

بَيْنَا وَبَيْنَكَ يَا اَللّٰهِي



BankIslami

Vision:

To be recognized as the leading authentic Islamic Bank.

Mission:

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

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

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Corporate Information

Board of Directors

Chief Justice (Retd) Mahboob Ahmed	Chairman
Mr. Ahmed Goolam Mahomed Randeree	
Mr. Ahmed Mohammed Elshall	
Mr. Ali Raza Siddiqui	
Mr. Hasan Aziz Bilgrami	President & CEO
Mr. Mohamed Abdulla Amer Al Nahdi	
Mr. Shabir Ahmed Randeree	

Shariah Supervisory Board

Justice (Retd) Muhammad Taqi Usmani	Chairman
Professor Dr Fazlur Rahman	Member
Mufti Irshad Ahmad Aijaz	Member & Shariah Adviser

Audit Committee

Mr. Ahmed Mohammed Elshall	Chairman
Mr. Ali Raza Siddiqui	Member
Mr. Shabir Ahmed Randeree	Member

Executive Committee

Chief Justice (Retd) Mahboob Ahmed	Chairman
Mr. Ahmed Goolam Mahomed Randeree	Member
Mr. Ahmed Mohammed Elshall	Member
Mr. Hasan Aziz Bilgrami	Member

Human Resource & Compensation Committee

Mr. Ali Raza Siddiqui	Chairman
Mr. Ahmed Goolam Mahomed Randeree	Member
Mr. Ahmed Mohammed Elshall	Member
Mr. Hasan Aziz Bilgrami	Member

Company Secretary

Mr. Gohar Iqbal Shaikh

Auditors

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Legal Adviser

Haidermota & Co.
Barrister at Law



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Management

Mr. Gohar Iqbal Shaikh
Mr. Ayaz Wasay
Mr. Aqeel Siddiqui
Mr. Asad Alim
Ms. Sheba Matin Khan
Mr. Asim Shafique
Mr. Akhtar Ausaf
Mr. Farooq Anwar
Mr. Rehan Shuja Zaidi
Mr. Jawad Khan
Mr. Arsalan Vohra
Mr. Faisal Shaikh

Country Head-Finance & Operations
Head-Treasury & Financial Institutions
Head-Commercial Banking
Head-Information Systems
Head-Human Resources
Head-Corporate Banking (South)
Head-Credit
Head-Operations
Head-Internal Audit
Head-Legal & Compliance
Head-Risk Management
Head-Product Development

Registered Office

11th Floor, Executive Tower
Dolmen City
Marine Drive, Block -4, Clifton,
Karachi
Phone: (92-21) 111-247(BIP)-111
Fax: (92-21) 5378373
Email: info@bankislami.com.pk

Share Register

Technology Trade (Private) Limited
Dagja House, 241-C, Block-2
PECHS. Off Sharea-e-Quaideen
Karachi
Phone: (92-21) 4391316-7
Fax: (92-21) 4391318

Website

www.bankislami.com.pk



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Notice of Annual General Meeting

Notice is hereby given that the 3rd Annual General Meeting of the Members of BankIslami Pakistan Limited will be held Inshallah on Friday, March 30, 2007 at 3:00 pm at the Hotel Regent Plaza, Sharea Faisal, Karachi. to transact the following business:

Ordinary Business

1. To receive, consider and adopt the Audited Accounts for the year ended December 31, 2006 together with the Auditors' and Directors' Reports thereon.
2. To appoint auditors of the Bank for the year ending December 31, 2007 and to fix their remuneration. The present auditors M/s Ford Rhodes Sidat Hyder & Co., Chartered Accountants, retire and being eligible, offer themselves for reappointment.

Any other Business

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

By Order of the Board

Gohar Iqbal Shaikh
Company Secretary

Karachi: March 07, 2007

Notes:

The Members' Register will remain closed from March 22, 2007 to March 30, 2007 (both days inclusive).

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

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

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



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Directors' Report

Dear Shareholders,

السلام عليكم ورحمة الله وبركاته

On behalf of the Board of the Directors, I am pleased to present the third annual report of BankIslami Pakistan Limited.

Pakistan's economy turned another year of impressive performance. The GDP growth rate was 6.60%, third year in a row it has been above 6.0%. At the current rate, Pakistan's growth rate is within the upper half of emerging economies i.e. behind China, India and Vietnam and ahead of countries such as Hong Kong, Singapore, Thailand, Indonesia and Korea. While the Government is predicting an average growth rate of 6.0% to 7.0% in the medium term, some un-certainties specially at the political front may need to be neutralized to achieve full potential of the economy. On a positive note, multi-lateral agencies such as IMF are also predicting a sustainable growth rate of 6.5% to 7.0% as a base case scenario.

Yet another positive trend has been increasing Foreign Direct Investment ('FDI') which is projected to touch US \$6 Billion without any noticeable privatisation proceeds. This coupled with increased remittances have almost neutralized the increasing trade deficit thereby not putting any significant impact on the Pak rupee. Similarly, tax revenues are increasing while budget deficit has been restricted at below 4% of the GDP. Inflation has been contained and with softening of oil prices, it is expected to remain stable.

Banking sector has also been a direct beneficiary of the economic progress and structural reforms program initiated by the Government. On the back of improved macro environment and regulations, Pakistan's banking turned out another year of impressive performance. It was also one of the largest recipients of both portfolio and direct investment.

The competitive scenario on the other hand, has become more challenging. Firstly, with the privatization of Banks, almost 80% of the industry is in private hands resulting in increased competition for the market share making 'network' one of the most important success factor. It is the network or scale which is driving consolidation in the industry not Capital as some of the analysts still believe. For a Bank to survive and prosper, it is extremely important to create a network within first two to three years. This scale or network can be funded only through Capital in the initial phase. Again, we are of the opinion the Minimum Capital Requirement (MCR) prescribed by the central bank is the 'minimum' and may not necessarily make a start up economically viable. Linked to this equation is profitability which will follow once the first two critical success factors are in place.

Within the banking sector, Islamic banking offers its own share of opportunities and challenges. As a sector, given no regulatory obstacles, we expect it to be the fastest growing segment of the financial services industry in the next decade or so, achieving around 25% of the market share from current 3%. Already, it has clocked an impressive growth rate despite absence of liquidity management instrument. With the entry of new banks in this areas issues such as these, shortage of human resources and evolution of a stable regulatory mechanism will evolve and taken care of.



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BankIslami is ideally placed in this environment.

During the period (nine months) under review, the Bank opened ten branches with nine of them in Karachi. Four out of ten branches were opened in December. As a part of strategy, we focused on creating a network in the largest and perhaps the most competitive market of the country. The tenth branch was opened in Quetta towards the end of the year. All Branches of BankIslami are online. By the grace of Allah, the response at each of the Branches has been encouraging considering the actual deposit intake started aggressively in the last quarter only.

The Bank successfully launched a complete suite of branded deposit products consisting of Islami Baachat Account (saving accounts), Islami Current Accounts and Islami Amdani Certificates. As well, towards the year end, a five year monthly profit scheme, Islami Mahana Munafa Account, was launched with over whelming response. Purposely the Bank focused on creating a core base, as a result Fixed Term Deposits were sold more aggressively. Additionally, to break into the authenticity conscious customers, who in the long run would serve as excellent opinion leaders, the Bank lowered the bar for account opening.

On the asset side, we focused mainly on SME. Within that segment, Ijarah, Murabaha and Diminishing Mushrika accounted for most of the financing. An innovative Istisna transaction was also successfully undertaken. Yet another point of satisfaction was execution of a successful Musharika transaction with an equipment importer. The Bank as a strategy would be looking for similar transaction this year more aggressively. Yet another milestone achieved was grant of Islamic Export Re-finance line by State Bank thereby making BankIslami one of the few Islamic Banks the central bank has reposed confidence on.

During the year, the Bank also launched successfully a Auto Ijarah scheme with good response. As well, the ground work on Home Financing was also completed and is ready for a soft launch.

By the grace of Allah, the entire asset portfolio, including Auto Ijarah, was performing.

Use of Technology for a better product delivery and lower intermediation cost has been a corner stone of the Bank's strategy. The Bank successfully launched its operations in online environment. Additionally, it has the unique distinction to offer Internet Banking to its customers right from the first day. Deployment of biometric ATM's first time in the region is yet another feather in the cap. Phone Banking and a round the clock call center was also launched. Going forward, the Bank is evaluating its options for acquisition of a core banking system that facilitates Islamic banking. As a contingency, the Bank is also geared to undertake self development if need be.

On the Human Resources front, the Bank tackled the shortage of trained resources with a lot of innovation and foresight. Firstly, each and every staff of BankIslami is trained on Islamic banking and has to pass a test. This course ensures a minimum level of understanding. As well, the Bank is also embarking upon specific product training to ensure efficient product delivery through the entire network. Secondly, to cater to the Human resource requirements in future, the Bank has successfully launched its graduate training program with good results. Inshallah in three years time, most of the staffing requirements would be met through internal resources.

On infra-structure and premises side, the Bank is head quartered in owned 23,000 SQF premises located right next to the Clifton beach. Four out of ten branches are owned by the Bank. As a strategy, the Bank prefers owning business premises if such an option is available. This strategy is likely to continue in future as well. All branches of the Bank have been done with a consistent theme to ensure the same look and feel in all locations.



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Financial Highlights:

Particulars	Rs. in 000's
Revenue	143,554
Expenses	177,953
Financing	959,133
Investments	493,008
Deposits	1,778,008
Equity	2,002,887
Asset Deposit Ratio	44%
Capital Adequacy Ratio	62.01%

Future outlook:

BankIslami is Inshallah poised for a major growth in year 2007. The Bank has received approval for opening 18 branches and inshallah by the end of year the network of BankIslami will expand to 28. Due to this aggressive expansion, the revenues of the Bank will be burdened with the costs involved in opening new branches, hence the Bank is expected to report loss in the first three quarters.

Year 2007 will inshallah also see the initial launch of our Wealth Management Business while both consumer and corporate offerings will be further consolidated.

On the capital front, as indicated in the last quarterly report of 2006, the Board is seriously evaluating its options to increase the capital to around Rs. 6 billion this year. A decision Inshallah in this respect shall be taken by the half year.

Corporate and Financial Reporting Framework

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

1. The financial statements prepared by the Management of the Bank present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
2. Proper books of account of the Bank have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements except as disclosed in the financial statements and accounting estimates are based on reasonable and prudent judgement.
4. International Accounting Standards as applicable in Pakistan have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.



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6. There are no doubts upon the Bank's ability to continue as a going concern.
7. There has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations.
8. The value of investments of the Bank's Provident Fund based on un-audited accounts at December 31, 2006 amounted to Rs. 5.26 million.
9. The purchase and sale of shares by the Directors and the Chief Executive during the year is given in enclosed annexure.

Compliance with Code of Corporate Governance

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange in its listing regulation relevant for the year ended 31st December 2006 have been adopted by the Bank and have been duly complied with. A statement to this effect is annexed with the report.

Risk Management Framework

Risk management at BIPL is an integrated function within the core banking and finance activity. This function is viewed at BIPL not just in terms of compliance with any mandatory requirement but rather an undiluted measurement of the strategic value of the business. The Risk Management framework developed at BIPL is being gradually implemented and forms the basis on which convergence towards the Basel II regime will be adopted.

Even though the development of the Risk Management Framework at BIPL is in its nascent stage, we are committed in pursuing our goal of effecting sound Risk Management policies and procedures; establishing a culture of pro-active risk management with robust - time withstanding - internal processes.

A Risk Management Committee forms the basic structure in the risk assessment / management and decision making process. The committee may comprise of the Head of Credit, Operations and Treasury along with the Head of Risk Management to review the critical risk areas of operational, credit and market risk as well as other risks being faced by the organisation, along with the magnitude of their impact and likelihood of occurrence. The risks thus identified and analysed, could be further weighed against the capital allocation ratio and its impact reviewed on a periodic basis. This pro-active approach in a new organisation aids in outlining the organisation's risk tolerance level vis-a-vis BIPL's risk appetite in relation to its size, current position and market standing, with a view to ultimately developing processes, controls and guidelines to not only mitigate, but also to effectively manage risk.

BIPL is currently also working towards the formulation of its Basel II implementation plan in line with the roadmap on the subject provided by the SBP, which lays down the different approaches namely Standardised and Advanced along with their timelines of implementation. We are committed to the pursuance of the Basel II roadmap provided by the SBP as part of their document on Minimum Capital Requirement (MCR) and are in active consultation with the ECAI (External Credit Assessment Institution) on borrower ratings, where required.



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Credit Rating

The Bank is in the process of finalizing the Credit Rating Agency for obtaining the entity rating and will be issuing the same before 30th June 2007 as required by the State Bank of Pakistan.

Pattern of Shareholding

The pattern of shareholding as at 31st December 2006 is annexed with the report.

Auditors

The present auditors Ford Rhodes Sidat Hyder & Co., Chartered Accountants, retire and being eligible offer themselves for re-appointment. As required under the Code of Corporate Governance, the Audit Committee has recommended the appointment of Ford Rhodes Sidat Hyder & Co. Chartered Accountants, as auditors for the year ending 31st December 2007.

Acknowledgments:

We would like to thank the Governor State Bank of Pakistan, the State Bank, Securities and Exchange Commission of Pakistan and the Shariah Supervisory Board for their support and guidance. A special note of thanks is due to the Ex-governor, Dr. Ishrat Hussain, without him, Islamic banking would not have come so far. Our gratitude to our customers, sponsors and shareholder who have shown confidence in the Bank. We also place on record the efforts of all the staff to make BankIslami a success.

For and on Behalf of the Board.

Hassan A. Bilgrami
President & CEO

February 27, 2007



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ANNEXURE TO DIRECTORS REPORT

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

Name	Designation	No. of Shares as at 1st January 2006	Share subscribed during the year	No. of Shares as at 31st December 2006
Chief Justice (Retd) Mahboob Ahmed	Chairman	500	50,000	50,500
Mr. Ahmed Goolam Mahomed Randeree	Director	18,750,000	—	18,750,000
Mr. Shabir Ahmed Randeree	Director	18,750,000	—	18,750,000
Hasan A. Bilgrami	Chief Executive	500	—	500

During the year four meetings of the Board were held and attended as follows.

	Attended	Leave of Absence
Chief Justice (Retd) Mahboob Ahmed	3	1
Mr. Ahmed Goolam Mahomed Randeree	-	4
Mr. Ahmed Mohammed Elshall *	1	-
Mr. Ali Raza Siddiqui	4	-
Mr. Hasan Aziz Bilgrami	4	-
Mr. Shabir Ahmed Randeree	4	-
Mr. Yavar Moini	4	-
Mr. Ziad Makkawi	-	3

* Dubai Bank PJSC appointed Mr. Ahmed Mohammed Elshall in Meeting held on October 31, 2006 in place of Mr. Ziad Makkawi.



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Statement of Internal Control

Statement of Management's Responsibility

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

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

Management Evaluation of the Effectiveness on the Bank Internal Control System

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

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

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

For and on Behalf of the Board.

Hassan A. Bilgrami
President & CEO

February 27, 2007



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Statement of Compliance with the Code of Corporate Governance

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

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

1. The Bank encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes six independent non-executive directors and one executive director.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Bank.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by the stock exchange.
4. A casual vacancy occurring in the Board on October 31, 2006 was filled by the directors within statutory time limit.
5. The Bank has prepared Statement of Ethics and Business Practices which has been signed by majority of the directors and employees of the Bank.
6. The Board has developed a vision and mission statement and an overall corporate strategy and significant policies of the Bank. A complete record of particulars of the significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transaction, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose. Four meetings of the board were held during the year. Written notices/emails of the Board meetings, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The management of the Bank has circulated a summary of provisions of various laws i.e. the Companies Ordinance, 1984, the Code of Corporate Governance, the Banking Companies Ordinance, 1962, the Prudential Regulations of the State Bank of Pakistan and the Listing Regulations of the Karachi Stock Exchange as required under clause (xiv) of the Code i.e. with respect to the 'Orientation Course' of directors to acquaint them of their duties and responsibilities and enable them to manage the affairs of the Bank on behalf of shareholders.



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

Hasan A. Bilgrami
President & CEO

February 27, 2007

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



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We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended December 31, 2006 prepared by the Board of Directors of **BankIslami Pakistan Limited** (the Bank) to comply with the regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan.

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

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

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, as applicable to the Bank for the year ended December 31, 2006.

KARACHI:
February 27, 2007

Ford Rhodes Sidat Hyder & Co.
Ford Rhodes Sidat Hyder & Co.
Chartered Accountants



Shariah Adviser's Report

السلام عليكم ورحمة الله وبركاته

الحمد لله رب العالمين، والصلاة والسلام على سيد الأنبياء والمرسلين وعلى آله وصحبه
أجمعين، وبعد:

The Shareholders of BankIslami Pakistan Limited:

The year under review was the first year of Islamic Commercial Banking Operations of the Bank. During the year BankIslami developed and executed a number of Islamic Commercial Banking Products in consultation with the Shariah Supervisory Board of the Bank. Currently the Bank is offering a number of Shariah Compliant Commercial Banking Products which includes:

- **Deposit Products based on the Islamic mode of Mudarabah**
 - Islami Current Account
 - Islami Bachat Account
 - Islami Amadni Certificate
 - Islami Mahana Munafa Account
- **Corporate Banking based on Islamic modes of Murabahah, Ijarah, Diminshing Musharakah and Istisna**
 - Working Capital Finance
 - Medium & Long Term finance
 - Leasing /Ijarah
 - Islamic Export Refinance Scheme
 - Structured Finance
- **Trade Finance**
 - Letter of Credit (Sight & Usance)
 - Letter of Guarantee
 - Forward Cover
 - Bill Purchase
- **Consumer Banking**

Auto Ijarah based on Islamic mode of Ijarah Following is the mode wise breakup of the Bank's financing portfolio.

1.	Murabahah	39%
2.	Ijarah	29%
3.	Diminishing Musharakah	24%
4.	Istisna	8%

The Bank is in the final stages of launching Housing Finance Product. It is also worth mentioning that the Bank has successfully undertaken a transaction based on Islamic mode of Musharakah. The Bank has also undertaken an Istisna' transaction with one of the customers. Other transactions based on Musharakah and Mudarabah are in pipeline and I expect the management will undertake sizable transactions in the FY'07.



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An amount of Rs. 5,000 is deposited by the customers as charity paid due to late payments of Bank's dues. The amount will be utilized, by the Bank on behalf of its customer, as per the directives of Shariah Supervisory Board of the Bank.

I have also reviewed the transaction undertaken by the Bank and found that most of the transaction are done as per the suggested mechanism. However, following observation were made to further improve the process:

1. It was noted that some of the Murabahahs were undertaken after physical verification of the asset sold. However, there is a need to improve the ratio of such Murabahahs. At the time of receiving Declaration along with Murabahah Purchase Evidences the concerned officers should physically verify the purchasing made by the agent as it is the most important part of any Murabahah transaction. Therefore, every effort should be made to make the process crystal clear. The concerned personnel should prepare report of his visit and a copy of the report should be attached with the relevant Murabahah. Secondly, the Bank should make every effort to make direct payment to supplier while purchasing the asset for Murabahah transaction.
2. Similarly while undertaking Ijarah and Diminishing Musharakah transactions utmost care should be taken to prepare documentation as per the prescribed format as during the review I noted that certain required blanks were not filled properly. Almost all of these errors were of a nature that the validity of the transactions and the income derived there from was not affected. Such irregularities were pointed out to the management, and the management has assured that such errors will not be repeated in future.
3. Alhamdulillah, the branch network is growing very rapidly, due to which the staff strength is increasing almost daily. Though the Bank is providing training to new joiners through an internally developed mechanism. However, I believe that its an area which needs much more improvement in order to ensure Shariah compliance level in day to day transaction. It is therefore suggested that a thorough training of the staff should be undertaken to avoid any problems while undertaking Islamic Banking transactions.

The bank is still in the process of development and refinement of its products to make them conforming to the highest standard of Shariah Compliance. The Bank has the support of its Shariah Supervisory Board in this endeavor. May Allah make us successful in this regard and accept our efforts. In addition to this I would like to take this opportunity to offer praise to Almighty Allah and seek His guidance and Tawfeeq, and to express my wishes for further progress, development and prosperity of BankIslami Pakistan Limited and Islamic Banking.

Mufti Irshad Ahmad Aijaz
Shari'ah Adviser



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Auditors' Report to the Members

We have audited the annexed balance sheet of **BANKISLAMI PAKISTAN LIMITED** (the Bank) as at December 31, 2006, and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here in after referred to as the 'financial statements'), for the year then ended, in which are incorporated the un-audited certified returns from the branches except for three branches which have been audited by us. We state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with the accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2006, and its true balance of the loss, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

KARACHI:
February 27, 2007

Ford Rhodes Sidat Hyder & Co.
Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Balance Sheet


as at December 31, 2006




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	Note	December 31, 2006	December 31, 2005
----- Rupees in `000 -----			
ASSETS			
Cash and balances with treasury banks	7	338,222	-
Balances with other banks	8	790,709	1,160,097
Due from financial institutions	9	412,131	-
Investments	10	493,008	-
Financings	11	959,133	6,190
Operating fixed assets	12	441,428	231,865
Deferred tax assets	13	27,130	-
Other assets	14	562,913	78,458
		4,024,674	1,476,610
LIABILITIES			
Bills payable	15	23,830	-
Due to financial institutions	16	50,000	-
Deposits and other accounts	17	1,778,008	-
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	169,949	5,120
		(2,021,787)	(5,120)
NET ASSETS		2,002,887	1,471,490
REPRESENTED BY			
Share capital	19	2,000,000	595,025
Reserves		-	-
Accumulated loss		(8,354)	-
		1,991,646	595,025
Advance against future issue of share capital	20	-	876,465
Surplus on revaluation of assets	21	11,241	-
		2,002,887	1,471,490
CONTINGENCIES AND COMMITMENTS	22	-	-

The annexed notes from 1 to 45 form an integral part of these financial statements.


Chairman


President / Chief Executive


Director


Director

Profit and Loss Account for the year ended December 31, 2006



BankIslami

	Note	April 07, 2006 to December 31, 2006 (Note 2.2)	2005
----- Rupees in `000 -----			
Profit / return on financings, investments and placements earned	24	100,008	-
Return on deposits and other dues expensed	25	18,665	-
Net spread		81,343	-
Provision against non-performing financings	11.6	(1,001)	-
Provision for diminution in the value of investments		-	-
Bad debts written off directly		-	-
		(1,001)	-
Income after provisions		80,342	-
OTHER INCOME			
Fee, commission and brokerage income		3,430	-
Dividend Income		13,569	-
Income from dealing in foreign currencies		740	-
Gain / (loss) on sale of securities	26	24,179	-
Unrealized gain / (loss) on revaluation of investments classified as held-for-trading	27	(926)	-
Other income		3,555	-
Total other income		44,547	-
		124,889	-
OTHER EXPENSES			
Administrative expenses	28	145,526	-
Other provisions / write offs		-	-
Other charges	29	13,762	-
Total other expenses		(159,288)	-
		(34,399)	-
Extra ordinary / unusual items		-	-
LOSS BEFORE TAXATION		(34,399)	-
Taxation - Current		(1,021)	-
- Prior years		(266)	-
- Deferred		27,332	-
	30	26,045	-
LOSS AFTER TAXATION		(8,354)	-
Accumulated loss brought forward		-	-
Accumulated loss carried forward		(8,354)	-
Basic earnings / (loss) per share	31	Re. (0.04)	-
Diluted earnings / (loss) per share	32	Re. (0.04)	-

The annexed notes from 1 to 45 form an integral part of these financial statements.

Chairman

President / Chief Executive

Director

Director



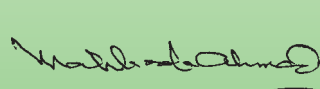
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Cash Flow Statement

for the year ended December 31, 2006

Note	December 31, 2006	December 31, 2005
	----- Rupees in `000 -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(34,399)	-
Add: Deferred cost incurred - net	(9,257)	(62,473)
Add: Dividend income	(13,569)	-
	(57,225)	-
Adjustments:		
Depreciation	28,405	3,503
Amortization	1,627	328
Provision against non-performing financings	1,001	-
Surplus / (deficit) on revaluation of investments (classified as held-for-trading)	926	-
Loss / (gain) on sale of fixed assets	7	-
Deferred cost amortized	12,062	-
Gain on revaluation of derivative instrument	(3,555)	-
	40,473	3,831
	(16,752)	(58,642)
(Increase) / decrease in operating assets		
Due from financial institutions	(412,131)	-
Held-for-trading securities	(222,480)	-
Financings	(953,944)	-
Others assets (excluding advance taxation and deferred cost)	(475,228)	(12,721)
	(2,063,783)	(12,721)
Increase / (decrease) in operating liabilities		
Bills payable	23,830	-
Borrowings from financial institutions	50,000	-
Deposits and other accounts	1,778,008	-
Other liabilities	164,829	(6,617)
	2,016,667	(6,617)
	(63,868)	(77,980)
Income tax paid	(9,553)	(772)
Net cash flow from operating activities	(73,421)	(78,752)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(260,213)	-
Dividend income received	13,569	-
Investments in operating fixed assets	(240,553)	(235,641)
Sale proceeds of property and equipment disposed-off	952	-
Net cash flow from investing activities	(486,245)	(235,641)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of share capital	528,510	595,005
Advance against future issue of share capital - net off issue of shares	-	876,465
Net cash flow from financing activities	528,510	1,471,470
Effects of exchange rate changes on cash and cash equivalents	(10)	-
Net increase in cash and cash equivalents	(31,166)	1,157,077
Cash and cash equivalents at beginning of the year	1,160,097	3,020
Cash and cash equivalents at end of the year	1,128,931	1,160,097

The annexed notes from 1 to 45 form an integral part of these financial statements.


Chairman


President / Chief Executive


Director


Director



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Statement of Changes in Equity for the year ended December 31, 2006

	Share capital	Accumulated loss	Total
----- Rupees in `000 -----			
Balance as of January 01, 2005	35	-	35
Issue of share capital	594,990	-	594,990
Balance as of January 01, 2006	<u>595,025</u>	<u>-</u>	<u>595,025</u>
Loss for the year ended December 31, 2006	-	(8,354)	(8,354)
Issue of share capital	1,404,975	-	1,404,975
Balance as of December 31, 2006	<u><u>2,000,000</u></u>	<u><u>(8,354)</u></u>	<u><u>1,991,646</u></u>

The annexed notes from 1 to 45 form an integral part of these financial statements.


Chairman


President / Chief Executive


Director


Director



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Notes to the Financial Statements

for the year ended December 31, 2006

1. STATUS AND NATURE OF BUSINESS

- 1.1 Bank Islami Pakistan Limited was incorporated in Pakistan as a public limited company on October 18, 2004 under the Companies Ordinance, 1984 to carry out business of an Islamic Commercial Bank in accordance with the principles of Islamic Shariah. The registered office of the Bank is situated at 11th Floor, Dolmen City, Marine Drive, Block-4, Clifton, Karachi.
- 1.2 The State Bank of Pakistan (SBP) issued a "Scheduled Islamic Commercial Bank" license to the Bank on March 18, 2005 and granted approval for commencement of Islamic Banking Business on March 13, 2006. The Securities and Exchange Commission of Pakistan issued Certificate of Commencement of Business on March 17, 2006. The SBP declared the Bank a scheduled bank on March 17, 2006 under section 37 of the State Bank of Pakistan Act, 1956. After fulfillment of certain formalities, the Bank commenced its operations from April 07, 2006.
- 1.3 The shares of the Bank are quoted on the Karachi Stock Exchange. The Bank is operating with ten branches as at December 31, 2006.

2. BASIS OF PRESENTATION

- 2.1 These financial statements have been prepared in accordance with the requirements of State Bank of Pakistan.
- 2.2 The Bank commenced its operations from April 07, 2006 and accordingly, the profit and loss account for the year covers the period commenced April 07, 2006 to December 31, 2006. Accordingly, there are no corresponding figures to report for profit and loss account.
- 2.3 The Bank provides financing mainly through shariah compliant financial products. Except for Murabaha transactions (which are accounted for under the Islamic Financial Accounting Standard - 1), the purchases, sales and rentals arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of rental / profit thereon.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the directives issued by the State Bank of Pakistan, the requirements of the Banking Companies Ordinance, 1962, Companies Ordinance, 1984, International Financial Reporting and Accounting Standards issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as adopted in Pakistan.

The SECP has approved the adoption of International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" and International Accounting Standard 40, "Investment Property". The requirements of these standards have not been taken into account for the purpose of these financial statements as the implementation of the said standards has been deferred by SBP, vide BSD circular number 10 dated August 26, 2002, for banks in Pakistan till further instructions. However, investments have been classified and valued in accordance with the requirements of various circulars issued by SBP.



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4. BASIS OF MEASUREMENT

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

5. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of financial statements in conformity with approved accounting standards and statutory requirements require the use of critical accounting estimates. It also requires management to exercise its judgment in the process of applying accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed below:

5.1 Investments

In accordance with BSD Circulars No.10 and 14 dated July 13, 2004 and September 24, 2004 respectively, issued by the State Bank of Pakistan, the Bank classifies its investment portfolio into "held-for-trading", "held-to-maturity" and "available-for-sale" securities using the management's judgments.

5.2 Provisions against non performing financings

The Bank reviews its doubtful financings at each reporting date to assess whether provision should be recorded in the profit and loss account, in addition to the mandatory provisions required in accordance with the Prudential Regulations issued by the State Bank of Pakistan. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

5.3 Impairment of equity investments

The Bank determines that available-for-sale or held-for-trading equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

5.4 Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and credits to the extent that it is probable that taxable profit will be available against which such losses and credits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.



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5.5 Defined benefit plan

The cost of the defined benefit gratuity plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, if any, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

5.6 Deferred cost

The Bank has utilized its judgment to account for the cost of pre-operating / preliminary expenses as deferred cost as these costs are expected to give rise to future economic benefits. The Bank has made estimation with respect to its amortization period and has decided to charge the amortization over a period of five years from the date of commencement of business.

5.7 Property and equipment

Estimates with respect to residual values, depreciable lives and pattern of flow of economic benefits are based on the analysis by the management. Further, the Bank reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in the future might affect the carrying amount of respective item of property and equipment, with a corresponding effect on the depreciation charge and impairment.

5.8 Derivatives

The Bank enters into various arbitrage transactions whereby a permissible security is purchased in the ready market and promised to be sold in future market. The promise to sell is considered to be a derivative and accounted for at fair value. However, such transactions are not considered to be a hedge according to management's judgement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with treasury and other banks.

6.2 Revenue recognition

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

6.2.2 Income from Istisna'a is recognised on a weighted time apportionment basis.

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

- 6.2.4 Profit on Diminishing Musharaka is recognised on an accrual basis.
- 6.2.5 Provisional profit of Musharaka / Modaraba financing is recognised on accrual basis. Actual profit / loss or loss on Musharaka and Modaraba financings is adjusted for declaration of profit by Musharaka partner / modarib or at liquidation of Musharaka / Modaraba.
- 6.2.6 Dividend income is recognised when the right to receive dividend is established.
- 6.2.7 Fee on issuance of letter of credit and acceptance is recognised on receipt basis as generally the transaction consummates within an accounting period. Fee on guarantees, if considered material, is recognised over the period of guarantee.

6.3 Financings

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

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

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

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by installments or deferred to a specific future time.

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

Diminishing Musharaka represents an asset in joint ownership whereby a partner promises to buy the equity share of the other partner until the title to the equity is totally transferred to him.

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

6.4 Investments

The management determines the appropriate classification of its investments at the time of purchase and classifies these investments as held-for-trading, available-for-sale or held-to-maturity. These are initially recognised at cost.



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Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

In accordance with the requirements of the SBP, quoted securities other than those classified as held-to-maturity and investments in subsidiaries and associates, if any, are stated at market value. Investments in subsidiaries, associated and joint venture companies are stated at cost. Provision is made for any impairment in value.

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

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

Profit and loss on sale of investments is recognised in the period of sale.

6.5 Operating fixed assets

6.5.1 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment, if any, except freehold land and capital work-in-progress which are stated at historical cost. Depreciation is computed using the straight-line method by taking into consideration the estimated useful life of the related assets. Depreciation on additions / deletions during the year is charged for the proportionate period for which the asset remained in use. Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements, if any, are capitalized when it is probable that future economic benefits will flow to the Bank. Gain / loss, if any, on disposal of fixed assets are included in the profit and loss account.



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

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

6.5.2 Capital work-in-progress

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

6.5.3 Intangible assets

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Bank and the cost of such asset can be assessed reliably. These are stated at cost less accumulated amortization and impairment, if any. Amortization is based on straight line method by taking into consideration the estimated useful life of respective assets. Amortization on additions and deletions during the year is charged for the proportionate period for which the asset remained in use.

6.6 Taxation

6.6.1 Current taxation

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

6.6.2 Deferred taxation

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

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

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



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6.7 Staff retirement benefits

6.7.1 Defined benefit plan

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

6.7.2 Defined contribution plan

The Bank operates a contributory provident fund scheme for all of its permanent employees. The employer and employee both contribute 10 percent of the basic salaries to the funded scheme every month.

6.8 Foreign currency

Monetary assets and liabilities in foreign currencies are revalued daily into Pak Rupees (functional currency) using spot exchange rates published by the State Bank of Pakistan.

Forward foreign exchange contracts are revalued at forward rates applicable to their respective remaining maturities.

Exchange gains and losses are taken to profit and loss account.

6.9 Offsetting

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

Income and expense items of such assets and liabilities are also offset and the net amount is reported in the profit and loss account.

6.10 Related party transactions

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

6.11 Trade date accounting

All "regular way" purchases and sales of quoted equity securities are recognised on the "trade date", i.e., the date that the Bank commits to purchase / sell the security. Regular way purchases or sales of quoted equity securities require delivery within three days after the transaction date as per stock exchange regulations.

6.12 Impairment and uncollectability of financial assets other than investments and financings

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss based on the net present value of future anticipated cash flows is recognised for the differences between the recoverable amount and carrying amount.

6.13 Provision for off balance sheet obligations

Provision for guarantees, claims and other off balance sheet obligations is made when the Bank has legal or constructive obligation as a result of past events, it is probable that an out flow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Charge to profit and loss account is stated net of expected recoveries.

6.14 Deferred costs

Pre-operating / preliminary expenses are included in deferred costs. These were previously decided to be amortized over a period of one year from the date of commencement of business. However, the Bank has decided to change the amortization period to five years from the date of commencement of business, in line with the period allowed by SBP vide BSD circular 4 of 2006 dated February 17, 2006 as the management is of the view that the future economic benefits of such cost will be recovered over a longer period. Had there been no change in such estimate, the expenses of the Bank would have been higher by Rs. 31.361 million, net of tax.

6.15 Segment reporting

Gross income for retail banking consists of net return on financings to retail customers and SMEs treated as retail, plus fees related to traditional retail services and net income from swaps and derivatives held to hedge the retail banking book, if any. To calculate net return for retail banking, the Bank takes the profit earned on its financings to retail customers less the weighted average cost of funding of the financings including profit distributed against deposits and due to financial institutions (from whatever source - retail or other deposits).

Similarly, gross income for commercial banking consists of the net return on financings to corporate (plus SMEs treated as corporate), interbank and sovereign customers, plus fees related to traditional commercial banking services including commitments, guarantees, bills of exchange, net income (e.g. from coupons and dividends) on securities held in the banking book, and profits / losses on swaps and derivatives held to hedge the commercial banking book, if any. The calculation of net return is based on profit earned on financings to corporate, interbank and sovereign customers less the weighted average cost of funding for these financings (from whatever source).

For trading and sales, gross income consists of profits / losses on instruments held for trading purposes (i.e. in the mark-to-market book), net of funding cost, plus fees from wholesale broking.

For other business lines, gross income consists primarily of net fees / commissions earned in each of these businesses. Payment and settlement consists of fees to cover provision of payment / settlement facilities for counterparties.



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6.16 Derivatives

Derivative instruments held by the Bank generally comprise deferred settlement promises of sale in the capital market. These are initially recognised at fair value. The fair value of such derivatives is calculated as being the net difference between the contract price and the closing price reported on the primary exchange of the derivatives. Derivatives with positive market values (unrealized gains) are included in other assets and derivatives with negative market values (unrealized losses) are included in other liabilities in the balance sheet. The resultant gains / (losses) are recognised in the current period. Derivatives are derecognised either when the Bank has transferred substantially all the risks and rewards of ownership or when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the assets or a proportion of the asset.

6.17 Fiduciary assets

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

6.18 Provisions

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

	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
7. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		58,373	-
Foreign currency		9,499	-
		67,872	-
With State Bank of Pakistan in:			
Local currency current accounts	7.1	252,335	-
Foreign currency deposit accounts	7.2	18,015	-
		270,350	-
		338,222	-

7.1 Includes Rs. 211.189 million held against CRR and SLR. Balance amount is available to the Bank for its operations.

7.2 Includes amounts equivalent to Rs. 3.09 million held against CRR and SCRR. Balance amount is available to the Bank for its operations. These deposits do not carry any return.



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	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
8. BALANCES WITH OTHER BANKS			
In Pakistan			
On current accounts		12,896	465
On deposit accounts	8.1	750,827	1,159,632
		763,723	1,160,097
Outside Pakistan			
On current accounts		26,986	-
		790,709	1,160,097

8.1 Represents deposits with various Islamic commercial banks under Musharaka and Modaraba arrangements with maturities less than 3 months. The expected profit rates on these arrangements range between 1.5 percent to 9 percent per annum (2005: 2 percent to 9.25 percent per annum).

	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
Commodity Murabaha – local currency	9.1, 9.2	412,131	-

9 DUE FROM FINANCIAL INSTITUTIONS

9.1 The Bank has entered into commodity Murabaha agreements under which the Bank purchases an underlying commodity from open market through an agent and sells it to a financial institution on credit with profit.

	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
9.2 Murabaha sale price		412,131	-
Purchase price		400,000	-
		12,131	-
Deferred Murabaha income			
Opening balance		-	-
Deferred during the year		12,131	-
Recognised during the year		1,162	-
		10,969	-
Murabaha receivable			
Opening balance		-	-
Sales during the year		412,131	-
Received during the year		-	-
		412,131	-



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10. INVESTMENTS

	Note	December 31, 2006		December 31, 2005	
		Number of Shares / Units	Rupees in '000	Number of Shares / Units	Rupees in '000
10.1 Investments by types – held by Bank					
Held-for-trading securities					
Oil and Gas Exploration					
Oil and Gas Development Company Limited		87,000	10,167	-	-
Pakistan Oilfield Limited		145,000	50,667	-	-
Pakistan Petroleum Limited		459,000	107,749	-	-
			<u>168,583</u>		<u>-</u>
Oil and Gas Marketing					
Pakistan State Oil Company Limited		41,000	12,080	-	-
Technology and Communication					
Pakistan Telecommunication Company Limited		915,500	41,817	-	-
			<u>222,480</u>		<u>-</u>
Available-for sale securities					
WAPDA Sukuks	10.1.1	50,000	250,213	-	-
Pakistan International Element Islamic Fund	10.1.2	200,000	10,000	-	-
			<u>260,213</u>		<u>-</u>
Investments at cost					
Deficit on revaluation of held-for-trading securities	10.4		(926)		-
Surplus on revaluation of available-for-sale securities	21.1		11,241		-
Total investments at market value			<u>493,008</u>		<u>-</u>

10.1.1 Represents Sukuk Certificates of WAPDA First Sukuk Company Limited having face value of Rs. 5,000/- each. The profit is payable through half yearly payments and the principal will be paid at maturity in October 2012. In case of profit, the rate of provisional profit is based on six month's KIBOR plus 35 basis points. WAPDA Sukuks amounting to Rs. 88.692 million are held against SLR equivalent to the extent of 5 percent of the Banks demand and time liability.

10.1.2 Represents units of Pakistan International Element Islamic Fund (PIEIF), an open end Shariah compliant fund engaged in investment in capital markets both locally and internationally



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	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
10.2 Investments by segments			
Fully paid up ordinary shares:			
- Listed companies		222,480	-
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- WAPDA Sukuks		250,213	-
Other investments			
- Pakistan International Element Islamic Fund		10,000	-
Total investments at cost		482,693	-
Deficit on revaluation of held-for-trading securities	10.4	(926)	-
Surplus on revaluation of available-for-sale securities	21.1	11,241	-
Total investments at market value		493,008	-
10.3 Quality of available-for-sale securities			
		December 31, 2006	December 31, 2005
Securities (at market value)		Amount Rs in '000	Amount Rs in '000
		Rating	Rating
WAPDA Sukuks		261,876	-
		Unrated	N/A
Pakistan International Element Islamic Fund		9,578	-
		Unrated	N/A
Total		271,454	-
	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
10.4 Deficit on revaluation of investments classified as held-for-trading		(926)	-



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	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
11. FINANCINGS			
Financings - in Pakistan			
- Murabaha	11.1, 11.2	359,166	-
- Istisna'a		74,919	-
- Diminishing Musharika		224,233	-
		<u>658,318</u>	<u>-</u>
Net investment in Ijarah financing			
In Pakistan	11.4	271,755	-
Financings to employees		30,061	6,190
		<u>30,061</u>	<u>6,190</u>
Financings - gross		960,134	6,190
Provision for non-performing financings	11.6	(1,001)	-
Financings - net of provision		<u>959,133</u>	<u>6,190</u>
11.1 Includes financings amounting to Rs. 47.552 million against Murabaha under Islamic Export Refinance Scheme.			
		December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
11.2 Murabaha sale price		600,924	-
Purchase price		547,436	-
		<u>53,488</u>	<u>-</u>
Deferred Murabaha income			
Opening balance		-	-
Deferred during the year		53,488	-
Recognised during the year		16,085	-
		<u>37,403</u>	<u>-</u>
Murabaha receivable			
Opening balance		-	-
Sales during the year		600,924	-
Received during the year		241,758	-
		<u>359,166</u>	<u>-</u>
11.3 Particulars of financings (Gross – in local currency)			
Short-term (for upto one year)		568,889	1,510
Long-term (for over one year)		391,245	4,680
		<u>960,134</u>	<u>6,190</u>



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11.4 Net investment in Ijarah financing

	December 31, 2006				December 31, 2005			
	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	103,779	215,195	-	318,974	-	-	-	-
Residual value	-	39,583	-	39,583	-	-	-	-
Minimum ijarah payments	103,779	254,778	-	358,557	-	-	-	-
Financial charges for future periods	38,362	48,440	-	86,802	-	-	-	-
Present value of minimum ijarah payments	65,417	206,338	-	271,755	-	-	-	-

11.5 Financings do not include any asset which has been placed under non-performing status.

11.6 Particulars of provisions against non-performing financings – local currency

	December 31, 2006			December 31, 2005		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
Opening balance	-	-	-	-	-	-
Charge for the year	-	(1,001)	(1,001)	-	-	-
Closing balance	-	(1,001)	(1,001)	-	-	-

11.7 No financings have been written off during the year.

Note	December 31, 2006	December 31, 2005
	----- Rupees in '000 -----	

11.8 Particulars of financings to directors, associated companies etc.

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

Balance at beginning of year	6,190	-
Financing granted during the year	27,769	6,568
Repayments	(3,898)	(378)
Balance at end of year	30,061	6,190



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	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
12. OPERATING FIXED ASSETS			
Capital work-in-progress	12.1	8,719	202,646
Property and equipment	12.2	417,890	23,152
Intangible assets	12.3	14,819	6,067
		<u>441,428</u>	<u>231,865</u>
12.1 Capital work-in-progress			
Civil works		6,805	172,385
Equipments		534	9,248
Advances to suppliers and contractors		1,380	21,013
		<u>8,719</u>	<u>202,646</u>

12.2 Property and equipment

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

	2005							
	COST			DEPRECIATION			Book Value at December 31, 2005	Rate of depreciation %
	Balance at January 01, 2005	Additions/ (deletions)	Balance at December 31, 2005	Balance at January 01, 2005	Charge / (Adjustment)	Balance at December 31, 2005		
----- Rupees in '000 -----								
Electrical, office and computer equipments	-	12,883	12,883	-	1,739	1,739	11,144	25
Vehicles	-	13,772	13,772	-	1,764	1,764	12,008	20
	<u>-</u>	<u>26,655</u>	<u>26,655</u>	<u>-</u>	<u>3,503</u>	<u>3,503</u>	<u>23,152</u>	



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12.3 Intangible assets

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

		2005						
		COST			AMORTIZATION			
	Balance at January 01, 2005	Additions / (deletions)	Balance at December 31, 2005	Balance at January 01, 2005	Amortization	Balance at December 31, 2005	Book Value at December 31, 2005	Rate of amortization %
----- Rupees in '000 -----								
Computer software	-	6,395	6,395	-	328	328	6,067	10

12.4 Depreciation / amortization has been charged as follows:

	Note	2006		Total
		Depreciation	Amortization	
---- Rupees in '000 ----				
Charged to deferred cost	14.2.1	1,518	210	1,728
Charged to administrative expenses	28	26,887	1,417	28,304
		<u>28,405</u>	<u>1,627</u>	<u>30,032</u>

12.4.1 Depreciation / amortization for the year ended December 31, 2005 has been charged to deferred cost.

12.5 Residual values of items of property and equipment are considered to be insignificant except for building whereby residual value is considered to be equal to 10 percent of cost.



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12.6 Details of Property and equipment disposed-off

The following assets were disposed-off during the year:

	Original cost	Accumulated depreciation	Book value	Disposal proceeds	Mode of disposal	Particulars of buyers
	----- Rupees in '000 -----					
Computer	100	29	71	64	Insurance claim	EFU General Insurance Ltd.
Vehicle	951	63	888	888	Negotiation	Shamim Akhter, Karachi
	<u>1,051</u>	<u>92</u>	<u>959</u>	<u>952</u>		

December 31, 2006 December 31, 2005

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

13. DEFERRED TAX ASSETS

Deferred credits arising due to
Accelerated tax depreciation allowances
Ijarah financings

(59,763)

-

(19,371)

-

(79,134)

-

Deferred debits arising in respect of
Amortization of deferred cost
Carry forward of tax losses
Tax credit against minimum tax paid
General provision against non-performing financings

1,890

-

103,998

-

65

-

311

-

106,264

-

27,130

-

13.1 Deferred tax asset has been booked as the management is confident that sufficient taxable profits and reversals of temporary differences will be available in future to set off available tax losses.



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	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
14. OTHER ASSETS			
Profit / return accrued in local currency		20,547	5,235
Advances, deposits, advance rent and other prepayments		42,169	1,295
Advance against financings	14.1	305,912	-
Advance taxation (payments less provision)		9,239	772
Deferred costs	14.2	68,351	71,156
Others			
Stamps in hand		120	-
Dividend receivable		1,380	-
Advance for investment	14.3	110,600	-
Derivative asset		3,555	-
Other receivable		1,040	-
Other assets		<u>562,913</u>	<u>78,458</u>

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

14.2 Deferred costs

Represents preliminary / pre-operating expenses incurred as follows:

Balance at the beginning of the year		71,156	8,683
Incurred during the year – net	14.2.1	9,257	62,473
		<u>80,413</u>	<u>71,156</u>
Less: Amortized during the year		12,062	-
Balance at the end of the year		<u>68,351</u>	<u>71,156</u>



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	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
14.2.1 Deferred costs incurred during the year			
Salaries, allowances and other benefits		9,847	23,372
Employees benefit scheme		990	1,912
Directors' fee		138	1,850
Shariah Board's remuneration		213	670
Advertisement and sponsorship expense		3,588	2,169
Rent, rates and taxes		495	1,575
Legal and professional fee		1,608	1,503
Insurance		212	410
Consultancy fee		1,090	23,233
Travelling and conveyance		1,029	452
Vehicles maintenance		142	1,277
Repairs and maintenance		200	229
Stationery expense		457	165
Subscription		2,967	886
Entertainment expense		115	120
Listing fee		1,842	9,571
Underwriting commission		8,188	-
Depreciation	12.4	1,518	3,503
Amortization	12.4	210	328
Auditors' remuneration	28.2.1	77	261
Training and seminar		-	184
Utility expense		138	876
Communication		729	363
Security service charges		73	125
Bank charges		14	48
Other expenses		536	347
		36,416	75,429
Profit earned in local currency on balances with other banks and Musharaka certificates		(27,159)	(12,956)
		9,257	62,473
14.3 Represents advance in respect of acquisition of Sukuks to be issued by a local company and units of an open ended mutual fund.			
15. BILLS PAYABLE			
In Pakistan – local currency		23,830	-
16. DUE TO FINANCIAL INSTITUTIONS			
In Pakistan		50,000	-



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16.1 Represents Musharaka contributions by the State Bank of Pakistan against Islamic Export Refinance Scheme. These carry expected profit rate of 6.5 percent per annum.

	Note	December 31, 2006	December 31, 2005
----- Rupees in '000 -----			
17. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		811,730	-
Savings deposits		607,468	-
Current accounts - non-remunerative		336,686	-
Margin accounts		22,124	-
		1,778,008	-
17.1 Particulars of deposits			
In local currency		1,749,951	-
In foreign currencies		28,057	-
		1,778,008	-
18. OTHER LIABILITIES			
Profit / return payable in local currency		13,607	-
Unearned commission and income on bills discounted		340	-
Accrued expenses		10,562	2,233
Deferred Murabaha Income - financings		37,403	-
Deferred Murabaha Income - Commodity Murabaha		10,969	-
Payable to defined benefit plan	35.3	2,484	1,912
Security deposits against Ijarah		62,006	-
Sundry creditors		27,633	911
Charity payable	18.1	5	-
Others		4,940	64
		169,949	5,120
18.1 Charity fund			
Balance at the beginning of the year		-	-
Additions during the year		5	-
Payments / utilization during the year		-	-
		5	-



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19. SHARE CAPITAL

19.1 Authorised capital

December 31, 2006	December 31, 2005		December 31, 2006	December 31, 2005
Number of shares			----- Rupees in '000 -----	
<u>600,000,000</u>	<u>250,000,000</u>	Ordinary shares of Rs.10/- each	<u>6,000,000</u>	<u>2,500,000</u>

19.2 Issued, subscribed and paid up

December 31, 2006	December 31, 2005		December 31, 2006	December 31, 2005
Number of shares			----- Rupees in '000 -----	
		<u>Ordinary shares</u>		
		Fully paid in cash		
59,502,500	2,000	- Opening balance	595,025	20
-	1,500	- Subscription paid during the year	-	15
<u>140,497,500</u>	<u>59,499,000</u>	- Issued during the year	<u>1,404,975</u>	<u>594,990</u>
<u>200,000,000</u>	<u>59,502,500</u>		<u>2,000,000</u>	<u>595,025</u>

19.2.1 The Board of Directors of the Bank in their meeting held on October 31, 2006 approved issue of 60 percent (3:5 ratio) right shares in order to meet the minimum capital requirement of Rs. 3 billion (net of losses) prescribed for all commercial banks by the State Bank of Pakistan to be achieved by December 31, 2006. Subsequent to year-end on January 04, 2007 the Bank has dispatched letters of right to their shareholders specifying the payment of their portion of subscription by February 22, 2007. The entire process is expected to be completed by April 7, 2007 according to the time frame agreed with Karachi Stock Exchange. Accordingly, the Bank has obtained extension in the deadline for increase in share capital from State Bank of Pakistan upto March 31, 2007 vide SBP's letter reference BSD/Su-1/608/222/2007 dated January 26, 2007.

19.2.2 Subsequent to year end, a stay order has been granted by the Honourable High Court of Sindh in favour of Al Baraka Investment Company Limited, Dallah Albaraka (Ireland) Limited and Dallah Albaraka Investment Company Limited against the Bank and Jahangir Siddiqui & Company Limited (JSCL - one of main sponsors of the Bank). JSCL has, however, subscribed against the right shares subsequent to the year-end. The stay order restricts the Bank and JSCL from creating third party interest in the shareholding of JSCL in the Bank. The matter is currently pending adjudication, and accordingly, the Bank does not intend to issue shares to JSCL unless the matter has been decided by the Court.



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	December 31, 2006	December 31, 2005
	----- Rupees in '000 -----	
20. ADVANCE AGAINST FUTURE ISSUE OF SHARE CAPITAL		
Opening balance	876,465	-
Received during the year	-	876,465
Shares issued during the year	(876,465)	-
Closing balance	<u>-</u>	<u>876,465</u>
21. SURPLUS ON REVALUATION OF ASSETS		
21.1 Surplus on revaluation of available-for-sale securities		
WAPDA Sukuks	11,663	-
Pakistan International Element Islamic Fund	(422)	-
	<u>11,241</u>	<u>-</u>
22. CONTINGENCIES AND COMMITMENTS		
22.1 Trade-related contingent liabilities		
Import letters of credit	<u>207,002</u>	<u>-</u>
Acceptances	<u>113,018</u>	<u>-</u>
22.2 Transaction-related contingent liabilities		
Guarantees favouring - Others	<u>42,910</u>	<u>-</u>
Advance payments favouring - Others	<u>67,901</u>	<u>-</u>
22.3 Commitments for the acquisition of operating fixed assets	<u>22,560</u>	<u>31,143</u>
22.4 Commitments for acquisition of investments	<u>14,400</u>	<u>-</u>
22.5 Commitments in respect of financing	<u>172,310</u>	<u>-</u>
22.6 Other commitments		
Bills for collection	<u>4,159</u>	<u>-</u>



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23. DERIVATIVE INSTRUMENTS

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

	2006	2005
	----- Rupees in '000 -----	
24. PROFIT / RETURN ON FINANCINGS, INVESTMENTS AND PLACEMENTS EARNED		
On financings to:		
• Customers	48,518	-
• Financial Institutions	1,162	-
	49,680	-
On Investments in:		
• available-for-sale securities	15,619	-
On deposits with financial institutions	34,371	-
Others	338	-
	100,008	-
25. RETURN ON DEPOSITS AND OTHER DUES EXPENSED		
Deposits	18,302	-
Other short-term due to financial institutions	363	-
	18,665	-
26. GAIN / (LOSS) ON SALE OF SECURITIES		
Shares - Listed	24,179	-
	24,179	-
27. OTHER INCOME		
Gain on revaluation of derivative instrument	3,555	-
	3,555	-



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	Note	2006	2005
		----- Rupees in '000 -----	
28. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits		52,224	-
Charge for defined benefit plan		808	-
Contribution to defined contribution plan		2,687	-
Non-executive directors' fees, allowances and other expenses		1,375	-
Insurance on consumer car ijarah		2,361	-
Insurance		1,454	-
Rent, taxes, insurance and electricity		12,648	-
Legal and professional charges		4,862	-
Communication		4,143	-
Repairs and maintenance		6,362	-
Stationery and printing		3,315	-
Advertisement and publicity		14,700	-
Auditors' remuneration	28.2	1,338	-
Depreciation	12.4	26,887	-
Amortization	12.4	1,417	-
CDC and share registrar services		767	-
Entertainment expense		1,025	-
Security service charges		1,521	-
Travelling and conveyance		1,872	-
Remuneration to Shariah Advisor / Board		856	-
Others		2,904	-
		<u>145,526</u>	<u>-</u>
28.1 Remuneration to Shariah Advisor / Board			
Charged to administrative expenses		856	-
Charged to deferred cost		213	670
		<u>1,069</u>	<u>670</u>
Shariah Advisor is also provided with free use of a Bank's maintained car.			
28.2 Auditors' remuneration			
Audit fee		350	185
Special certifications and sundry advisory services		565	-
Half yearly review		250	70
Review of Compliance with Code of Corporate Governance		50	-
Tax services		125	-
Out-of-pocket expenses		75	6
		<u>1,415</u>	<u>261</u>



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	Note	2006	2005
		----- Rupees in '000 -----	
28.2.1 Includes Rs. 0.077 million charged to deferred cost.			
29. OTHER CHARGES			
Penalties imposed by State Bank of Pakistan		57	-
Deferred cost amortised	14.2	12,062	-
Others		1,643	-
		<u>13,762</u>	<u>-</u>
30. TAXATION			
For the year			
- Current		(1,021)	-
- Deferred		27,332	-
		<u>26,311</u>	<u>-</u>
For prior years			
- Current		(65)	-
- Deferred		(201)	-
		<u>(266)</u>	<u>-</u>
		<u>26,045</u>	<u>-</u>
30.1 Relationship between tax expense and accounting profit			
Accounting loss for the year		<u>(34,399)</u>	<u>-</u>
Tax @ 35%		12,040	-
Tax effect of reduced rates on dividend and FTR income		4,929	-
Tax effect of permanent differences		9,342	-
Prior year taxation		(266)	-
Tax charge		<u>26,045</u>	<u>-</u>
31. BASIC EARNINGS / (LOSS) PER SHARE			
Loss for the year		(8,354)	-
Weighted average number of ordinary shares	Rupees in '000 Number	188,979,486	N/A
Basic earnings / (loss) per share		<u>Re. (0.04)</u>	<u>-</u>



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32. DILUTED EARNINGS / (LOSS) PER SHARE

There is no diluted effect on the basic earnings / (loss) per share as the Bank has no outstanding commitments for issue of shares. Accordingly, diluted earnings / (loss) per share is equal to basic earnings / (loss) per share as reported in note 31.

December 31, 2006	December 31, 2005
----------------------	----------------------

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

33. CASH AND CASH EQUIVALENTS

Cash and balances with treasury banks
Balances with other banks

338,222	-
790,709	1,160,097
<u>1,128,931</u>	<u>1,160,097</u>

December 31, 2006	December 31, 2005
----------------------	----------------------

----- Number -----

34. STAFF STRENGTH

Permanent
Temporary / on contractual basis
Bank's own staff strength at the end of the year
Outsourced

Total staff strength

168	29
66	-
<u>234</u>	<u>29</u>
2	-
<u>236</u>	<u>29</u>

35. DEFINED BENEFIT PLAN

35.1 General description

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

December 31, 2006	December 31, 2005
----------------------	----------------------

35.2 Principal actuarial assumptions

Discount rate
Expected rate of increase in salaries

10%	-
10%	-



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	December 31, 2006	December 31, 2005
	----- Rupees in '000 -----	
35.3 Reconciliation of payable to defined benefit plan		
Present value of defined benefit obligations	3,669	-
Net actuarial losses not recognized	(1,185)	-
	<u>2,484</u>	<u>-</u>
35.4 Movement in payable to defined benefit plan		
Opening balance	1,174	-
Charge for the year	1,310	1,174
Closing balance	<u>2,484</u>	<u>1,174</u>
35.5 Charge for defined benefit plan		
Current service cost	1,251	1,174
Cost of funds	112	-
Transitional liability recognised	(53)	-
	<u>1,310</u>	<u>1,174</u>

36. DEFINED CONTRIBUTION PLAN

The Bank operates a contributory provident fund scheme for all permanent employees. The employer and employee both contribute 10 percent of the basic salaries to the funded scheme every month. The amount of contribution paid by Bank during the year amounted to Rs. 3.714 million. Employees are required to pay an equal amount of contribution.

37. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	----- Rupees in '000 -----					
Fees	-	-	-	-	-	-
Managerial remuneration	5,675	5,299	-	-	16,547	7,910
Charge for defined benefit plan	473	441	-	-	-	-
Salary in lieu of provident fund	568	534	-	-	-	-
Contribution to defined contribution plan	-	-	-	-	1,655	-
Rent and house maintenance	270	270	-	-	3,750	1,878
Utilities	568	530	-	-	1,655	791
Medical	568	530	-	-	1,655	791
Directors' fee	-	-	1,350	1,850	-	-
	<u>8,122</u>	<u>7,604</u>	<u>1,350</u>	<u>1,850</u>	<u>25,262</u>	<u>11,370</u>
Number of persons	<u>1</u>	<u>1</u>	<u>4</u>	<u>6</u>	<u>15</u>	<u>10</u>

37.1 Certain executives are provided with free use of bank maintained car.



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38. FAIR VALUE OF FINANCIAL INSTRUMENTS

38.1 On-balance sheet financial instruments

	December 31, 2006		December 31, 2005	
	Book value	Fair value	Book value	Fair value
----- Rupees in '000 -----				
Assets				
Cash and balances with treasury banks	338,222	338,222	-	-
Balances with other banks	790,709	790,709	1,160,097	1,160,097
Due from financial institutions	412,131	412,131	-	-
Investments	482,693	493,008	-	-
Financings	959,133	910,761	6,190	6,190
Other assets	485,323	485,323	6,530	6,530
	<u>3,468,211</u>	<u>3,430,154</u>	<u>1,172,817</u>	<u>1,172,817</u>
Liabilities				
Bills payable	23,830	23,830	-	-
Due to financial institutions	50,000	50,000	-	-
Deposits and other accounts	1,778,008	1,778,008	-	-
Other liabilities	121,237	121,237	5,120	5,120
	<u>1,973,075</u>	<u>1,973,075</u>	<u>5,120</u>	<u>5,120</u>

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

39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
----- Rupees in '000 -----									
Current Period									
Total income	-	90,367	3,929	50,258	-	-	-	-	-
Total expenses	-	81,253	13,576	58,079	-	-	-	-	-
Net income / (loss)	-	9,114	(9,647)	(7,821)	-	-	-	-	-
Segment Assets (Gross)	-	2,532,949	204,940	1,287,786	-	-	-	-	-
Segment Non Performing Loans	-	-	-	-	-	-	-	-	-
Segment Provision Required	-	1,001	-	-	-	-	-	-	-
Segment Liabilities	-	1,065,409	198,479	757,899	-	-	-	-	-
Segment Return on net Assets (ROA) (%)	-	0.36%	(4.71%)	(0.61%)	-	-	-	-	-
Segment Cost of funds (%)	-	1.26%	1.26%	1.26%	-	-	-	-	-

Prior Year

There were no operations during the year 2005, accordingly there are no comparatives to report.



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40. RELATED PARTY TRANSACTIONS

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

Usual transactions with related parties include deposits, financings and provision of other banking services. Transactions with executives are undertaken at terms in accordance with employment agreements and service rules.

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

	Associates		Key management		Other related parties	
	2006	2005	2006	2005	2006	2005
Financings:						
At January 1	-	-	3,719	-	1,541	-
Disbursed during the year	-	-	-	3,864	27,809	1,757
Repaid during the year	-	-	193	145	3,020	216
At December 31	-	-	3,526	3,719	26,330	1,541
Deposits:						
At January 1	-	-	-	-	-	-
Deposit During the year	485,913	-	1,620	-	68,502	-
Withdrawal during the year	387,563	-	1,189	-	58,152	-
At December 31	98,350	-	431	-	10,350	-
Transactions, income and Expenses:						
Profit earned on financing	-	-	72	-	266	-
Return on deposits expensed	764	-	4	-	40	-
Advance received for meeting revenue and capital expenditure	-	98,488	-	-	-	-
Purchase of vehicles	-	1,748	-	-	-	-
Rent expense	396	1,424	-	-	-	-
Consultancy fee paid	-	15,000	-	-	-	-
General expense	-	112	-	-	-	-

2006 **2005**

Principal Share Holders - Share Capital Issued 529,975 485,000



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41. CAPITAL ADEQUACY

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

	December 31, 2006	December 31, 2005
	----- Rupees in `000 -----	
Regulatory Capital Base		
Tier I Capital		
Shareholders Capital	2,000,000	-
Reserves	-	-
Accumulated loss	(8,354)	-
	1,991,646	-
Less: Adjustments	-	-
Total Tier I Capital	1,991,646	-
Tier II Capital		
Subordinated debt (upto 50% of total Tier I Capital)	-	-
General provisions subject to 1.25% of total risk weighted assets	1,001	-
Revaluation reserve (upto 50%)	5,621	-
Total Tier II Capital	6,622	-
Eligible Tier III Capital		
Total Regulatory Capital	(a) 1,998,268	-



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Risk-Weighted Exposures

	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
Credit Risk				
Balance sheet items:				
Cash and other liquid assets	1,128,931	158,142	-	-
Due from financial institutions	412,131	412,131	-	-
Investments	493,008	231,132	-	-
Financings	959,133	927,872	-	-
Fixed assets	441,428	441,428	-	-
Other assets	590,043	542,366	-	-
	<u>4,024,674</u>	<u>2,713,071</u>	-	-
Off balance sheet items				
Loan repayment guarantees	113,018	113,018	-	-
Purchase and resale agreements	-	-	-	-
Performance bonds etc	109,880	54,940	-	-
Revolving underwriting commitments	-	-	-	-
Stand By Letters of Credit	185,809	92,905	-	-
Outstanding foreign exchange contracts	-	-	-	-
- Purchase	-	-	-	-
- Sale	-	-	-	-
	<u>408,707</u>	<u>260,863</u>	-	-
Credit risk-weighted exposures				-
Market Risk				
General market risk				-
Specific market Risk	19,896	<u>248,695</u>		-
Market risk-weighted exposures	-	<u>248,695</u>		-
Total Risk-Weighted exposures	(b)	<u><u>3,222,629</u></u>		-
Capital Adequacy Ratio [(a) / (b) x 100		<u><u>62.01</u></u>		<u><u>-</u></u>

42. RISK MANAGEMENT

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



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

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

42.1 Credit Risk

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

i) Price risk

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

ii) Counter party risk

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

iii) Settlement risk

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

iv) Country risk

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

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

42.1.1 Segmental information

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



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42.1.1.1 Segments by class of business

	December 31, 2006					
	Financings (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Textile	16,733	1.74%	32,018	1.80%	43,596	6.77%
Chemical and Pharmaceuticals	10,095	1.05%	-	-	-	-
Cement	116,656	12.16%	1,339	0.08%	280	0.04%
Sugar	19,976	2.08%	-	-	-	-
Footwear and Leather garments	105,204	10.96%	-	-	12,783	1.98%
Automobile and transportation equipment	79,906	8.32%	25,989	1.46%	173,817	26.98%
Electronics and electrical appliances	-	-	119,196	6.70%	-	-
Construction	-	-	-	-	80,637	12.52%
Power (electricity), Gas, Water, Sanitary	30,537	3.18%	79,798	4.49%	26,968	4.19%
Wholesale and Retail Trade	-	-	-	-	-	-
Exports / Imports	2,897	0.30%	-	-	46,215	7.17%
Transport, Storage and Communication	-	-	-	-	16,398	2.55%
Financial Services	20,096	2.09%	347,680	19.55%	14,400	2.24%
Individuals	282,515	29.42%	-	-	127,065	19.72%
Others	227,690	23.71%	687,487	38.67%	-	-
	47,829	4.99%	484,501	27.25%	102,101	15.84%
	<u>960,134</u>	<u>100%</u>	<u>1,778,008</u>	<u>100%</u>	<u>644,260</u>	<u>100%</u>

42.1.1.2 Segments by sector

	December 31, 2006					
	Financings		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	-	-	-	-	-	-
Private	960,134	100%	1,778,008	100%	644,260	100%
	<u>960,134</u>	<u>100%</u>	<u>1,778,008</u>	<u>100%</u>	<u>644,260</u>	<u>100%</u>



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42.1.1.3 There were no non-performing financings and specific provisions by class of business segment.

42.1.1.4 Geographical segment analysis

December 31, 2006

	Profit / (loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
----- Rupees in '000 -----				
Pakistan	(34,399)	4,024,674	2,002,887	644,260

42.2 Market Risk

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

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

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

42.2.1 Foreign Exchange Risk

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

December 31, 2006

	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
----- Rupees in '000 -----				
Pakistan Rupee	3,964,984	(1,993,505)	5,190	1,976,669
United States Dollar	52,429	(24,785)	(3,362)	24,282
Great Britain Pound	2,745	(2,745)	-	-
Japanese Yen	1,979	-	(1,024)	955
Euro	1,943	(752)	(804)	387
U.A.E Dirham	594	-	-	594
	<u>4,024,674</u>	<u>(2,021,787)</u>	<u>-</u>	<u>2,002,887</u>

42.2.2 Equity Position Risk

The Bank had no significant open exposure to equities as of year end 2006.



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42.2.3 Mismatch of Profit / Yield Rate Sensitive Assets and Liabilities

December 31, 2006												
Effective yield / Profit rate	Total	Exposed to yield / profit risk									Non-profit bearing financial instruments	
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
----- Rupees in '000 -----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	338,222	-	-	-	-	-	-	-	-	-	338,222
Balances with other banks	5.13%	790,709	790,709	-	-	-	-	-	-	-	-	-
Due from financial institutions	12.55%	412,131	-	412,131	-	-	-	-	-	-	-	-
Investments	8.88%	493,008	-	-	-	-	-	261,876	-	9,576	221,556	-
Financings	10.52%	959,133	11,775	15,386	165,399	376,324	102,084	111,967	102,367	56,853	16,978	-
Other assets	-	590,043	-	-	-	-	-	-	-	-	-	590,043
		<u>3,583,246</u>	<u>802,484</u>	<u>427,517</u>	<u>165,399</u>	<u>376,324</u>	<u>102,084</u>	<u>111,967</u>	<u>364,243</u>	<u>56,853</u>	<u>26,554</u>	<u>1,149,821</u>
Liabilities												
Bills payable	-	23,830	-	-	-	-	-	-	-	-	-	23,830
Due to financial institutions	6.5%	50,000	-	50,000	-	-	-	-	-	-	-	-
Deposits and other accounts	4.98%	1,778,008	937,438	365,915	25,139	27,915	200	4,600	57,991	-	-	358,810
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	-	169,949	-	-	-	-	-	-	-	-	-	169,949
		<u>2,021,787</u>	<u>937,438</u>	<u>415,915</u>	<u>25,139</u>	<u>27,915</u>	<u>200</u>	<u>4,600</u>	<u>57,991</u>	<u>-</u>	<u>-</u>	<u>552,589</u>
On-balance sheet gap		<u>1,561,459</u>	<u>(134,954)</u>	<u>11,602</u>	<u>140,260</u>	<u>348,409</u>	<u>101,884</u>	<u>107,367</u>	<u>306,252</u>	<u>56,853</u>	<u>26,554</u>	<u>597,232</u>
Total Yield / Profit Risk Sensitivity Gap			<u>(134,954)</u>	<u>11,602</u>	<u>140,260</u>	<u>348,409</u>	<u>101,884</u>	<u>107,367</u>	<u>306,252</u>	<u>56,853</u>	<u>26,554</u>	<u>597,223</u>
Cumulative Yield/Profit Risk Sensitivity Gap			<u>(134,954)</u>	<u>11,602</u>	<u>140,260</u>	<u>348,409</u>	<u>101,884</u>	<u>107,367</u>	<u>306,252</u>	<u>56,853</u>	<u>26,554</u>	<u>597,223</u>

42.3 Liquidity Risk

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

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

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

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



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42.6 Systemic Risk

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

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

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

42.7 Shariah Non-Compliance Risk

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

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

43. RECENT ACCOUNTING DEVELOPMENTS

A new series of standards called "International Financial Reporting Standards (IFRSs)" has been introduced and eight IFRSs have been issued by the International Accounting Standards Board (IASB). Out of these, following four IFRSs have been adopted by SECP vide its S.R.O. (I)/2006 dated December 06, 2006 which will be effective for accounting periods beginning on or after the said date:

- (i) IFRS-2 "Share-based Payments";
- (ii) IFRS-3 "Business Combinations";
- (iii) IFRS-5 "Non-current Asset Held for Sale and Discontinued Operations"; and
- (iv) IFRS-6 "Exploration for and Evaluation of Mineral Resources".

In addition, a few International Accounting Standards (IASs) have been amended by the IASB including IAS-1 "Presentation of Financial Statements" and a few interpretations (IFRICs) have also been issued.

The Bank expects that the adoption of these pronouncements mentioned above will have no significant impact on the Bank's financial statements in the period of initial application.

44. GENERAL

The figures in the financial statements are rounded off to the nearest thousand Rupees, unless otherwise stated.

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been approved by the Board of Directors of the Bank on February 27, 2007.

Chairman

President / Chief Executive

Director

Director



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Pattern of Share holding

No. of Shareholders	Having Shares		Shares held	Percentage
	From	To		
8	1	100	452	0.0002%
35084	101	500	17,533,124	8.7666%
2283	501	1000	2,257,722	1.1289%
2575	1001	5000	6,063,141	3.0316%
337	5001	10000	2,575,899	1.2879%
98	10001	15000	1,225,735	0.6129%
52	15001	20000	946,583	0.4733%
28	20001	25000	650,373	0.3252%
19	25001	30000	538,797	0.2694%
8	30001	35000	259,716	0.1299%
11	35001	40000	423,560	0.2118%
10	40001	45000	430,000	0.2150%
12	45001	50000	596,554	0.2983%
5	50001	55000	265,716	0.1329%
4	55001	60000	231,675	0.1158%
2	60001	65000	123,500	0.0618%
2	65001	70000	137,500	0.0688%
2	70001	75000	146,850	0.0734%
2	75001	80000	152,500	0.0763%
1	80001	85000	82,000	0.0410%
3	85001	90000	265,500	0.1328%
2	90001	95000	189,000	0.0945%
5	95001	100000	494,500	0.2473%
1	100001	105000	102,500	0.0513%
2	105001	110000	217,000	0.1085%
2	110001	115000	225,122	0.1126%
2	120001	125000	250,000	0.1250%
2	125001	130000	253,016	0.1265%
2	130001	135000	265,862	0.1329%
1	145001	150000	150,000	0.0750%
3	170001	175000	514,474	0.2572%
1	195001	200000	196,000	0.0980%
1	200001	205000	204,500	0.1023%
1	275001	280000	277,500	0.1388%
1	290001	295000	290,350	0.1452%
1	350001	355000	350,500	0.1753%
2	395001	400000	798,500	0.3993%
1	405001	410000	409,500	0.2048%
1	420001	425000	425,000	0.2125%
1	475001	480000	475,100	0.2376%
1	495001	500000	500,000	0.2500%
1	675001	680000	679,937	0.3400%
2	710001	715000	1,425,500	0.7128%
1	855001	860000	856,592	0.4283%
1	870001	875000	871,000	0.4355%
2	950001	955000	1,900,700	0.9504%
1	995001	1000000	1,000,000	0.5000%
1	1015001	1020000	1,018,000	0.5090%
3	1425001	1430000	4,276,500	2.1383%
2	1900001	1905000	3,801,400	1.9007%
2	2850001	2855000	5,702,000	2.8510%
1	3780001	3785000	3,781,000	1.8905%
1	3995001	4000000	4,000,000	2.0000%
1	4545001	4550000	4,545,500	2.2728%
1	5700001	5705000	5,702,050	2.8510%
1	6440001	6445000	6,444,500	3.2223%
2	18745001	18750000	37,500,000	18.7500%
2	37495001	37500000	75,000,000	37.5000%
40,604			200,000,000	100.0000%



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CATEGORIES OF SHAREHOLDERS

	SHARES HELD	PERCENTAGE
DIRECTORS, CHIEF EXECUTIVE OFFICER, AND THEIR SPOUSE AND MINOR CHILDREN	37,551,000	18.7500%
ASSOCIATED COMPANIES, UNDERTAKING AND RELATED PARTIES	75,000,000	37.5000%
BANKS, DEVELOPMENT FINANCIAL INSTITUTIONS & NON BANKING FINANCIAL INSTITUTIONS.	9,569,100	4.7900%
INSURANCE COMPANIES	2,949,500	1.4800%
MODARABAS AND MUTUAL FUNDS	1,724,100	0.8600%
NIT AND ICP		
GENERAL PUBLIC		
a. Local	43,799,722	21.9100%
b. Foreign	9,300,500	4.6500%
Others	20,106,078	10.0600%
	<u>200,000,000</u>	<u>100.0000%</u>

ADDITIONAL INFORMATION

	SHARES HELD	PERCENTAGE
Associated Companies & Shareholders with more than 10% shareholding		
Jahangir Siddiqui & Co. Ltd.	37,500,000	18.75%
Dubai Bank PJSC	37,500,000	18.75%
Chairman		
Chief Justice (Retd.) Mahboob Ahmed	50,500	0.03%
NIT & ICP		
National Bank of Pakistan, Trustee Department	1,900,700	0.95%
Directors, Chief Executive officer, and their spouse and minor children		
Mr. Shabir Ahmed Randeree	18,750,000	9.38%
Mr. Ahmed Golam Mahomed Randeree	18,750,000	9.38%
Chief Justice (Retd.) Mahboob Ahmed	50,500	0.03%
Mr. Hasan Aziz Bilgrami	500	0.00%
Executives	-	-
Public Sector Companies, Corporations, Banks, DFI's, NBFIs, Insurance Companies, Modaraba, Mutual Funds and other Organizations		
	32,397,578	16.20%
General Public		
	53,100,222	26.55%
	<u>200,000,000</u>	<u>100.00%</u>



BankIslami

Correspondent Banking Network

Country	Bank
Australia	Habib Finance Australia Limited
Bahrain	Korea Exchange Bank, Bahrain Branch
Belarus	Joint-Stock Savings Bank Belarus
Canada	Habib Canadian Bank
China	China Everbright Bank Wuxi City Commercial Bank Yangzhou City Commercial Bank
France	UBAF
Germany	Bayerische Hypo Und Vereinsbank Ag. Commerz Bank AG Dresdner Bank AG
Hong Kong	Hongkong And Shanghai Banking Corp.
India	American Express Bank
Indonesia	Korea Exchange Bank Danamon
Iran	Bank Melli Iran Bank Millat Bank Saderat Iran
Japan	UBAF
Korea	Korea Exchange Bank UBAF
Qatar	Qatar Islamic Bank
Romania	Romanian International Bank Sa
Saudi Arabia	Alrajhi Banking & Investment Corporation National Commercial Bank Saudi Hollandi Bank
Singapore	UBAF
South Africa	HBZ Bank Limited
Spain	Caja De Ahorros Del Mediterraneed
Sri Lanka	Hatton National Bank Limited
Sweden	Svenska Handelsbanken
Switzerland	Credit Suisse
Thailand	Standard Chartered Bank
Turkey	Tekstil Bankasi S.A.
UK	Habibsons Bank Limited Islamic Bank Of Britain Plc Mashreq Bank
USA	American Express Bank Habib American Bank Saehan Bank, Los Angeles
UAE	Abu Dhabi Commercial Bank Abu Dhabi Islamic Bank Dubai Bank PJSC Habib Bank AG Zurich
Vietnam	Mashreq Bank PSC Asia Commercial Bank Vietnam Asia Commercial Joint-Stock Bank Vinasiam Bank



BankIslami

PROXY FORM

3rd ANNUAL GENERAL MEETING

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

I/We _____ of _____ being a member(s) of BankIslami Pakistan Limited and holder of _____ ordinary shares as per Share Register Folio No. _____ and/or CDC Participant I.D. No. _____ and Sub Account No. _____ do hereby appoint _____ of _____ or failing him/her _____ of _____ as my/our proxy to vote and act for me/us on my/ our behalf at the 3rd Annual General Meeting of BankIslami Pakistan Limited. to be held on Friday, March 30, 2007 at 3:00 p.m. at Regent Plaza Hotel, Shahrah-e-Faisal, Karachi, and at any adjournment thereof.

Signed this _____ day of _____ 2007.

Witness:

Name: _____

Address: _____

CNIC or Passport No. _____

Please affix
Rupees five
revenue
stamp

Signature of Member(s)

NOTES:

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

A N N U A L R E P O R T 2 0 0 6

Please affix
correct
postage

The Company Secretary
BankIslami Pakistan Limited

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