As at 01 January 2012	Additions	As at 31 December 2012	As at 01 January 2012	Amortisation for the year	As at 31 December 2012	as at 31 December 2012	
	Rupees in '000							
Computer software	144,879	69,664	214,543	123,711	22,361	146,072	68,471	20%-33%
Core deposits	684,000	-	684,000	73,620	62,955	136,575	547,425	8.33%-10%
	<u>828,879</u>	<u>69,664</u>	<u>898,543</u>	<u>197,331</u>	<u>85,316</u>	<u>282,647</u>	<u>615,896</u>	

10.3.2 During the year, the management has carried out annual impairment test in respect of Brand as required by IAS - 36 "Impairments of Assets".

The recoverable amount of the asset has been determined based on 'value in use' using discounted cash flow methodology, covering cash flow projections for a period of 5 years.

The key assumptions used for the purpose of the projections and impairment test are as under:

- Discount rate - Pre tax 25.8%
- Terminal growth rate 6.3%

10.4 Disposal of assets

Details of disposal of fixed assets where cost exceeds Rs. 1 million or book value is greater than Rs. 0.25 million, whichever is lower are as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
----- Rupees in '000 -----						
Vehicles						
Toyota Corrolla	1,005	1,005	-	-	Bank's policy	Ahmed Noor - Employee
Honda Accord	2,680	2,680	-	423	Bank's policy	Ahmed Shuja Kidwai - Employee
Toyota Corrolla	1,015	1,015	-	11	Bank's policy	Saima Naeem - Ex-Employee
Toyota Corrolla	1,250	1,250	-	-	Bank's policy	Kashif Hafeez - Employee
Toyota Corrolla	1,250	1,250	-	-	Bank's policy	Shahzad Ismail - Employee
Honda Civic	1,775	1,775	-	206	Bank's policy	Sarfraz Hussain Mayo - Employee
Honda Civic	1,043	1,043	-	810	Auction	Abdul Ahad
Honda Civic	1,043	1,043	-	865	Auction	Abdul Ahad
Toyota Camry	2,765	2,765	-	638	Bank's policy	Kateem Iqbal - Employee
Honda City	1,239	950	289	-	Bank's policy	Jawed Aziz Memon (Late) - Ex-Employee
	<u>15,065</u>	<u>14,776</u>	<u>289</u>	<u>2,953</u>		

Fixed assets having book value of less than Rs. 0.25 million or cost of Rs. 1 million is as follows:

Various	26,733	26,648	85	3,639
2013	<u>41,798</u>	<u>41,424</u>	<u>374</u>	<u>6,591</u>
2012	<u>34,730</u>	<u>30,985</u>	<u>3,745</u>	<u>11,448</u>

ELM

11. DEFERRED TAX ASSETS	2013	2012
	----- (Rupees '000) -----	
		Restated
Deferred tax debits arising in respect of		
Provisions against non performing islamic financing and related assets	641,728	564,648
Provisions for diminution in the value of investments	75,178	38,782
Provisions against operating fixed assets	22,022	44,044
Provisions against other assets	1,551	18,612
Deferred tax asset in respect of minimum tax to be carried forward and adjusted against tax liability of future years	196,646	142,590
Deferred tax on remeasurment of defined benefit asset	6,217	1,341
Unused tax losses	648,503	683,316
	<u>1,591,845</u>	<u>1,493,333</u>
Deferred tax credits arising due to		
Tax effect of fixed assets owned / leased	151,394	117,376
Tax effect of revaluation of investments classified as available-for-sale	9,387	83,818
	<u>160,781</u>	<u>201,194</u>
	<u>1,431,064</u>	<u>1,292,139</u>

11.1 As at 31 December 2013, the Bank has unused tax losses of Rs. 1,852,867 (2012: Rs. 1,952,331) million.

11.2 The above net deferred tax asset has been recognized in accordance with the Bank's accounting policy. The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realized.

12. OTHER ASSETS	Note	2013	2012
		----- (Rupees '000) -----	
		Restated	
Profit / return accrued in local currency		966,822	991,223
Advances, deposits and prepayments		232,394	154,934
Receivable against sale of shares		81,000	81,000
Advance taxation (payments less provision)		271,818	277,386
Unrealised gain on re-measurement of forward exchange contracts		58,706	30,205
Branch adjustment account		30,867	20,759
Receivable in respect of defined benefit plan	31 & 31.3	6,950	14,151
Stamps and stationery		8,375	6,919
Non banking assets acquired in satisfaction of claims	12.1	405,289	102,413
Others		93,040	61,664
		<u>2,155,261</u>	<u>1,760,664</u>
Less: Provisions held against other assets	12.2	(28,065)	(53,178)
Other assets (net of provisions)		<u>2,127,196</u>	<u>1,707,476</u>

12.1 Represent properties acquired by the Bank in satisfaction of claims from borrowers. The fair value of these assets amounts to Rs. 486.23 (2012:Rs. 102,413) million.

12.2 Provisions held against other assets	2013	2012
	----- (Rupees '000) -----	
Opening balance	53,178	4,737
Charge for the year	-	48,746
Reversals for the year	(25,113)	(305)
	<u>28,065</u>	<u>53,178</u>

ALBARAKA BANK (PAKISTAN) LIMITED

	Note	2013 ----- (Rupees '000) -----	2012
13. BILLS PAYABLE			
In Pakistan		725,609	746,651
Outside Pakistan		-	-
		<u>725,609</u>	<u>746,651</u>
14. DUE TO FINANCIAL INSTITUTIONS			
In Pakistan	14.1 & 14.2	2,201,945	1,991,738
Outside Pakistan		-	-
		<u>2,201,945</u>	<u>1,991,738</u>
14.1 Particulars of due to financial institutions with respect to currencies			
In local currency		2,201,945	1,991,738
In foreign currencies		-	-
		<u>2,201,945</u>	<u>1,991,738</u>
14.2 Details of due to financial institutions			
Borrowings from State Bank of Pakistan			
Under Islamic export refinance scheme		<u>2,201,945</u>	<u>1,991,738</u>

Represents musharaka contribution by SBP against Islamic export refinance scheme. Expected profit rate on such scheme during the year 2013 ranges from 8.20% to 8.40% (2012: 8.5%) per annum. The maximum limit approved by SBP to the Bank under Islamic Export Refinance Scheme is Rs. 2.8 (2012: 2.8) billion.

15. DEPOSITS AND OTHER ACCOUNTS

Customers			
Fixed deposits		26,364,509	27,381,596
Savings deposits		25,092,485	21,498,254
Current accounts - non-remunerative		12,241,316	8,710,118
Margin deposits		558,019	475,344
		<u>64,256,329</u>	<u>58,065,312</u>
Financial Institutions			
Remunerative deposits		11,347,303	5,194,099
Non-remunerative deposits		43,465	19,244
		<u>11,390,768</u>	<u>5,213,343</u>
	15.1	<u>75,647,097</u>	<u>63,278,655</u>
15.1 Particulars of deposits			
In local currency		71,089,648	58,788,778
In foreign currencies		4,557,449	4,489,877
		<u>75,647,097</u>	<u>63,278,655</u>

16. SUBORDINATED DEBT

As referred to in note 1.2 to these financial statements, the Bank has entered into a sub-ordinated loan agreement with Albaraka Islamic Bank BSC (the major sponsor). In terms of the said agreement a sub-ordinated loan of Rs. 1,158.571 million (USD 11 million) has been provided to the Bank. No return will be payable on the loan and the loan stands sub-ordinated to all other creditors, depositors and third party obligations of the Bank. The loan is intended to bridge the regulatory capital shortfall of the Bank and will only be repaid if and when the Bank is compliant with the MCR requirements. In the event the Bank is not MCR compliant by 31 December 2016, the loan will be converted into the paid up capital of the Bank. As per the terms of the agreement, the proceeds of the loan shall be placed by the Bank in an interest free deposit account maintained by the Bank with the SBP in US Dollars.

h/v

17. OTHER LIABILITIES	Note	2013	2012
		----- (Rupees '000) -----	
Return on deposits and borrowings:			
- payable in local currency		827,779	717,284
- payable in foreign currencies		1,985	1,097
Accrued expenses		103,554	110,277
Payable to Emirates Financial Holdings Limited		1,441	1,441
Unremitted head office expenses		95,704	95,704
Retention money		-	152
Security deposit against ijarah		812,108	640,214
Charity payable	17.1	82,948	112,243
Advance payments		226,909	113,753
Others	17.2	25,561	37,889
		<u>2,177,989</u>	<u>1,830,054</u>

17.1 Movement of charity payable

Opening balance		112,243	82,651
Amount transferred during the year		25,898	36,121
Payments / utilization during the year	17.1.2	(55,193)	(6,529)
Closing balance		<u>82,948</u>	<u>112,243</u>

17.1.1 According to the instructions of the Shariah Advisor, any income earned by the Bank from Shariah non-compliant avenues should be paid by the Bank for charitable purposes.

17.1.2 Detailed information relating to charity paid to organizations / individuals equal to or in excess of Rs. 100,000 is given in annexure-II to the financial statements.

17.2 Includes Rs. 0.657 (2012:0.657) million in respect of exchange difference which arose on translation of the share subscription money received in foreign currency from Mal Al Khaleej Investment L.L.C in respect of right shares issued during the year ended 31 December 2008.

18. SHARE CAPITAL

18.1 Authorized Capital

2013	2012		2013	2012
Number of shares			----- (Rupees '000) -----	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs 10 each	<u>10,000,000</u>	<u>10,000,000</u>

E40

18.2 Issued, subscribed and paid up capital

2013	2012		2013	2012
Number of shares			----- (Rupees '000) -----	
450,000,000	450,000,000	Ordinary shares of Rs 10 each fully paid in cash issued for consideration other than cash	4,500,000	4,500,000
443,520,000	443,520,000		4,435,200	4,435,200
<u>893,520,000</u>	<u>893,520,000</u>		<u>8,935,200</u>	<u>8,935,200</u>

18.3 Major shareholders as at 31 December 2013 and 31 December 2012 are as follows:

Name of shareholder	2013		2012	
	Number of shares held	Percentage of shareholding	Number of shares held	Percentage of shareholding
AlBaraka Islamic Bank (Bahrain) B.S.C. (C)	577,543,500	64.64%	577,543,500	64.64%
Mal Ai Khaleej Investment L.L.C.	158,360,039	17.72%	158,360,039	17.72%
Sheikh Tariq Bin Faisal Bin Khalid Al Qassemi	110,311,487	12.35%	110,311,487	12.35%
Emirates Financial Holdings Limited	34,706,690	3.88%	34,707,190	3.88%
	<u>880,921,716</u>	<u>98.59%</u>	<u>880,922,216</u>	<u>96.59%</u>

19. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

Surplus on revaluation of 'available for sale' securities:

	2013	2012
	----- (Rupees '000) -----	
Sukuk certificates	35,997	239,481
Ordinary shares - listed	(9,177)	(17,249)
	26,820	222,232
Related deferred tax liability	(9,387)	(83,818)
	<u>17,433</u>	<u>138,414</u>

20. CONTINGENCIES AND COMMITMENTS

20.1 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, shipping guarantees favouring:

- i) Government
- ii) Banking companies and other financial institutions
- iii) Others

4,442,566	4,610,958
258,551	445,690
820,685	548,093
<u>5,521,803</u>	<u>5,604,741</u>

20.2 Trade-related contingent liabilities

Letters of credit

Others - Shipping Guarantees

Acceptances

5,007,432	2,740,836
138,360	8,899
<u>1,198,246</u>	<u>1,213,464</u>

h.4.12

	2013	2012
	----- (Rupees '000) -----	
20.3 Commitments in respect of forward exchange contracts		
Purchase	<u>2,320,863</u>	<u>3,254,692</u>
Sale	<u>2,781,334</u>	<u>2,965,259</u>
20.4 Commitments to incur capital expenditure	<u>40,161</u>	<u>296,443</u>
20.5 Commitments for lease liability in respect of rentals under ijarah	<u>-</u>	<u>9,672</u>
20.6 Other Contingencies		

20.6.1 The Bank has filed appeals before Appellate Tribunal Inland Revenue (ATIR) against the orders in respect of assessment years 2001-2002, 2002-2003 and tax years 2004 to 2011. Moreover, the Income Tax Department has also filed appeals before ATIR against the orders in respect of assessment years 2001-2002, 2002-2003 and tax year 2004 to 2011 issued by Commissioner Inland Revenue (CIR) (Appeals). Appeals filed by the Bank and the Income Tax Department are pending for decision. The management of the Bank is confident that the appeals are likely to be decided in favor of the Bank and, hence no provision has been made in these financial statements for the income tax claims amounting to Rs. 116.512 million.

20.6.2 In respect of tax year 2011, the Additional Commissioner Inland Revenue (ACIR) has issued notice under section 122(9) read with section 122 (5A) of the Income Tax Ordinance, 2001 for proposed amendment of deemed assessment order in which certain disallowances, have been made. The reply to the notice has been filed through tax consultant; however the order of the ACIR is awaited.

20.6.3 The Bank has received various assessment orders from Deputy Commissioner Inland Revenue (DCIR) stating that the Bank has short paid Federal Excise Duty (FED) on specific income of the Bank for the tax years 2009, 2010 and 2011 amounting to Rs. 86.584 million. However, Appellate Tribunal Inland Revenue (ATIR) has set aside the orders for fresh adjudication. The said matter is pending decision for further proceedings. The management of the Bank is confident that the above matter will be decided in its favor and hence, no provision has been made in these financial statements against any liability which may arise in this respect.

20.6.4 During the year 2010, certain suits have been filed by Mr. Faisal Vawda in the Honorable High Court of Sindh against the Bank wherein Mr. Vawda has claimed that he was offered 24 million ordinary shares of the Bank at an aggregate value of Rs. 300 million as sale consideration against the commercial property sold to the Bank. He further claimed that in addition to the said property, he has also paid Rs. 60 million towards the purchase consideration for the above referred shares. However, the said shares or any other consideration against the property has not been received by him. Based on the above, Mr. Vawda has alleged the Bank of involvement in illegal business. The Bank contends that the aforesaid allegations of Mr. Vawda are baseless and without any merit and that the subject property has been duly purchased and paid for by the Bank. Further, in the opinion of legal advisor of the Bank, the Bank is likely to successfully contest the aforementioned proceedings and accordingly is not likely to be exposed to the abovementioned claims being prayed against the Bank.

In terms of the merger agreement dated 16 August 2010 between sponsors shareholders of the Bank and AlBaraka, the Emirates Financial Holdings LLC will keep the Bank fully indemnified, safe and secured against all losses, costs, claims, damages of any nature whatsoever resulting to the Bank on account of the Mr. Faisal Vawda Litigations including any additional or ancillary litigation or proceedings filed by Faisal Vawda Group in relation to the subject matter of the Faisal Vawda Litigations. In this regard, the Bank has invoked the indemnity claim and has submitted a claim notice upon EFH.

	2013	2012
	----- (Rupees '000) -----	
Claim not acknowledged as debt	<u>30,000</u>	<u>30,000</u>
21. PROFIT / RETURN EARNED ON ISLAMIC FINANCING AND RELATED ASSETS, INVESTMENTS AND PLACEMENTS		
On islamic financing and related assets	3,123,867	2,857,596
On investments in		
- Available for sale securities	2,371,864	2,918,611
- Held to maturity securities	14	79,766
On deposits with banks	536,803	413,710
On due from financial institutions	<u>98,684</u>	<u>1,457</u>
	<u>6,131,232</u>	<u>6,271,140</u>

	Note	2013 ----- (Rupees '000) -----	2012 ----- (Rupees '000) -----
22. RETURN ON DEPOSITS AND OTHER DUES EXPENSED			
Return on deposits and other accounts		4,178,241	4,577,819
Export refinance under Islamic scheme		161,853	147,430
		<u>4,340,094</u>	<u>4,725,249</u>
23. GAIN / (LOSS) ON SALE OF SECURITIES - net			
Gain / (loss) on sale of sukuk certificates		22,500	(6,000)
- Federal government sukuk certificates		42,403	-
- Other sukuk certificates		64,903	(6,000)
Gain on sale of listed shares		-	594
		<u>64,903</u>	<u>(5,406)</u>
24. OTHER INCOME			
Rent on lockers		5,041	4,239
Profit on sale of fixed assets		9,449	8,542
Financial advisory / facility arrangement fee		14,386	1,250
		<u>28,876</u>	<u>14,031</u>
		2013	2012
		----- (Rupees '000) -----	----- (Rupees '000) -----
			Restated
25. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other staff benefits	25.1	894,428	833,201
Contribution to defined contribution plan	32	38,914	38,644
Charge for defined benefit plan	31.7	27,200	27,899
Non-executive directors' fees, allowances and other expenses	33	19,248	16,376
Rent, taxes, insurance, electricity, etc.		504,913	454,435
Legal and professional charges		30,834	26,522
License fee		39,128	46,829
Communication		84,931	82,029
Brokerage, commission and bank charges		11,512	10,595
Traveling and conveyance		15,812	24,895
Repairs and maintenance		47,232	42,137
Training and development		1,452	1,389
Stationery and printing		33,062	22,792
Advertisement and publicity		21,294	38,611
Auditors' remuneration	25.2	6,000	5,500
Depreciation	10.2	111,907	104,529
Amortization	10.3	89,297	85,316
Security charges		84,314	71,409
Newspaper and periodicals		1,348	1,572
Rental paid on assets acquired under Ijara		10,121	16,097
Entertainment		21,787	18,460
Other expenses		23,879	25,307
		<u>2,118,613</u>	<u>1,994,544</u>
25.1	This includes remuneration to Shariah Advisor and Deputy Shariah Advisor amounting to Rs. 4.356 (2012: Rs. 5.345) million.		
25.2	Auditors' remuneration		
	Fee for statutory audit - annual	1,826	1,660
	Fee for limited scope review - Half yearly	550	500
	Fee for other audit, reviews and certifications	3,624	3,340
		<u>6,000</u>	<u>5,500</u>

fym

	Note	2013 ----- (Rupees '000) -----	2012 Restated
25.3 Other provisions / write offs			
(Reversal of provisions) / provisions against other assets	12.2	(25,113)	48,440
Provision against advance for purchase of property	10.1	125,840	62,920
Leasehold renovation written off		9,101	-
		<u>109,828</u>	<u>111,360</u>
26. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		<u>18,696</u>	<u>60</u>
27. TAXATION			
For the year			
Current taxation	27.1	(67,248)	(33,388)
Deferred taxation		59,619	344,861
		<u>(7,629)</u>	<u>311,473</u>
27.1 The charge for current tax represents minimum tax in accordance with section 113 of the Income Tax Ordinance, 2001.			
28. LOSS PER SHARE - BASIC AND DILUTED			
Loss after taxation for the year		<u>(41,231)</u>	<u>(644,940)</u>
		2013	2012
		Number of shares	
Weighted average number of ordinary shares		<u>893,520,000</u>	<u>893,520,000</u>
		Rupee	
			Restated
Basic / diluted loss per share (Rupee)	28.1	<u>(0.05)</u>	<u>(0.72)</u>
28.1 There were no convertible / dilutive potential ordinary shares outstanding as at 31 December 2013 and 31 December 2012.			
29. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	5,727,407	4,221,381
Balances with other banks	7	16,565,377	6,712,477
		<u>22,292,784</u>	<u>10,933,858</u>
30. STAFF STRENGTH			
		2013	2012
		Number	
Permanent		979	918
Temporary / on contractual basis		148	148
Consultants		2	2
Bank's own staff strength at the end of the year		<u>1,129</u>	<u>1,068</u>
Outsourced		248	225
Total Staff Strength		<u>1,377</u>	<u>1,293</u>

Handwritten signature

31. DEFINED BENEFIT PLAN

31.1 The Bank operates funded gratuity scheme for all its permanent employees. The benefits under the gratuity scheme are payable on retirement at the age of 60 or earlier cessation of service, in lump sum. The benefit is equal to one month's last drawn basic salary for each completed year of service, subject to a minimum of three years of service.

31.2 Significant Actuarial Assumptions

	Note	2013 Per annum	2012 Per annum
Financial assumptions			
- Valuation discount rate		13.0%	11.5%
- Salary increase rate		11.5%	11.5%
Demographic assumptions			
		Adjusted SLIC 2001-05 Moderate	Adjusted EFU 1961-66 Moderate
- Mortality rates (for death in service)			
- Rates of employee turnover			
		2013 ----- (Rupees '000) -----	2012 ----- (Rupees '000) -----

31.3 Fair value of plan assets and present value of obligation

Present value of defined benefit obligation	31.4 & 31.10	203,381	159,417
Fair value of plan assets	31.5 & 31.12	(210,331)	(173,568)
	31.6	(6,950)	(14,151)

31.4 Movement in the present value of defined benefit obligation

Obligation at the beginning of the year		159,417	134,652
Current service cost		30,778	31,332
Interest cost		17,197	15,719
Benefits paid		(19,753)	(17,800)
Actuarial loss / (gain) on obligations		15,742	(4,486)
Obligation at the end of the year		203,381	159,417

31.5 Movement in the fair value of plan assets

Fair value at the beginning of the year		173,568	146,838
Expected return on plan assets		20,775	19,152
Contributions		33,929	30,563
Benefits paid		(19,753)	(17,800)
Actuarial gain / (loss) on plan assets		1,812	(5,185)
Fair value at the end of the year		210,331	173,568

31.6 Movement in receivable to defined benefit plan

Opening balance		(14,151)	(12,186)
Charge for the year	31.7	27,200	27,899
Bank's contribution to the fund made during the year		(33,929)	(30,563)
Re-measurements recognized in OCI	31.7 & 31.11	13,930	699
Closing balance		(6,950)	(14,151)

31.7 Defined benefit cost for the year

Service cost			
Current service cost		30,778	31,332
Net Interest Cost			
Interest cost on defined benefit obligation		17,197	15,719
Return on plan assets		20,775	19,152
Net Interest cost		(3,578)	(3,433)
		27,200	27,899

Re-measurements recognized in OCI during the year

Actuarial loss / (gain) on obligations		15,742	(4,486)
Actuarial (gain) / loss on assets	31.11	(1,812)	5,185
		13,930	699

Total defined benefit cost recognized in P&L and OCI

31.8 Actual return on plan assets

		41,130	28,598
		22,587	13,967

2013
-- (Rupees '000) --

31.9 Expected contributions to be paid to the funds in the next financial year

Service cost		49,768
Current service cost		
Net Interest Cost		
Interest cost on defined benefit obligation	26,163	
Return on plan assets	(29,508)	
	(3,345)	
		46,423

31.10 Analysis of present value of defined benefit obligations

Vested / Non-Vested		
Vested benefits		197,576
Non-vested benefits		5,805
		203,381
 Type of Benefits		
Accumulated benefit obligation		100,576
Amounts attributed to future salary increases		102,805
		203,381

31.11 Re-measurements recognized in OCI during the year

Re-measurements: Actuarial loss / (gain) on obligation		
Due to change in financial assumptions		(21,651)
Due to change in demographic assumptions		13,548
Due to change in experience adjustments		23,845
		15,742
 Re-measurements: Net return on plan assets over interest income		
Actual return on plan assets	22,587	
Interest income on plan assets	(20,775)	
	1,812	
		13,930

31.12 Components of plan assets

Cash and cash equivalents		186,355
Investment in mutual funds		23,976
		210,331

31.13 Maturity profile of the defined benefit obligation

		2013
Weighted average duration of the defined benefit obligation		13.66 years
 Distribution of timing of benefit payments		
Less than 12 months		47,625
Between 1 year and 5 years		95,981
Between 6 and 10 years		126,661
Above 10 years		879,856

31.14 Sensitivity Analysis on significant actuarial assumptions: Actuarial Liability

		196,102
Discount Rate +1%		211,834
Discount Rate -1%		215,183
Salary increase +1%		194,381
Salary increase -1%		194,381

Em

32. DEFINED CONTRIBUTION PLAN

The Bank also operates a recognized contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the Bank and the employees, to the fund at a rate of 10% of basic salary.

	2013	2012
	----- (Rupees '000) -----	
Contribution from the Bank	38,914	38,644
Contribution from the employees	38,914	38,644
	<u>77,828</u>	<u>77,288</u>

33. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive Officer		Directors		Executives	
	2013	2012	2013	2012	2013	2012
	----- Rupees in '000 -----					
Managerial remuneration	17,062	15,464	-	-	219,392	207,931
Charge for defined benefit plan	1,422	1,289	-	-	17,146	16,354
Contribution to defined contribution plan	1,706	1,546	-	-	20,312	19,469
Rent and house maintenance	5,119	4,639	-	-	64,547	60,952
Utilities allowance	1,706	1,546	-	-	21,516	20,317
Medical allowance	1,706	1,546	-	-	21,516	20,317
Bonus	3,840	5,120	-	-	18,020	8,773
Conveyance	815	91	8,675	9,637	120	120
Fee	-	-	10,573	6,739	-	-
Others	6,020	3,000	-	-	54,053	40,515
	<u>39,396</u>	<u>34,241</u>	<u>19,248</u>	<u>16,376</u>	<u>436,622</u>	<u>394,748</u>
Number of persons	<u>1</u>	<u>1</u>	<u>10</u>	<u>10</u>	<u>215</u>	<u>208</u>

33.1 In addition to the above, the Bank also provides cars to the Chief Executive Officer and certain executives for their own use.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of traded investments is based on quoted market prices, except for tradable securities classified by the Bank as 'held to maturity' (if any). These securities are carried at amortized cost in order to comply with the requirements of BSD Circular No.14 dated 24 September 2004.

Fair value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available financial statements.

Fair value of islamic financing and related assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of islamic financing has been calculated in accordance with the Bank's accounting policy as stated in relevant note to these financial statements.

ELM

The repricing profile and maturity are stated in note 41 and 43 to these financial statements.

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

34.2 Off - balance sheet financial instruments

	2013		2012	
	Book value	Fair value	Book value	Fair value
-----Rupees in '000-----				
Forward purchase of foreign exchange	2,277,959	2,320,863	3,206,047	3,254,692
Forward agreement for borrowing	-	-	-	-
Forward sale of foreign exchange	2,797,136	2,781,334	2,946,818	2,965,259
Forward agreement for lending	-	-	-	-

35. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	2013				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
-----Rupees in '000-----					
Total income	14,386	3,291,142	507,044	2,909,348	2,842
Total expenses	-	3,242,756	673,455	2,849,782	-
Net income / (loss)	14,386	48,386	(166,411)	59,566	2,842
Segment return on assets (ROA) (%)	-	7.19%	9.89%	7.48%	0.39%
Segment cost of funds (%)	-	6.19%	6.19%	6.19%	6.19%

	2013				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
-----Rupees in '000-----					
Segment assets (gross of provisions)	-	45,776,022	5,128,510	38,911,705	736,985
Segment non performing financing (NPF)	-	-	123,027	5,125,024	-
Segment provision required against NPF	-	-	64,367	2,729,451	-
Segment liabilities	-	1,158,571	24,330,781	55,696,247	725,612

	2012-Restated				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
-----Rupees in '000-----					
Total income	14,184	3,562,658	481,155	2,617,260	2,034
Total expenses	-	3,330,269	683,031	3,308,931	-
Net income / (loss)	14,184	232,389	(201,876)	(691,671)	2,034
Segment return on assets (ROA) (%)	-	8.78%	11.86%	8.30%	0.48%
Segment cost of funds (%)	-	7.83%	7.83%	7.83%	7.83%

	2012-Restated				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
-----Rupees in '000-----					
Segment assets (gross of provisions)	-	40,570,296	4,056,508	31,539,946	426,483
Segment non performing financing (NPF)	-	-	151,096	5,941,930	-
Segment provision required against NPF	-	-	62,558	2,664,117	-
Segment liabilities	-	-	33,942,055	33,158,394	746,649

Kuh

36. RELATED PARTY TRANSACTIONS

36.1 Related parties comprise of key management, parent bank, shareholders of the Bank, entities having directors in common with the Bank and staff retirement funds.

The details of transactions with related parties during the year are as follows:

	2013 ------(Rupees '000)-----	2012 Restated
<u>Key management personnel</u>		
Islamic financing and related assets		
At beginning of the year	77,319	48,640
Additions during the year	70,182	39,377
Deletions during the year	(30,838)	(10,698)
At end of the year	116,663	77,319
Deposits		
At beginning of the year	142,535	135,868
Additions during the year	376,945	312,677
Deletions during the year	(347,749)	(306,010)
At end of the year	171,731	142,535
Other Balances		
Return payable on deposit	568	338
Profit receivable on islamic financing and related assets	84	68
Transactions, income and expenses		
Profit earned on islamic financing and related assets	4,439	3,005
Return on deposits expenses	11,654	9,316
Salaries, allowances and benefits	156,138	148,542
<u>Parent Bank</u>		
Unremitted head office expenses	95,704	95,704
Sub-ordinated debt	1,158,571	-
<u>Shareholders, entities having directors in common with the Bank and retirement benefit plan of the Bank</u>		
Deposits		
At beginning of the year	541,574	455,799
Additions during the year	938,113	362,548
Deletions during the year	(761,470)	(276,773)
At end of the year	718,217	541,574
Other balances		
Return payable on deposits	4,579	2,158
Investments	52,200	52,200
Provision for diminution in value of investment	25,088	27,353
Non funded exposure	281,120	457,673
Payable to shareholders	2,098	2,098
Transactions, income and expenses		
Return on deposits expenses	48,601	31,443
<u>Retirement benefit plan</u>		
Receivable in respect of defined benefit plan	6,950	14,151
Contribution to defined contribution plan	38,914	38,643
Contribution to defined benefit plan	27,200	27,899

15/4

37 CAPITAL - ASSESSMENT AND ADEQUACY

37.1 Capital Adequacy Framework

As per requirements of SBP, the Bank is required to comply with the capital adequacy framework which comprises of the following capital standards :

i) **Minimum Capital Requirement (MCR):**

As per the requirements of SBP, the banks/DFIs are required to have a minimum paid up capital (net of losses) of Rs 10 billion as of 31 December 2013. Further the banks / DFIs are also required to maintain a capital adequacy ratio of 10% at all times.

In order to meet the regulatory capital requirements, the Bank has prepared a capitalization plan which was submitted to SBP. The SBP vide its letter no. BPRD/BA&CP/608/019652/2013 dated 28 December 2013 has allowed the Bank to proceed with the plan as follows:

- i) The Bank is required to maintain a minimum paid up capital (net of losses) (MCR) of at least Rs. 6 billion at all times and will have to meet the full MCR of Rs 10 billion by 31 December 2016.
- ii) As a short term arrangement, the Bank has been allowed to raise a foreign currency sub-ordinated debt of Rs. 1,158.571 (USD 11) million from its sponsor (AlBaraka). The said sub-ordinated debt has been deposited as non-remunerative deposit with SBP.
- iii) The above foreign currency deposit with the SBP shall be increased to Rs. 2.1 billion by 31 December 2014 and Rs. 2.8 billion by 31 December 2015.
- iv) The foreign currency sub-ordinated debt will not be withdrawn unless the Bank achieves full compliance with MCR. However any withdrawal will be subject to prior approval of the SBP. In the event the Bank is not MCR compliant by 31 December 2016, the sub-ordinated debt will be converted into the paid up capital of the Bank.
- v) For regulatory purposes, the foreign currency sub-ordinated debt is allowed to be included in the Bank's capital.

ii) **Capital Adequacy Ratio (CAR):**

The Capital Adequacy Ratio (CAR) assesses the capital requirement based on the risks faced by the banks.

During the year, the SBP issued revised instructions on the computation of CAR based on BASEL III Capital Reform as published by the Basel Committee on Banking Supervision. These instructions are effective from 31 December 2013 with full implementation intended by 31 December 2019. These instructions also specify the transitional arrangements from 2013 to 2019.

As per the Capital plan of the Bank approved by SBP, the Bank is required to maintain a CAR of at least 16%, which may be reduced depending on the level of MCR maintained as detailed below.

MCR Level	CAR requirement
Rs. 6 billion	16%
Rs. 7 billion	15%
Rs. 8 billion	14%
Rs. 9 billion	13%
Rs. 10 billion	As per CAR applicable under Basel III rules

As of 31 December 2013, the CAR ratio of the Bank works out to 11.97 % .

37.2 **Scope of Applications**

The Basel-III framework is applicable to the Bank on a standalone basis as the Bank does not have a subsidiary. Standardized Approach has been used for calculating the Capital Adequacy for Credit and Market risk, whereas, Basic Indicator Approach (BIA) is used for Operational Risk Capital Adequacy purposes.

EM

37.3 Capital Structure

Bank's regulatory capital has been analyzed in two tiers;

- Common equity Tier 1 capital (CET 1), which includes fully paid up capital, discount on issuance of shares, statutory reserves as per the financial statements and accumulated losses after all regulatory adjustments applicable on CET 1.
- Tier 2 capital, which includes subordinated debt/instrument, general provisions for loan losses (upto a maximum of 1.25% of credit risk weighted assets) and reserves on revaluation of investments (upto a maximum of 45% of the balance in the related revaluation reserves) etc.

	2013		2012	
	Amount	Rupees in '000 Amounts subject to Pre - Basel III treatment	Amount	Basel II
Common Equity Tier 1 capital (CET1): Instruments and reserves				
Fully Paid-up Capital/ Capital deposited with SBP	8,935,200	-	8,935,200	
Discount on issuance of shares	(767,290)	-	(767,290)	
Reserve for issue of bonus shares	-	-	-	
General/ Statutory Reserves	82,074	-	82,074	
Gain/(losses) on derivatives held as cash flow hedge	-	-	-	
Accumulated losses	(2,419,224)	-	(2,368,938)	
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	-	-	-	
CET 1 before Regulatory Adjustments	5,830,760		5,881,046	
Common Equity Tier 1 capital: Regulatory adjustments				
Intangibles (net of related deferred tax liability)	1,001,353	-	1,081,587	
All other intangibles (net of any associated deferred tax liability)	-	-	-	
Shortfall of provisions against classified assets	40,581	-	333,996	
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	773,700	-	
Defined-benefit pension fund net assets	-	-	-	
Reciprocal cross holdings in CET1 capital instruments	-	-	-	
Cash flow hedge reserve	-	-	-	
Investment in own shares/ CET1 instruments	-	-	-	
Securitization gain on sale	-	-	-	
Capital shortfall of regulated subsidiaries	-	-	-	
Deficit on account of revaluation from bank's holdings of property/ AFS investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	-	
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	194,076	-	
Amount exceeding 15% threshold	-	-	-	
of which: significant investments in the common stocks of financial entities	-	-	-	
of which: deferred tax assets arising from temporary differences	-	-	-	
National specific regulatory adjustments applied to CET1 capital	-	-	-	
Investment in TFCs of other banks exceeding the prescribed limit	-	-	-	
Any other deduction specified by SBP	-	-	-	
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions	-	-	-	
Total regulatory adjustments applied to CET1	1,041,934	967,776	1,415,583	
Common Equity Tier 1	(a) 4,788,826		4,465,463	
Additional Tier 1 (AT 1) Capital				
Qualifying Additional Tier-1 instruments plus any related share premium	-	-	-	
of which: Classified as equity	-	-	-	
of which: Classified as liabilities	-	-	-	
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	-	-	-	
of which: instrument issued by subsidiaries subject to phase out	-	-	-	
AT1 before regulatory adjustments				
Additional Tier 1 Capital: regulatory adjustments				
Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)	-	-	-	
Investment in own AT1 capital instruments	-	-	-	
Reciprocal cross holdings in Additional Tier 1 capital instruments	-	-	-	
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-	
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-	
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital	-	-	-	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-	-	
Total of Regulatory Adjustment applied to AT1 capital	-	-	-	
Additional Tier 1 capital				
Additional Tier 1 capital recognized for capital adequacy	(b)			
Tier 1 Capital (CET1 + admissible AT1)	(c=a+b) 4,788,826		4,465,463	

	Rupees in '000		
	2013	2012	
	Amount	Amounts subject to Pre - Basel III treatment	Basel II
Tier 2 Capital			
Qualifying Tier 2 capital instruments under Basel III	1,158,571	-	-
Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)	-	-	-
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	-	-	-
of which: instruments issued by subsidiaries subject to phase out	-	-	-
General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	14,943	-	11,767
Revaluation Reserves	-	-	-
of which: Revaluation reserves on Property	-	-	-
of which: Unrealized Gains/Losses on AFS	7,845	-	62,286
Foreign Exchange Translation Reserves	-	-	-
Undisclosed/Other Reserves (if any)	-	-	-
T2 before regulatory adjustments	-	-	-
Tier 2 Capital: regulatory adjustments	-	-	-
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital	-	-	-
Reciprocal cross holdings in Tier 2 instruments	-	-	-
Investment in own Tier 2 capital instrument	-	-	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	-
Amount of Regulatory Adjustment applied to T2 capital	-	-	-
Tier 2 capital (T2)	-	-	-
Tier 2 capital recognized for capital adequacy	-	-	-
Excess Additional Tier 1 capital recognized in Tier 2 capital	-	-	-
Total Tier 2 capital admissible for capital adequacy	(d) 1,181,359	-	74,053
TOTAL CAPITAL (T1 + admissible T2)	(e=c+d) 5,970,185	-	4,539,516
Total Risk Weighted Assets	(i=f+g+h) 49,881,552	-	40,616,100
Total Credit Risk Weighted Assets	(f) 45,756,965	-	36,724,239
Risk weighted assets in respect of amounts subject to Pre-Basel III Treatment	2,419,440	-	-
of which: recognized portion of investment in capital of banking, financial and insurance entities where holding is more than 10% of the issued common share capital of the entity	-	-	-
of which: deferred tax assets	2,419,440	-	-
of which: Defined-benefit pension fund net assets	-	-	-
of which:	-	-	-
Total Market Risk Weighted Assets	(g) 99,866	-	278,907
Total Operational Risk Weighted Assets	(h) 4,024,721	-	3,612,954
Capital Ratios and buffers (in percentage of risk weighted assets)			
CET1 to total RWA	(a/i) 9.60%	-	10.99%
Tier-1 capital to total RWA	(c/i) 9.60%	-	10.99%
Total capital to RWA	(e/i) 11.97%	-	11.18%
Bank specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus any other buffer requirement)	-	-	-
of which: capital conservation buffer requirement	-	-	-
of which: countercyclical buffer requirement	-	-	-
of which: D-SIB or G-SIB buffer requirement	-	-	-
CET1 available to meet buffers (as a percentage of risk weighted assets)	-	-	-
National minimum capital requirements prescribed by SBP			
CET1 minimum ratio	5.00%		
Tier 1 minimum ratio	6.50%		
Total capital minimum ratio	10.00%		
Amounts below the thresholds for deduction (before risk weighting)			
Non-significant investments in the capital of other financial entities	27,112		
Significant investments in the common stock of financial entities	-		
Deferred tax assets arising from temporary differences (net of related tax liability)	478,883		
Applicable caps on the inclusion of provisions in Tier 2			
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	-	-
Cap on inclusion of provisions in Tier 2 under standardized approach	-	-	-
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-	-
Cap on inclusion of provisions in Tier 2 under internal ratings-based approach	-	-	-

37.4 Risk-Weighted Exposures

Credit Risk	2013		2012	
	Rupees in '000		Rupees in '000	
	Basel III			
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
Balance Sheet Items				
Cash and other liquid assets	22,292,784	3,479,004	10,933,858	1,427,278
Money at call	-	-	1,100,000	220,000
Investments	22,161,962	1,529,313	27,421,461	2,649,500
Islamic financing and related assets	37,020,651	27,990,313	28,782,448	23,089,775
Operating fixed assets	2,725,675	1,724,400	2,629,176	1,547,588
Other Assets	3,588,282	5,525,226	2,999,615	2,997,124
	87,789,354	40,248,256	73,866,558	31,931,265
Off Balance Sheet items				
Loan Repayment Guarantees	-	-	-	-
Purchase and Resale Agreements	-	-	-	-
Performance Bonds etc	6,858,409	4,090,730	6,827,104	4,036,051
Revolving underwriting Commitments	1,680,505	336,101	897,336	179,467
Stand By Letters of Credit	5,007,432	999,032	2,740,836	498,618
Outstanding Foreign Exchange Contracts	-	-	-	-
-Purchase	2,320,863	68,139	3,254,692	62,588
-Sale	2,781,334	14,707	2,965,259	16,250
	18,648,542	5,508,709	16,685,227	4,792,974
Credit risk-weighted exposures		<u>45,756,965</u>		<u>36,724,239</u>
Market Risk				
General market risk		99,866		278,907
Specific market Risk		-		-
Market risk-weighted exposures		<u>99,866</u>		<u>278,907</u>
Operational Risk		<u>4,024,721</u>		<u>3,612,954</u>
Total Risk-Weighted Exposures		<u>49,881,552</u>		<u>40,616,100</u>

69

37.5 Capital Structure Reconciliation

37.5.1 Reconciliation of accounting and regulatory scope of reporting

Reference to Note 37.5.3

As per published financial statements

Under regulatory scope of reporting for capital adequacy

2013

2013

-----Rupees in '000-----

Assets

Cash and balances with treasury banks
Balanced with other banks
Lending to financial institutions
Investments
Islamic financing and related assets
Operating fixed assets
Deferred tax assets
Other assets
Total assets

5,727,407	5,727,407
16,565,377	16,565,377
-	-
22,161,963	22,161,963
37,020,644	37,020,644
2,725,753	2,725,753
1,431,064	1,431,064
2,127,196	2,127,196
87,759,404	87,759,404

Liabilities & Equity

Bills payable
Due to financial institutions
Deposits and other accounts
Sub-ordinated loans
Liabilities against assets subject to finance lease
Deferred tax liabilities
Other liabilities
Total liabilities

725,609	725,609
2,201,945	2,201,945
75,647,097	75,647,097
1,158,571	1,158,571
-	-
-	-
2,177,989	2,177,989
81,911,211	81,911,211

Represented by

Share capital
Reserves
Accumulated loss
Minority Interest
Surplus on revaluation of assets-net of tax
Total equity

8,167,910	8,167,910
82,074	82,074
(2,419,224)	(2,419,224)
-	-
17,433	17,433
5,848,193	5,848,193
87,759,404	87,759,404

Total liabilities & equity

37.5.2 Reconciliation for balance sheet items that require capital adjustments

Assets

Cash and balances with treasury banks
Balanced with other banks
Due from financial institutions
Investments
of which: Non-significant capital investments in capital of other financial institutions exceeding 10% threshold
of which: significant capital investments in financial sector entities exceeding regulatory threshold
of which: Mutual Funds exceeding regulatory threshold
of which: reciprocal crossholding of capital instrument
of which: others
Islamic financing and related assets
shortfall in provisions/ excess of total EL amount over eligible provisions under IRB
general provisions reflected in Tier 2 capital
Fixed Assets
of which: Goodwill
of which: Intangibles
Deferred Tax Assets
of which: DTAs excluding those arising from temporary differences
of which: DTAs arising from temporary differences exceeding regulatory threshold
Other assets
of which: Defined-benefit pension fund net assets
Total assets

a
b
c
d
e
f
g
i
k
h
i
l

5,727,407	5,727,407
16,565,377	16,565,377
-	-
22,161,963	22,161,963
-	-
-	-
-	-
-	-
-	-
37,020,644	37,020,644
40,581	40,581
14,943	14,943
2,725,753	2,725,753
-	-
1,001,353	1,001,353
1,431,064	1,431,064
773,700	773,700
194,076	194,076
2,127,196	2,127,196
-	-
87,759,404	87,759,404

KM

	As per published financial statements	Under regulatory scope of reporting for capital adequacy
	2013	2013
-----Rupees in '000-----		
Liabilities & Equity		
Bills payable	725,609	725,609
Due to financial institutions	2,201,945	2,201,945
Deposits and other accounts	75,647,097	75,647,097
Sub-ordinated loans	-	-
<i>of which: eligible for inclusion in AT1</i>	-	-
<i>of which: eligible for inclusion in Tier 2</i>	1,158,571	1,158,571
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
<i>of which: DTLs related to goodwill</i>	-	-
<i>of which: DTLs related to intangible assets</i>	-	-
<i>of which: DTLs related to defined pension fund net assets</i>	-	-
<i>of which: other deferred tax liabilities</i>	-	-
Other liabilities	2,177,989	2,177,989
Total liabilities	81,911,211	81,911,211
Share capital		
<i>of which: amount eligible for CET1</i>	8,167,910	8,167,910
<i>of which: amount eligible for AT1</i>	-	-
Reserves	82,074	82,074
<i>of which: portion eligible for inclusion in CET1</i>	-	82,074
<i>of which: portion eligible for inclusion in Tier 2</i>	-	-
Accumulated losses	(2,419,224)	(2,419,224)
Minority Interest	-	-
<i>of which: portion eligible for inclusion in CET1</i>	-	-
<i>of which: portion eligible for inclusion in AT1</i>	-	-
<i>of which: portion eligible for inclusion in Tier 2</i>	-	-
Surplus on revaluation of assets	-	-
<i>of which: Revaluation reserves on Property</i>	17,433	17,433
<i>of which: Unrealized Gains/Losses on AFS</i>	-	-
<i>In case of Deficit on revaluation (deduction from CET1)</i>	-	-
Total liabilities	5,848,193	5,930,267
Total Equity	87,759,404	87,841,478
	Source based on reference number from Note 37.5.2	Component of regulatory capital reported by Bank
	Rupees in '000	

37.5.3 Reconciliation of computation of capital with balance sheet of the Bank
Common Equity Tier 1 capital (CET1): Instruments and reserves

Fully Paid-up Capital/ Capital deposited with SBP	(s)	8,167,910
Balance in Share Premium Account		-
Reserve for issue of Bonus Shares		-
General/ Statutory Reserves	(u)	82,074
Gain/(Losses) on derivatives held as Cash Flow Hedge		-
Accumulated losses	(w)	(2,419,224)
Minority Interests arising from CET1 capital instruments issued to third party by consolidated bank subsidiaries (amount allowed in CET1 capital of the consolidation group)	(x)	-
CET 1 before Regulatory Adjustments		5,830,760

Common Equity Tier 1 capital: Regulatory adjustments

Goodwill (net of related deferred tax liability)	(i) - (o)	-
All other intangibles (net of any associated deferred tax liability)	(k) - (p)	1,001,353
Shortfall of provisions against classified assets	(f)	40,581
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	{(h) - (r)} * 0%	-
Defined-benefit pension fund net assets	{(l) - (q)} * 0%	-
Reciprocal cross holdings in CET1 capital instruments	(d)	-
Cash flow hedge reserve		-
Investment in own shares/ CET1 instruments		-
Securitization gain on sale		-
Capital shortfall of regulated subsidiaries		-
Deficit on account of revaluation from bank's holdings of property/ AFS	(ab)	-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(a) - (ac) - (ae)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	(b) - (ad) - (af)	-
Deferred Tax Assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	(i)	-
Amount exceeding 15% threshold		-
of which: significant investments in the common stocks of financial entities		-
of which: deferred tax assets arising from temporary differences		-
National specific regulatory adjustments applied to CET1 capital		-
Investment in TFCs of other banks exceeding the prescribed limit		-
Any other deduction specified by SBP (mention details)		-
Regulatory adjustment applied to CET1 due to insufficient AT1 and Tier 2 to cover deductions		-
Total regulatory adjustments applied to CET1		1,041,934
Common Equity Tier 1		4,788,826

Additional Tier 1 (AT 1) Capital

Qualifying Additional Tier-1 instruments plus any related share premium		-
of which: Classified as equity	(t)	-
of which: Classified as liabilities	(m)	-
Additional Tier-1 capital instruments issued by consolidated subsidiaries and held by third parties (amount allowed in group AT 1)	(y)	-
of which: instrument issued by subsidiaries subject to phase out		-
AT1 before regulatory adjustments		-

EM

Additional Tier 1 Capital: regulatory adjustments

Investment in mutual funds exceeding the prescribed limit (SBP specific adjustment)		-
Investment in own AT1 capital instruments		-
Reciprocal cross holdings in Additional Tier 1 capital instruments		-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(ac)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(ad)	-
Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-1 capital		-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions		-
Total of Regulatory Adjustment applied to AT1 capital Additional Tier 1 capital		-
Additional Tier 1 capital recognized for capital adequacy		-
Tier 1 Capital (CET1 + admissible AT1)		4,788,826

Tier 2 Capital

Qualifying Tier 2 capital instruments under Basel III	(n)	1,158,571
Capital instruments subject to phase out arrangement from tier 2 (Pre-Basel III instruments)		-
Tier 2 capital instruments issued to third party by consolidated subsidiaries (amount allowed in group tier 2)	(z)	-
of which: instruments issued by subsidiaries subject to phase out		-
General Provisions or general reserves for loan losses-up to maximum of 1.25% of Credit Risk Weighted Assets	(g)	14,943
Revaluation Reserves eligible for Tier 2		-
of which: portion pertaining to Property	portion of (aa)	-
of which: portion pertaining to AFS securities		7,845
Foreign Exchange Translation Reserves	(v)	-
Undisclosed/Other Reserves (if any)		-
T2 before regulatory adjustments		1,181,359

Tier 2 Capital: regulatory adjustments

Portion of deduction applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment which, during transitional period, remain subject to deduction from tier-2 capital		-
Reciprocal cross holdings in Tier 2 instruments		-
Investment in own Tier 2 capital instrument		-
Investments in the capital instruments of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(ae)	-
Significant investments in the capital instruments issued by banking, financial and insurance entities that are outside the scope of regulatory consolidation	(af)	-
Amount of Regulatory Adjustment applied to T2 capital Tier 2 capital (T2)		1,181,359
Tier 2 capital recognized for capital adequacy		1,181,359
Excess Additional Tier 1 capital recognized in Tier 2 capital		-
Total Tier 2 capital admissible for capital adequacy		<u>1,181,359</u>
TOTAL CAPITAL (T1 + admissible T2)		<u>5,970,185</u>

im

37.6 Main Features Template of Regulatory Capital Instruments

37.6.1 Common shares

1	Issuer	Al Baraka Bank (Pakistan) Limited
2	Unique identifier (eg KSE Symbol or Bloomberg identifier etc.)	Not Applicable
3	Governing law(s) of the instrument	Laws applicable in Pakistan
4	Regulatory treatment	
5	Transitional Basel III rules	Common equity Tier 1
6	Post-transitional Basel III rules	Common equity Tier 1
7	Eligible at solo/ group/ group&solo	Standalone
8	Instrument type	Common shares
9	Amount recognized in regulatory capital (Currency in PKR thousands, as of reporting)	4,788,826
10	Par value of instrument	PKR 10
11	Accounting classification	Shareholder equity
12	Original date of issuance	2005-2010
13	Perpetual or dated	Perpetual
14	Original maturity date	No maturity
15	Issuer call subject to prior supervisory approval	No
16	Optional call date, contingent call dates and redemption amount	Not Applicable
17	Subsequent call dates, if applicable	Not Applicable
18	Coupons / dividends	
19	Fixed or floating dividend/ coupon	Not Applicable
20	coupon rate and any related index/ benchmark	Not Applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Not Applicable
25	Convertible or non-convertible	Non-convertible
26	If convertible, conversion trigger (s)	Not Applicable
27	If convertible, fully or partially	Not Applicable
28	If convertible, conversion rate	Not Applicable
29	If convertible, mandatory or optional conversion	Not Applicable
30	If convertible, specify instrument type convertible into	Not Applicable
31	If convertible, specify issuer of instrument it converts into	Not Applicable
23	Write-down feature	Not Applicable
33	If write-down, write-down trigger(s)	Not Applicable
34	If write-down, full or partial	Not Applicable
35	If write-down, permanent or temporary	Not Applicable
36	If temporary write-down, description of write-up mechanism	Not Applicable
24	Position in subordination hierarchy in liquidation (specify instrument type immediately)	Not Applicable
25	Non-compliant transitioned features	No

37.6.2 Subordinated Debt

As referred to in note 1.2 to these financial statements, the Bank has entered into a sub-ordinated loan agreement with Albaraka Islamic Bank BSC (the major sponsor). In terms of the said agreement a sub-ordinated loan of Rs. 1,158.571 million (USD 11 million) has been provided to the Bank. No return will be payable on the loan and the loan stands sub-ordinated to all other creditors, depositors and third party obligations of the Bank. The loan is intended to bridge the regulatory capital shortfall of the Bank and will only be repaid if and when the Bank is compliant with the MCR requirements. In the event the Bank is not MCR compliant by 31 December 2016, the loan will be converted into the paid up capital of the Bank. As per the terms of the agreement, the proceeds of the loan shall be placed by the Bank in an interest free deposit account maintained by the Bank with the SBP in US Dollars. As per SBP letter BPRD/ BA&CP/608/019652/2013, the subordinated debt has been included in the Bank's capital for regulatory purposes.

37.7. Capital Adequacy

	Capital Requirements		Risk Weighted Assets	
	2013	2012	2013	2012
	Basel III			
	Rupees in '000-			
Credit risk				
Portfolios subject to standardized approach				
On-Balance Sheet Items:				
Sovereign and Central Banks	6,799	1,069	42,493	10,690
Public Sector Entities (PSEs)	7,500	9,755	46,878	97,549
Banks and Securities Firms	595,616	299,735	3,722,600	2,997,345
Corporate Portfolio	4,118,240	1,964,596	25,739,000	19,645,960
Retail Non Mortgages	92,371	36,723	577,321	367,233
Mortgages – Residential	47,438	24,526	296,486	245,255
Fixed Assets	275,904	154,759	1,724,400	1,547,588
Other Assets	884,036	307,408	5,525,226	3,074,083
Past Due Exposures	399,305	390,829	2,495,657	3,908,294
Off balance sheet items:				
Non-Market Related:	868,138	471,414	5,425,863	4,714,136
Market Related:	13,255	7,884	82,846	78,838
Equity portfolio subject to market-based approaches				
Under simple risk weight method	12,512	3,727	78,198	37,268
Under Internal models approach	-	-	-	-
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	7,460	6,558	46,625	65,583
Foreign exchange risk etc.	8,518	21,332	53,238	213,324
Equity position risk etc.	-	-	-	-
Operational Risk				
Capital Requirement for operational risks	643,955	361,295	4,024,721	3,612,954
	<u>7,981,048</u>	<u>4,061,610</u>	<u>49,881,552</u>	<u>40,616,100</u>
	2013		2012	
	Basel III			
Capital Adequacy Ratio				
Total eligible regulatory capital held	<u>5,970,185</u>		<u>4,539,516</u>	
Total Risk Weighted Assets	<u>49,881,552</u>		<u>40,616,100</u>	
Capital Adequacy Ratio	<u>11.97%</u>		<u>11.18%</u>	

EW

38. RISK MANAGEMENT

This section presents information about Bank's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

- Credit risk is the risk of loss resulting from client or counterparty default.
- Market risk is exposure to market variables such as benchmark rates, exchange rates and equity indices.
- Liquidity risk is the potential for loss to the Bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring an unacceptable cost.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events.

The objective of risk management is to effectively manage uncertainties that arise in the normal course of business activities.

The Bank manages the risk through a framework of risk management, policies and principles, organizational structures, and risk measurement and monitoring processes that are closely aligned with the business activities of the Bank.

Risk management principles

- The Board of Directors (the Board) provides overall risk management supervision. The Board Risk Committee (BRC) regularly monitors the Bank's risk profile.
- The Bank has set up objectives and policies to manage the risks that arise in connection with the Bank's activities. The risk management framework and policies of the Bank are guided by specific objectives to ensure that comprehensive and adequate risk management policies are established to mitigate the salient risk elements in the operations of the Bank.
- The establishment of the overall financial risk management objectives is consistent and tandem with the strategy to create and enhance shareholders value, while guided by a prudent and robust framework of risk management policies.
- The structure of risk management function is closely aligned with the organizational structure of the Bank.

Risk management organization

The Board through its sub-committee called BRC oversees the overall risk of the Bank. The Risk Management Department (RMD) is the organizational arm performing the functions of identifying, measuring, monitoring and controlling the various risk and assists the apex level committee and the various sub-committees in conversion of policies into action.

The BRC comprises Executive, Directors, Non Executive Directors and the Chief Risk Officer. One of the Non Executive directors of the Bank chairs the BRC, who is responsible for planning, management and control of the aforementioned risks of the Bank.

The BRC has delegated some of its tasks of risk management to sub committees which are as follows:

Name of the committees	Chaired by
Credit committee	Chief Executive Officer
Asset and liability management committee (ALCO)	Chief Executive Officer

Credit committee is responsible for approving and monitoring all financing transactions and also the overall quality of the asset portfolio. For this purpose it has formulated credit policy so as to effectively monitor the risk profile of the Bank's asset portfolio and to ensure strict adherence to the SBP's Prudential Regulations, Banking Companies Ordinance, 1962 and any other regulatory requirement.

ALCO has the responsibility for the formulation of overall strategy and oversight of the assets liability management function. ALCO monitors the maintenance of liquidity ratios, depositor's concentration both in terms of overall funding mix and avoidance of reliance on large individual deposits. The Board have approved a comprehensive liquidity management policy.

The Board has constituted an Audit Committee. The Audit Committee works to ensure that the best practices of the Code of Corporate Governance and other policies and procedures are being complied with.

The Bank's Risk Management, Compliance and Internal Audit and Legal Departments support the risk management function. The role of the risk management department is to quantify the risk and the quality and integrity of the Bank's risk-related data. The Compliance Department ensures that all the directives and guidelines issued by SBP are being complied with in order to mitigate the compliance and operational risks. Internal Audit Department reviews the compliance of internal control procedures with internal and regulatory standards.

38.1 Credit Risk

Credit risk is the risk of loss to Bank as a result of failure by a client or counterparty to meet its contractual obligations when due. Exposure to credit risks for the Bank arises primarily from lending activities.

The management of credit risk is governed by credit policies approved by the Board. The procedures set out the relevant approval authorities, limit, risks, credit ratings and other matters involved in order to ensure sound credit granting standards.

Eu

The Bank has a well defined credit structure duly approved by the Board under which delegated authorities at various levels are operating and which critically scrutinise and sanction credit. The emphasis is to provide short to medium term trade related islamic financing and related assets to reputable names, which are self liquidating and Shariah compliant. The risk appraisal system of the Bank has enabled it to build a sound portfolio.

The Board of Directors has approved the Internal Credit Risk Rating Policy for customers, establishing a rating mechanism for identifying and measuring the credit risk against each obligor / transaction. The mechanism considers factors such as management, financial health and macro / micro economic factors and the facility structuring. The Internal Credit Risk Rating System which has been implemented in the Bank assigns risk grades to credit portfolio in nine categories whereas three grades have been assigned to classified islamic financing and related assets. The system has played a significant role in the decision making, monitoring and capital adequacy processes relating to credit risk management.

The Bank classifies a claim as impaired if it considers it likely that it will suffer a loss on that claim as a result of the obligor's inability to meet its commitments (including profit payments, principal repayments or other payments due) after realisation of any available collateral. Allowances or provisions are determined in accordance with the requirements of the SBP. The authority to establish allowances, provisions and credit valuation adjustments for impaired claims, vests in Credit Operations Department and is according to the SBP regulations.

38.1.1 Segmental information

38.1.1.1 Segments by class of business

	2013					
	Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	196,733	0.49%	722,252	0.95%	4,792	0.03%
Mining and quarrying	176,349	0.44%	76,878	0.10%	153,690	0.90%
Textile	6,638,267	16.67%	974,426	1.29%	1,099,363	6.45%
Chemical and pharmaceuticals	3,451,675	8.67%	887,492	1.17%	2,079,016	12.20%
Cement	-	0.00%	4,795	0.01%	-	0.00%
Sugar	2,764,124	6.94%	214,351	0.28%	318,661	1.87%
Footwear and leather garments	764,395	1.92%	190,591	0.25%	71,202	0.42%
Automobile and transportation equipment	1,033,828	2.60%	118,410	0.16%	66,463	0.39%
Electronics and electrical appliances	686,024	1.72%	324,055	0.43%	711,725	4.18%
Construction	1,416,750	3.56%	856,941	1.13%	1,447,055	8.49%
Power (electricity), gas, water, sanitary	5,133,587	12.89%	1,272,221	1.68%	1,066,872	6.26%
Wholesale and retail trade	694,246	1.74%	1,087,877	1.44%	69,334	0.41%
Exports / imports	1,203,980	3.02%	866,209	1.15%	768,430	4.51%
Transport, storage and communication	1,282,747	3.22%	282,501	0.37%	30,632	0.18%
Financial	42,782	0.11%	11,183,985	14.78%	5,824,360	34.18%
Insurance	3,612	0.01%	206,784	0.27%	-	0.00%
Services	851,400	2.14%	13,396,606	17.71%	210,534	1.24%
Individuals / staff	1,701,900	4.27%	24,831,423	32.83%	16,055	0.09%
Others	11,772,063	29.57%	18,149,300	23.99%	3,100,015	18.19%
	39,814,462	100%	75,647,097	100.00%	17,038,199	100.00%

	2012					
	Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, forestry, hunting and fishing	136,450	0.43%	1,071,921	1.69%	94,220	0.58%
Mining and quarrying	168,226	0.53%	-	0.00%	356,218	2.21%
Textile	5,126,100	16.27%	1,001,804	1.58%	660,522	4.10%
Chemical and pharmaceuticals	2,302,906	7.31%	947,221	1.50%	1,236,790	7.67%
Cement	8,406	0.03%	2,648	0.00%	10,258	0.06%
Sugar	2,031,911	6.45%	225,072	0.36%	34,331	0.21%
Footwear and leather garments	908,040	2.88%	126,258	0.20%	92,610	0.57%
Automobile and transportation equipment	1,073,257	3.41%	445,479	0.70%	38,934	0.24%
Electronics and electrical appliances	954,649	3.03%	621,867	0.98%	506,645	3.14%
Construction	1,576,573	5.00%	769,507	1.22%	1,421,989	8.82%
Power (electricity), gas, water, sanitary	2,268,123	7.20%	-	0.00%	300,000	1.86%
Wholesale and retail trade	747,937	2.37%	-	0.00%	173,207	1.07%
Exports / imports	678,057	2.15%	1,727,875	2.73%	109,504	0.68%
Transport, storage and communication	1,423,444	4.52%	804,852	1.27%	406,225	2.52%
Financial	63,161	0.20%	4,640,014	7.33%	6,792,542	42.14%
Insurance	18,954	0.06%	573,331	0.91%	-	0.00%
Services	774,978	2.46%	1,349,405	2.13%	655,151	4.06%
Individuals / staff	1,189,408	3.77%	33,743,599	53.33%	26,670	0.17%
Others	10,058,543	31.92%	15,227,802	24.06%	3,208,190	19.89%
	31,509,123	100.00%	63,278,655	100.00%	16,124,006	100.00%

38.1.1.2 Segment by sector

	2013					
	Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / government	2,692,795	6.76%	2,285,426	3.02%	120,498	0.71%
Private	37,121,667	93.24%	73,361,671	96.98%	16,917,701	99.29%
	<u>39,814,462</u>	<u>100.00%</u>	<u>75,647,097</u>	<u>100.00%</u>	<u>17,038,199</u>	<u>100.00%</u>

	2012					
	Islamic financing and related assets (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / government	2,466,371	7.83%	2,080,098	3.29%	175,891	1.09%
Private	29,042,752	92.17%	61,198,557	96.71%	15,948,115	98.91%
	<u>31,509,123</u>	<u>100.00%</u>	<u>63,278,655</u>	<u>100.00%</u>	<u>16,124,006</u>	<u>100.00%</u>

38.1.1.3 Details of non-performing islamic financing and related assets and specific provisions by class of business segment

	2013		2012	
	Classified Islamic Financing	Specific Provisions Held	Classified Islamic Financing	Specific Provisions Held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	36,501	-	37,049	-
Chemical & pharmaceuticals	525,639	135,081	533,907	23,685
Textile	2,357,549	1,292,123	2,279,172	1,302,053
Footwear & leather garments	35,091	34,873	35,091	34,873
Automobile & transportation equipment	1,201	-	824	-
Electronics and electrical appliances	20,905	10,217	21,146	9,400
Construction	639,715	481,232	814,457	466,463
Power (electricity), gas, water, sanitary	4,062	4,062	4,062	4,062
Wholesale / retail trade	329,860	45,331	345,409	19,521
Exports / imports	111,951	100,783	112,277	100,735
Transport, storage and communication	35,771	-	29,721	-
Financial	1,898	973	1,898	1,000
Services	44,025	19,032	66,173	33,244
Individuals	123,027	49,424	151,096	50,792
Others	980,856	605,744	1,660,744	669,080
	<u>5,248,051</u>	<u>2,778,875</u>	<u>6,093,026</u>	<u>2,714,908</u>

38.1.1.4 Details of non-performing islamic financing and related assets and specific provisions by class of business segment and sector

	2013		2012	
	Classified Islamic financing	Specific Provisions Held	Classified Islamic financing	Specific provisions held
	(Rupees in '000)			
Public / government	-	-	-	-
Private	5,248,051	2,778,875	6,093,026	2,714,908
	<u>5,248,051</u>	<u>2,778,875</u>	<u>6,093,026</u>	<u>2,714,908</u>

KUL

38.2 Credit Risk – General Disclosures, Basel II Specific

The Bank has adopted Standardised Approach, under Basel III.

38.3 Credit Risk: Standardized Approach

The Bank use rating assigned by JCR-VIS and PACRA as External Credit Assessment Institutions (ECAI) for the purpose of risk weighing its exposure. In the case of foreign currency exposure, ratings assigned by S&P and Moody's have been applied.

Following are the types of exposure for which each agency is used:

Exposure	MOODY'S	S&P	JCR-VIS	PACRA
Corporate	-	-	✓	✓
Banks	✓	✓	✓	✓
Sovereigns	✓	-	-	-
SME's	-	-	✓	✓
Securitisations	-	-	-	-

Most of the Bank's asset base is short or medium term. Therefore, the Bank uses the entity's rating to assess the risk of its exposure without any adjustments.

For exposure amounts after risk mitigation subject to the standardised approach, amount of Bank's outstandings (rated and unrated) in each risk bucket as well as those that are deducted are as follows:

Exposure	Rating category No.	Amount outstanding	Deduction	Net Amount
			CRM*	
			Rupees in '000	
Corporate	1	4,088,448	-	4,088,448
	2	4,121,725	4,600	4,117,125
	3,4	83,545	-	83,545
	5,6	720,963	-	720,963
	Unrated	22,369,403	671,645	21,697,758
Banks	1,2,3	18,592,995	3,776	18,589,219
	Unrated	925	-	925
Sovereigns etc.		23,492,037	-	23,492,037
PSEs	1	218,667	2,762,408	(2,543,741)
	2,3	6,289	-	6,289
	4-5	-	-	-
	6	-	-	-
	Unrated	2,762,408	-	2,762,408
Others		10,300,017	105,804	10,194,213
Total		<u>86,757,422</u>	<u>3,548,233</u>	<u>83,209,189</u>

* CRM= Credit Risk Mitigation

Main types of collateral taken by the Bank are:

- Cash margin
- Lien on deposits / government securities
- Hypothecation on stocks / assets
- Mortgage on properties

The Bank has adopted simple approach to credit risk mitigation under Basel III and therefore has not applied any haircuts to the collateral. Moreover the Bank's eligible collateral only includes cash / liquid securities.

39. GEOGRAPHICAL SEGMENT ANALYSIS

	2013			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	Rupees in '000			
Pakistan	(33,602)	87,759,404	5,848,193	17,068,199
Others	-	-	-	-
	<u>(33,602)</u>	<u>87,759,404</u>	<u>5,848,193</u>	<u>17,068,199</u>
	2012			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
	Rupees in '000			
Pakistan	(956,413)	73,866,558	6,019,460	16,124,006
Others	-	-	-	-
	<u>(956,413)</u>	<u>73,866,558</u>	<u>6,019,460</u>	<u>16,124,006</u>

40. MARKET RISK

40.1 Market risk is the risk that the Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as profit rates, credit spreads, commodity prices, equity prices and foreign exchange rates. In the absence of trading book, the Bank is only exposed to benchmark rate risk in the banking book.

The main objective of the Bank's market risk management is to minimize market risk in the banking book and to facilitate business growth within a controlled and transparent risk management framework.

Market risk in banking book arise from investment in fixed income securities, equities and dealing in foreign exchange transactions.

Market risk is being monitored by ALCO and performs following functions in relation to market risk:

- Regular periodic review of market risk, based on economic review reports.
- Keeps an eye on the structure / composition of Bank's assets and liabilities and decide upon product pricing for deposits, islamic financing and related assets.
- Develop future business strategy in view of the latest trends / policy in the market, economic conditions and local regulatory requirements.
- Review and recommend to the Board of Directors, new opportunities for generating revenues.

40.2 Foreign Exchange Risk

Foreign exchange risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. Objective of foreign exchange risk management function is to minimize the adverse impact of foreign exchange assets and liabilities mismatch and maximize the earnings. The Bank manages this risk by setting and monitoring dealer, currency, inter exposures, stop loss and counter party limits for on and off balance sheet financial instruments.

	2013				2012 (Restated)			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- Rupees in '000 -----							
Pakistan rupee	50,745,435	45,389,136	458,290	5,814,589	47,509,509	41,391,304	(296,607)	5,821,598
United States dollar	35,655,673	34,867,937	(782,644)	5,092	24,754,709	24,526,837	(25,505)	202,367
Great Britain pound	(52,505)	104,319	166,979	10,155	394,296	530,503	143,828	7,621
Euro	887,439	1,030,921	157,375	13,893	759,875	936,372	178,284	1,787
Arab Emirates Dirham	325,887	345,518	-	(19,631)	267,613	274,192	-	(6,579)
Japanese Yen	189,946	168,897	-	21,049	174,983	183,868	-	(8,885)
Swiss Frank	7,529	4,483	-	3,046	5,573	4,022	-	1,551
	<u>87,759,404</u>	<u>81,911,211</u>	<u>-</u>	<u>5,848,193</u>	<u>73,866,558</u>	<u>67,847,098</u>	<u>-</u>	<u>6,019,460</u>

The exposures of the Bank to foreign exchange risk is also restricted by the statutory limit on aggregate exposure prescribed by the SBP.

40.3 Equity position risk

Equity position risk is the risk arising from taking positions in the equities and all instruments that have a market behaviour similar to equities.

Counter parties limits, as also fixed by the SBP, are considered to limit risk concentration. The Bank invests in those equities which are Shariah compliant as advised by the Shariah advisor.

Ken

41. MISMATCH OF YIELD RATE SENSITIVE ASSETS AND LIABILITIES

2013

Exposed to Yield/ profit rate risk

On-balance sheet financial instruments	Effective yield	Total	Exposed to Yield/ profit rate 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	
Assets													
Cash and balances with treasury banks	9.37%	5,727,407	-	-	-	-	-	-	-	-	-	-	5,727,407
Balances with other banks	0.00%	16,565,377	13,767,404	2,285,000	-	-	-	-	-	-	-	-	512,973
Due from financial institutions	8.24%	22,161,963	260,000	12,902,918	6,176,727	-	-	-	-	-	-	-	573,277
Investments	10.83%	37,020,644	4,005,949	8,581,066	16,021,692	2,967,482	638,774	12,844	492,931	920,721	835,389	36,186	4,366,995
Islamic financing and related assets	-	1,576,784	-	-	-	-	-	-	-	-	-	-	1,576,784
Other assets	-	83,052,175	18,033,353	23,768,984	22,198,419	2,967,482	638,774	505,775	986,132	871,575	324,245	-	12,757,436
Liabilities													
Bills payable	-	725,609	-	-	-	-	-	-	-	-	-	-	725,609
Due to financial institutions	8.36%	2,201,945	803,645	1,398,300	-	-	-	-	-	-	-	-	-
Deposits and other accounts	6.53%	75,847,097	12,993,315	11,185,391	13,010,515	11,301,187	3,914,676	9,031,693	1,367,522	-	-	-	12,842,798
Sub-ordinated loans	-	1,158,571	-	-	-	-	-	-	-	-	-	-	1,158,571
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	2,170,391	-	-	-	-	-	-	-	-	-	-	2,170,391
On-balance sheet gap													
		81,903,613	13,796,960	12,583,691	13,010,515	11,301,187	3,914,676	9,031,693	1,367,522	-	-	-	16,897,369
		1,148,562	4,236,393	11,165,293	9,187,904	(8,333,705)	(3,275,902)	(8,525,918)	(381,390)	871,575	324,245	-	(4,139,933)

Non financial assets	2,725,753
Operating fixed assets	550,412
Other assets	1,431,064
Deferred tax asset	4,707,229
Non financial liabilities	
Other liabilities	7,598
Total net assets	<u>5,848,193</u>

Off-balance sheet financial instruments													
Forward lendings	-	-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap													
		4,236,393	11,185,293	9,187,904	(8,333,705)	(3,275,902)	(3,275,902)	(8,525,918)	(381,390)	871,575	324,245	-	(4,139,933)
Total yield / profit risk sensitivity gap		<u>4,236,393</u>	<u>15,421,686</u>	<u>24,609,590</u>	<u>16,275,885</u>	<u>12,999,983</u>	<u>4,474,065</u>	<u>4,092,675</u>	<u>4,964,250</u>	<u>5,288,495</u>	<u>1,148,562</u>		

₹M

2012 (Restated)

Exposed to Yield/profit rate risk

On-balance sheet financial instruments	Effective yield	Total	Rupees in '000							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	
Assets													
Cash and balances with treasury banks		4,221,381											4,221,381
Balances with other banks	5% - 9.25%	6,712,477	6,422,367	-	-	-	-	-	-	-	-	-	290,110
Due from financial institutions	9.50%	1,100,000	600,000	500,000	-	-	-	-	-	-	-	-	682,139
Investments	2.5% - 14.50%	27,421,461	308,832	8,506,229	15,227,039	-	-	2,697,222	-	-	-	-	5,062,754
Islamic financing and related assets	10.96%	28,782,448	2,764,837	3,948,908	10,300,852	5,721,128	612,748	13,856	61,468	5,392	-	-	1,233,328
Other assets		1,233,328											
		69,471,095	10,096,036	12,955,137	25,527,891	5,721,128	612,748	13,856	2,758,690	5,392	290,505		11,489,712
Liabilities													
Bills payable	0.00%	746,651	-	-	-	-	-	-	-	-	-	-	746,651
Due to financial institutions	8.50%	1,991,738	7,998	853,240	1,125,700	4,800	-	-	-	-	-	-	-
Deposits and other accounts	7.83%	63,278,655	9,432,845	10,733,655	9,691,188	11,717,221	3,424,647	7,136,752	1,937,633	-	-	-	9,204,714
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease		-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities		1,821,221	-	-	-	-	-	-	-	-	-	-	1,821,221
		67,838,265	9,440,843	11,586,895	10,816,888	11,722,021	3,424,647	7,136,752	1,937,633	-	-	-	11,772,586
On-balance sheet gap		1,632,830	655,193	1,368,242	14,711,003	(6,000,893)	(2,811,899)	(7,122,896)	821,057	5,392	290,505		(282,874)
Non financial assets													
Operating fixed assets		2,629,176											
Other assets		474,148											
Deferred tax asset - net		1,292,139											
		4,395,463											
Non financial liabilities													
Other liabilities		8,833											
Total net assets		6,037,126											
Off-balance sheet financial instruments													
Forward lendings		-	-	-	-	-	-	-	-	-	-	-	-
Forward borrowings		-	-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap													
			655,193	1,368,242	14,711,003	(6,000,893)	(2,811,899)	(7,122,896)	821,057	5,392	290,505		(282,874)
Total yield / profit risk sensitivity gap													
			655,193	2,023,435	16,734,438	(10,733,545)	(7,921,646)	(798,750)	1,619,807	1,625,199	1,915,704		1,632,830
Cumulative yield / profit risk sensitivity gap													

2,629,176
474,148
1,292,139
4,395,463

8,833

6,037,126

Off-balance sheet financial instruments

Forward lendings
Forward borrowings
Off-balance sheet gap

Total yield / profit risk sensitivity gap
Cumulative yield / profit risk sensitivity gap

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.
Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates.

540

42. LIQUIDITY RISK

Liquidity risk is the potential for loss to the Bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring an unacceptable cost.

ALCO has the responsibility for the formulation of overall strategy and oversight of the assets liability management function. ALCO monitors the maintenance of liquidity ratios, depositor's concentration both in terms of overall funding mix and avoidance of reliance on large individual deposits. The Board of Directors have approved a comprehensive liquidity management policy.

43. MATURITIES OF ASSETS AND LIABILITIES

43.1 Maturities of assets and liabilities based on expected maturities

2013

	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
Cash and balances with treasury banks	5,727,407	4,568,836	-	-	-	-	1,158,571	-	-	-
Balances with other banks	16,565,377	14,280,377	2,285,000	-	-	-	-	-	-	-
Due from financial institutions	22,161,963	-	6,036,113	502,700	7,099,063	4,935,846	1,147,131	1,180,721	1,260,389	-
Investments	37,020,644	3,525,853	7,452,031	13,273,565	2,150,869	2,931,583	1,875,009	3,330,768	1,967,183	513,683
Islamic financing and related assets	2,725,753	13,256	26,514	275,797	200,592	159,087	159,087	287,403	310,447	1,293,570
Operating fixed assets	1,431,064	-	-	-	-	-	-	1,431,064	-	-
Deferred tax assets	2,127,196	648,877	498,301	44,864	854,793	65,696	-	14,665	-	-
Other assets	87,759,404	23,037,299	16,297,959	14,096,926	10,305,317	8,092,212	4,339,798	6,244,621	3,538,019	1,807,253
LIABILITIES										
Bills payable	725,609	725,609	-	-	-	-	-	-	-	-
Due to financial institutions	2,201,945	-	803,645	1,398,300	-	-	-	-	-	-
Deposits and other accounts	75,647,097	14,910,745	13,897,790	15,554,673	13,199,353	4,884,307	11,832,708	1,367,521	-	-
Sub-ordinated loans	1,158,571	-	-	-	-	-	1,158,571	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	2,177,989	958,881	226,909	-	180,093	-	812,106	-	-	-
Other liabilities	81,911,211	16,595,235	14,928,344	16,952,973	13,379,446	4,884,307	13,803,385	1,367,521	-	-
NET ASSETS										
	5,848,193	6,442,064	1,369,615	(2,856,047)	(3,074,129)	3,207,905	(9,463,587)	4,877,100	3,538,019	1,807,253

REPRESENTED BY

Share capital	8,935,200
Discount on issuance of shares	(767,290)
Reserves	82,074
Accumulated Loss	(2,419,224)
Surplus on revaluation of assets-net of tax	17,433
	<u>5,848,193</u>

2012 (Restated)

Total	Rupees in '000								
	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
4,221,381	4,221,381	-	-	-	-	-	-	-	-
6,712,477	6,712,477	-	-	-	-	-	-	-	-
1,100,000	600,000	500,000	-	-	-	-	-	-	-
27,421,461	47,271	-	67,414	9,917,714	13,995,804	50,036	3,343,222	-	-
28,782,448	4,750,225	3,949,995	10,303,099	1,522,435	2,056,328	2,289,735	2,155,449	1,259,580	495,602
2,629,176	11,900	23,800	231,140	290,161	268,638	142,798	241,090	730,849	688,800
1,292,139	-	-	-	-	-	-	1,292,139	-	-
1,707,476	1,122,163	34,674	121,075	362,691	52,243	-	14,630	-	-
73,866,558	17,465,417	4,508,469	10,722,728	12,093,001	16,373,013	2,482,569	7,046,530	1,990,429	1,184,402
746,651	746,651	-	-	-	-	-	-	-	-
1,991,738	7,998	853,240	1,125,700	4,800	-	-	-	-	-
63,278,655	10,807,109	12,677,690	11,514,643	13,077,677	4,119,603	9,144,300	1,937,633	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1,830,054	866,623	113,677	-	209,540	-	640,214	-	-	-
67,847,098	12,428,381	13,644,607	12,640,343	13,292,017	4,119,603	9,784,514	1,937,633	-	-
6,019,460	5,037,036	(9,136,138)	(1,917,615)	(1,199,016)	12,253,410	(7,301,945)	5,108,897	1,990,429	1,184,402

ASSETS

Cash and balances with treasury banks
Balances with other banks
Due from financial institutions
Investments
Islamic financing and related assets
Operating fixed assets
Deferred tax assets - net
Other assets

LIABILITIES

Bills payable
Due to financial institutions
Deposits and other accounts
Liabilities against assets subject to
finance lease
Deferred tax liabilities
Other liabilities

NET ASSETS

REPRESENTED BY

Share capital
Discount on issuance of shares
Reserves
Accumulated Loss
Surplus on revaluation of assets-net of tax

Saving and current accounts have been bucketed on the basis of findings of a behaviour study conducted by the Bank using three years data under maximum withdrawal approach.

542

43.2 Maturities of assets and liabilities based on contractual maturities

2013

	Total	Rupees in '000													
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years					
ASSETS															
Cash and balances with treasury banks	5,727,407	4,568,836	-	-	-	-	-	-	-	-	1,158,571	-	-	-	-
Balances with other banks	16,565,377	14,280,377	2,285,000	-	-	-	-	-	-	-	-	-	-	-	-
Due from financial institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investments	22,161,963	-	6,036,113	502,700	7,099,063	4,935,846	1,147,131	1,180,721	1,260,389	1,967,183	1,967,183	1,260,389	1,967,183	513,683	513,683
Islamic financing and related assets	37,020,644	3,525,953	7,452,031	13,273,565	2,150,869	2,931,583	1,875,009	3,330,768	1,967,183	3,330,768	287,403	310,447	1,293,570	1,293,570	1,293,570
Operating fixed assets	2,725,753	13,256	26,514	275,797	200,592	159,087	159,087	1,431,064	1,431,064	1,431,064	1,431,064	1,431,064	1,431,064	1,431,064	1,431,064
Deferred tax assets	1,431,064	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	2,127,196	648,877	498,301	44,864	854,793	65,596	65,596	14,565	14,565	14,565	14,565	14,565	14,565	14,565	14,565
	87,759,404	23,037,299	16,297,959	14,096,926	10,305,317	8,092,212	4,339,798	6,244,621	3,538,019	3,538,019	3,538,019	3,538,019	3,538,019	3,538,019	3,538,019
LIABILITIES															
Bills payable	725,609	725,609	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to financial institutions	2,201,945	-	803,645	1,398,300	-	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	75,647,097	56,095,692	3,672,962	5,964,056	6,043,910	1,229,125	1,273,830	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522
Sub-ordinated loans	1,158,571	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	2,177,989	958,881	226,909	180,093	180,093	1,229,125	812,106	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522
	81,911,211	57,780,182	4,703,516	7,362,356	6,224,003	1,229,125	3,244,507	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522	1,367,522
NET ASSETS	5,848,193	(34,742,883)	11,594,443	6,734,570	4,081,314	6,863,087	1,095,291	4,877,099	3,538,019	3,538,019	3,538,019	3,538,019	3,538,019	3,538,019	3,538,019
REPRESENTED BY															
Share capital	8,935,200														
Discount on issuance of shares	(767,290)														
Reserves	82,074														
Accumulated Loss	(2,419,224)														
Surplus on revaluation of assets - net of tax	17,433														
	5,848,193														

ETM

2012 (Restated)

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

	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
ASSETS									
Cash and balances with treasury banks	4,221,381	-	-	-	-	-	-	-	-
Balances with other banks	6,712,477	-	-	-	-	-	-	-	-
Due from financial institutions	1,100,000	500,000	-	-	-	-	-	-	-
Investments	27,421,461	47,271	67,414	9,917,714	13,995,804	3,343,222	-	-	-
Islamic financing and related assets	28,782,448	3,949,995	10,303,099	1,522,435	2,056,328	2,155,449	1,259,580	495,602	-
Operating fixed assets	2,629,176	11,900	231,140	290,161	268,638	142,798	241,090	730,849	688,800
Deferred tax assets	1,292,139	-	-	-	-	-	1,292,139	-	-
Other assets	1,707,476	34,674	121,075	362,691	52,243	-	14,631	-	-
	73,866,558	17,465,416	10,722,728	12,093,001	16,373,013	2,482,569	7,046,551	1,990,429	1,184,402

LIABILITIES

Bills payable	746,651	-	-	-	-	-	-	-	-
Due to financial institutions	1,991,738	853,240	1,125,700	4,800	-	-	-	-	-
Deposits and other accounts	63,278,655	5,171,866	4,474,377	7,825,023	1,436,413	1,393,257	1,937,633	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Other liabilities	1,830,054	113,677	-	209,540	-	640,214	-	-	-
	67,847,098	6,138,783	5,600,077	8,039,363	1,436,413	2,033,471	1,937,633	-	-
NET ASSETS	6,019,460	(25,195,942)	5,122,651	4,053,638	14,936,600	449,098	5,108,898	1,990,429	1,184,402

REPRESENTED BY

Share capital	8,935,200
Discount on issuance of shares	(767,290)
Reserves	82,074
Accumulated loss	(2,368,938)
Surplus on revaluation of assets - net of tax	138,414
	<u>6,019,460</u>

Current and saving deposits have been classified under maturity upto one month as these do not have any contractual maturity.

44. OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events.

The Bank has Basic Indicator Approach (BIA) for assessing the capital charge for operational risk. Under BIA the capital charge is calculated by multiplying average annual gross income of the Bank over the past three years with 15% as per guidelines issued by SBP.

The Bank ensures that the key operational risks are managed in a timely and effective manner by raising awareness of operational risk, improving early warning information and allocating risk ownership and responsibilities. The Bank has developed policies, guidelines and manuals necessary for the mitigation of operational risk.

The Bank is also supervised by the Shariah Supervisory Board which sets out guidelines, policies and procedures for the Bank to ensure that all its activities and products are Shariah compliant. The internal audit function of the Bank performs regular audit on various operations of the Bank and monitors the key risk exposure areas to ensure that internal control procedures are in place and those procedures are able to mitigate risk associated with operational activities.

A business continuity program have also been formulated and approved by the Board of Directors to ensure uninterrupted flow of operations of the Bank.

45. PROFIT / (LOSS) DISTRIBUTION TO DEPOSITOR'S POOL

45.1

General Remunerative Depositor's Pool	Profit Sharing Ratio	Profit Rate and weightage announcement period	Mudarib Share (Rupees in '000)	Percentage of Mudarib Share transferred through Hiba	Profit rate return earned	Profit rate return distributed
General pool	40%	Monthly	2,045,916	41%	9.5%	7.29%

Specific Pools	Profit Sharing Ratio	Profit Rate and weightage announcement period	Profit rate return earned of IERS pool	Profit rate return earned by SBP
----------------	----------------------	---	--	----------------------------------

Islamic Export Refinance (IERS Pool)	65.5% : 34.5%	Monthly	10.56%	8.24%
--------------------------------------	---------------	---------	--------	-------

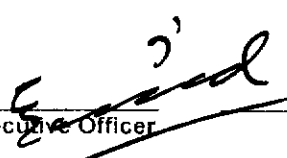
GENERAL

46.1 Certain prior year's figures have been reclassified / restated for the purpose of comparison. However, there were no material reclassifications / restatements to report except already disclosed in note 5.1 to the financial statements.


46.2 Figures have been rounded off to the nearest thousand rupees.

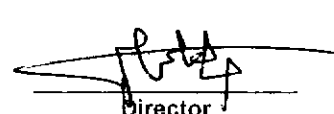
47. DATE OF AUTHORISATION

These financial statements were authorized for issue on 5 March 2014 by the Board of Directors of the Bank.


Chief Executive Officer


Director


Director


Director

STATEMENT SHOWING WRITTEN-OFF FINANCINGS OR ANY OTHER FINANCIAL RELIEF OF RUPEES 500,000 OR ABOVE DURING THE YEAR ENDED 31 DECEMBER 2013

Sr. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's name	Outstanding Liabilities at beginning of year					Written-off			Rupees in thousands		
				Principal	Profit	Charity	Total	Principal	Profit	Charity	Waiver	Total		
													5	6
1	Khurshid Spinning Mills Ltd	1) Khurshid Anwar 33100-0853027-9 2) Amer Khurshid 33100-4420114-9 3) Asem Khurshid 33102-1773118-1 4) Sharmeen Asem 33100-0289085-2 5) Jabeen Khurshid 33100-0375630-2 6) Khawaja Aized Amer 33100-7492518-1 7) Khawaja Shahid Amin Sethi 42301-5521796-5	1) Muhammad Gul 2) Khawaja Khurshid 3) Khurshid Anwar 4) Kh. Asem Khurshid 5) Khawaja Khurshid Anwar 6) Khawaja Amer Khurshid 7) Khawaja Muhammad Yousaf Sethi	46,026	2,010	36,745	84,781	-	2,010	-	36,745	-	-	38,755
2	Faisal Sultan	Faisal Sultan 35202-4677959-1	Sultan Rashid	10,437	7,768	3,448	21,653	-	4,972	-	3,448	-	-	8,420
3	Baba Qee Estates	Haji Muhammad Abbas 35201-9877126-9	Mr. Faqeer Hussain	9,438	879	6,760	17,077	-	-	-	6,760	-	-	6,760
4	Ghazanfar Ali	Ghazanfar Ali 4210193240229	Muhammad Ashraf	11,297	10,375	5,042	26,713	-	9,671	-	5,042	-	-	14,713
5	Amtex Limited	1) Khurram Ifikhar 33102-1749610-9 2) Shahzad Ifikhar 33102-1749610-3 3) Nadeem Ifikhar 33100-9694643-3 4) Muhammad Ahsan 33100-0922443-1 5) Usman Ghani 33100-2320040-3 6) Shahzada Mahmood Ahmad 33100-9875028-7 7) Ejaz Qadir 33100-0959195-5	1) Haji Ifikhar U Din 2) Haji Ifikhar U Din 3) Haji Ifikhar U Din 4) Asmatullah 5) Haji Abdul Ghani 6) Muhammad Din 7) Sufi Abdul Qadir	495,775	30,136	-	525,911	-	4,493	-	-	-	-	4,493
6	Al Hamd Foods Limited	1) Haroon Shafiq 35202-8912085-5 2) Ch. Khurshid Ahmed 35201-1754099-7 3) Muhammad Zeeshan Ch. 35200-1438313-3 4) Taimur Chahudhary 35202-7844613-3	1) Ch Muhammad Shafiq 2) Ch Aleem ul Ilahi 3) Haroon Shafiq Chahudhary 4) Haroon Chahudhary	593,910	47,503	-	641,413	-	47,503	-	-	-	-	47,503
7	Khan Embroidery	Abdul Malik Khan 35202-3907202-9	Manzoor Hussain Khan	2,833	548	1,450	4,831	-	548	-	1,450	-	-	1,988
8	Gulshan Weaving Mills Limited	1) Jahangir Shakoor 42201-0545325-7 2) Kashif Naseer 42201-0350141-3 3) Ali Atzal Sheikh 42301-6812507-9	1) Abdul Shakoor 2) Naseer Ahmed 3) M. Abubakar Shaikh	273,862	6,511	-	280,373	-	6,511	-	-	-	-	6,511
				1,443,578	105,730	53,445	1,602,752	-	75,708	-	53,445	-	-	129,153

ADDITIONAL INFORMATION

On account of restructuring / rescheduling of Kohinoor Mills Limited in 2011, the Bank had written off the profit of Rs. 10.43 million and waived the charity of Rs. 17.13 million. The related financial impacts were appropriately accounted for in those financial statements.

Details of charity paid

	2013	2012
	----- (Rupees '000) -----	
Charity equal to or in excess of Rs 100,000 was paid to the following organizations / individuals:		
Indus Hospital	11,000	-
Citizens Foundation	10,600	-
Patient's Aid Foundation	10,000	200
Trust School	6,000	-
Government of Punjab for the effectees of Balochistan Earthquake	3,000	-
Rising sun institute	1,170	-
Lahore Business Association For Rehabilitation	1,000	500
Shaukat Khanum Memorial Cancer Hospital	1,000	500
Care Foundation	1,000	-
Mukhtaran Rafiq Foundation	1,000	-
Diya Pakistan	1,000	-
Green Crescent Trust	200	100
Mayo Hospital	200	100
Sir Ganga Ram Hospital	200	200
Aziz Jehan Begum Trust	100	100
Marghzar Welfare Society	200	100
Jinnah Hospital	100	-
Nighaban Welfare Association	200	300
Koochl Goth Hospital	300	300
Lady Willington Hospital	600	-
Sina Health, Education & Welfare Trust	416	-
Afzal Memorial Thalassemia Foundation	668	600
Karachi Cricket Association of the Deaf	200	-
Clapp Hospital	200	-
Students starting LLB studies	450	-
Fatmid Foundation	200	-
Concern for children	150	-
Bunyard	200	-
Alamgir Welfare Trust International	500	-
Sundas Foundation	500	-
Miss Shaheen	100	-
Children Cancer	500	-
Hope NGO	500	-
Mr. Asad Ali	100	-
Miss Sheikh Ghazala	100	-
Bali Memorial Trust	-	250
Mr. Muhammad Nawaz	-	100
Bait-ul-Sukoon	-	100
Children Village	-	300
Children Hospital	-	500
Fatima Memorial Hospital	-	500
Liver Centre Faisalabad	-	120
Layton Rehmatullah Benevolent Trust (LRBT)	-	250
Carvan Of Life, Pakistan Trust	-	300
Patient Welfare Association Jinnah Hospital	-	279
	<u>53,654</u>	<u>5,699</u>

EWS