

BankIslami Pakistan Limited



BankIslami

بنك اسلامي

**Quarterly Report
September 30, 2010**

Serving you, the Right way

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CORPORATE INFORMATION

Board of Directors

Chief Justice (Retd.) Mahboob Ahmed	Chairman
Mr. Ahmed Goolam Mahomed Randeree	
Mr. Ali Raza Siddiqui	
Mr. Hasan A. Bilgrami	Chief Executive Officer
Mr. Hisham Hammoud	
Mr. Mohamed Amiri	
Mr. Shabir Ahmed Randeree	

Sharia'h Supervisory Board

Justice (Retd.) Muhammad Taqi Usmani	Chairman
Professor Dr. Fazlur Rahman	Member
Mufti Irshad Ahmad Aijaz	Member & Sharia'h Adviser

Audit Committee

Mr. Hisham Hammoud	Chairman
Mr. Ali Raza Siddiqui	Member
Mr. Shabir Ahmed Randeree	Member

Executive Committee

Chief Justice (Retd.) Mahboob Ahmed	Chairman
Mr. Ahmed Goolam Mahomed Randeree	Member
Mr. Hasan A. Bilgrami	Member
Mr. Hisham Hammoud	Member

Risk Management Committee

Mr. Ahmed Goolam Mahomed Randeree	Chairman
Mr. Hasan A. Bilgrami	Member
Mr. Mohamed Amiri	Member

Human Resource & Compensation Committee

Mr. Ali Raza Siddiqui	Chairman
Mr. Ahmed Goolam Mahomed Randeree	Member
Mr. Hisham Hammoud	Member
Mr. Hasan A. Bilgrami	Member

Company Secretary

Syed Shah Sajid Hussain

Auditors

Ernst & Young Ford Rhodes Sidat Hyder.
Chartered Accountants

Legal Adviser

Haidermota & Co.
Barrister at Law



Management (in alphabetical order)

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

Registered Office

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

Share Registrar

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

Website

www.bankislami.com.pk

DIRECTORS' REPORT

On behalf of the Board, I am pleased to present the 3rd Quarter results of the Bank for the period ended September 30, 2010. The highlights of the period under review are:

	Sept -10	Dec-09	(Rs. In m) Growth (%)
Total Deposits	33,026	27,987	18.0%
Total Assets	40,108	34,271	17.0%
Total Financing net	16,157	13,282	21.6%
Total Investment	6,329	6,813	-7.1%
Share-holders equity	4,727	4,725	0.04%
Branches	102	102	

	Sept-10	Sept-09	
Basic Earnings/(loss) per share	0.003	(0.783)	100%

The Profit during the quarter came despite of negative growth in the deposits (0.3%), which we attribute to withdrawals due to floods and resulting un-certainty. Since then the Bank has arrested the trend. The business of the Bank did not suffer otherwise from the floods. Financing on the other hand registered a marginal increase to Rs. 16.157B as against Rs. 15.6B at the end of the second quarter. There was no addition to NPLs, which continued their downward trend since the beginning of the year. On the expenses side, the costs have gone up by 12% from the last year, which is less than the inflation. Having said that, we expect to reduce the growth rate to less than 10% in the next one year. As indicated earlier, the Bank expects to report a profit for the year.

Towards the end of the quarter CITI Bank accepted BankIslami's offer to acquire its Mortgage Portfolio. This is pending approval of the State Bank of Pakistan and other regulatory agencies. We expect to close the transaction inshallah in November. This portfolio will provide much needed avenue of deployment of liquidity. The Bank has more than 25% of its balance sheet in cash, the drag of which is almost Rs. 300M per annum. We hope the much awaited Shariah Compliant T-Bill will finally hit the market sometime in November.

The Bank also successfully received certification for Visa Debit Card. The Core Banking System is all set to be deployed by the end of the year.

On the capital front, the Bank is engaged in a dialogue with the State Bank of Pakistan on various options which includes issuing right shares and/or acquisition and subsequent merger of another Bank. The Bank is also actively involved at the PBA forum for having the MCR rationalized as the existing requirement is one of the highest in the world and does not commensurate with the size of the economy and economic realities in Pakistan today. As well, the world is shifting towards Risk Capital, where the Bank stands at in excess of 17% as against required 10%. Given low credit off take and in the absence of an approved Shariah paper, additional capital if raised can neither be productively used nor will strengthen the balance sheet of the Bank. We expect to resolve this issue inshallah by end of this quarter.

The Bank has been assigned a long term entity rating of 'A' and short term rating of 'A1' by Pakistan Credit Rating Agency Limited (PACRA).

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

On behalf of the Board

Hasan A. Bilgrami
Chief Executive Officer
October 27, 2010



INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

AS AT SEPTEMBER 30, 2010

	Note	Sept 30, 2010 —— Rupees in `000 —— (Unaudited)	December 31, 2009 (Restated) (Audited)
ASSETS			
Cash and balances with treasury banks		3,112,681	4,217,515
Balances with other banks		404,472	2,059,550
Due from financial institutions	5	10,257,236	4,018,813
Investments	6	6,329,875	6,813,191
Financings	7	16,156,822	13,282,152
Operating fixed assets		2,167,643	2,395,304
Deferred tax assets		376,774	354,957
Other assets		1,302,937	1,130,310
		40,108,440	34,271,792
LIABILITIES			
Bills payable		840,602	485,608
Due to financial institutions	8	313,000	156,160
Deposits and other accounts	9	33,026,006	27,987,378
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities		1,201,712	917,332
		35,381,320	29,546,478
NET ASSETS		4,727,120	4,725,314
REPRESENTED BY			
Share capital		5,279,679	5,279,679
Statutory Reserve		313	-
Reserves		-	-
Accumulated loss		(590,973)	(592,225)
		4,689,019	4,687,454
Surplus on revaluation of assets - net of tax	10	38,101	37,860
		4,727,120	4,725,314
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The annexed notes from 1 to 16 form an integral part of these financial statements.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director



**INTERIM CONDENSED
PROFIT AND LOSS ACCOUNT (UNAUDITED)**
FOR THE QUARTER AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

	Note	Quarter ended Sept 30, 2010	Nine months ended Sept 30, 2010	Quarter ended Sept 30, 2009 (Restated)	Nine months ended Sept 30, 2009 (Restated)
Rupees in `000					
Profit / return on financings, investments and placements earned	12	1,028,540	2,751,910	507,868	1,559,501
Return on deposits and other dues expensed		538,547	1,478,623	316,788	837,509
Net spread earned		489,993	1,273,287	191,080	721,992
(Reversal) / provision against non-performing financings		(654)	(9,685)	5,514	73,309
Provision for diminution in the value of investments		-	-	21,418	21,418
Bad debts written off directly		-	-	-	-
		(654)	(9,685)	26,932	94,727
Net spread after provisions		490,647	1,282,972	164,148	627,265
OTHER INCOME					
Fee, commission and brokerage income		25,067	70,214	12,088	24,941
Dividend income		-	-	-	-
Income from dealing in foreign currencies		7,301	47,752	124,915	188,059
Capital gain on sale of securities		-	-	-	-
Unrealized gain/loss on revaluation of investments classified as held-for-trading		-	-	-	-
Other income		12,054	35,648	5,871	18,516
Total other income		44,422	153,614	142,874	231,516
		535,069	1,436,586	307,022	858,781
OTHER EXPENSES					
Administrative expenses		496,156	1,417,816	442,217	1,262,937
Other provisions / write-offs		-	-	-	-
Other charges		7,836	10,449	4,928	33,176
Total other expenses		503,992	1,428,265	447,145	1,296,113
		31,077	8,321	(140,123)	(437,332)
Extraordinary / unusual items		-	-	-	-
PROFIT/(LOSS) BEFORE TAXATION		31,077	8,321	(140,123)	(437,332)
TAXATION					
Current		10,612	28,702	-	-
Prior years		-	-	-	-
Deferred		2,770	(21,946)	10,027	(23,865)
		13,382	6,756	10,027	(23,865)
PROFIT/(LOSS) AFTER TAXATION		17,695	1,565	(150,150)	(413,467)
Profit/ (Loss) per share (Rupees) - basic		0.034	0.003	(0.284)	(0.783)

The annexed notes from 1 to 16 form an integral part of these financial statements.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE QUARTER AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

	Quarter ended Sept 30, 2010	Nine months ended Sept 30, 2010	Quarter ended Sept 30, 2009 (Restated)	Nine months ended Sept 30, 2009 (Restated)
	----- Rupees in `000 -----			
Profit/(Loss) after taxation	17,695	1,565	(150,150)	(413,467)
Other comprehensive income	-	-	-	-
Total comprehensive profit/(loss) for the period	17,695	1,565	(150,150)	(413,467)

Surplus / deficit arising on revaluation of fixed assets and available-for-sale investments is required to be shown separately below equity as 'surplus / deficit on revaluation of assets' in accordance with the requirements specified by the State Bank of Pakistan (SBP). Accordingly, these have not been included in comprehensive income which has been shown as part of equity.

The annexed notes from 1 to 16 form an integral part of these financial statements.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director

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INTERIM CONDENSED CASH FLOW STATEMENT (UNAUDITED)

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

	Sept 30, 2010	Sept 30, 2009 (Restated)
	— Rupees in `000 —	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) before taxation	8,321	(437,332)
Adjustments:		
Depreciation	251,215	231,501
Amortization of intangible asset	21,483	5,185
Depreciation on operating Ijarah	62,103	23,546
(Reversal)/ Provision against non-performing financings	(9,685)	73,309
Provision against investment and lending	-	21,418
(Gain) / loss on sale of fixed assets	(2,487)	(192)
Deferred cost amortized	12,062	12,062
	334,691	366,829
	343,012	(70,503)
(Increase) / decrease in operating assets		
Due from financial institutions	(6,238,423)	(270,312)
Financings	(2,927,088)	(817,031)
Others assets (excluding advance taxation and deferred cost)	(200,114)	(547,728)
	(9,365,625)	(1,635,071)
Increase / (decrease) in operating liabilities		
Bills payable	354,994	50,875
Repayments / borrowings from financial institutions	156,840	(151,449)
Deposits and other accounts	5,038,628	10,382,951
Other liabilities	284,380	91,848
	5,834,842	10,374,225
	(3,187,771)	8,668,651
Income tax paid	(13,276)	(5,105)
Net cash (used in) / generated from operating activities	(3,201,047)	8,663,546
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in available-for-sale securities-net	483,685	(2,090,013)
Investments in operating fixed assets	(48,876)	(473,498)
Sale proceeds of property and equipment disposed-off	6,326	2,502
Net cash generated from / (used in) from investing activities	441,135	(2,561,009)
Net (decrease) / increase in cash and cash equivalents	(2,759,912)	6,102,537
Cash and cash equivalents at beginning of the period	6,277,065	4,382,903
Cash and cash equivalents at end of the period	3,517,153	10,485,440

The annexed notes from 1 to 16 form an integral part of these financial statements.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director

**INTERIM CONDENSED
STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010**

	Share capital	Statutory Reserve	Accumulated loss	Total
	----- Rupees in `000 -----			
Balance as at January 01, 2009 - as previously reported	5,279,679	-	(98,307)	5,181,372
Effect of changes in accounting policy (Note 4.1)	-	-	(4,095)	(4,095)
Balance as at January 01, 2009 - restated	5,279,679	-	(102,402)	5,177,277
Loss for the period - restated	-	-	(413,467)	(413,467)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period ended September 30, 2009 - restated	-	-	(413,467)	(413,467)
Balance as of September 30, 2009 - restated	5,279,679	-	(515,869)	4,763,810
Loss for the period - restated	-	-	(76,356)	(76,356)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period ended December 31, 2009 - restated	-	-	(76,356)	(76,356)
Balance as of December 31, 2009 - restated	5,279,679	-	(592,225)	4,687,454
Profit for the period	-	-	1,565	1,565
Transferred to Statutory Reserve	-	313	(313)	-
Other comprehensive income	-	-	-	-
Total comprehensive profit for the period ended September 30, 2010	-	313	1,252	1,565
Balance as of September 30, 2010	<u>5,279,679</u>	<u>313</u>	<u>(590,973)</u>	<u>4,689,019</u>

The annexed notes from 1 to 16 form an integral part of these financial statements.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

1. STATUS AND NATURE OF BUSINESS

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

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

The registered office of the Bank is situated at 11th Floor, Dolmen City, Marine Drive, Block-4, Clifton, Karachi. The Bank commenced its operations from April 07, 2006. The shares of the Bank are quoted on the Karachi Stock Exchange. The Bank is operating with 102 branches including 32 sub branches (2009: 102 branches) as at September 30, 2010. The Pakistan Credit Rating Agency (Private) Limited (PACRA) has assigned the long term credit rating of the Bank as A ("Single A") and the short term rating as A1 ("A One").

- 1.2 The State Bank of Pakistan (SBP) vide Circular No. 07 of 2009 dated April 15, 2009 has increased the Minimum Capital Requirement (MCR) for Banks upto Rs.10 billion to be achieved in a phased manner by December 31, 2013. The minimum capital requirement (net of losses) as of December 31, 2009 was Rs.6 billion and for the current year ending December 31, 2010 is Rs. 7 billion. The paid up capital of the Bank (net of losses) as of Sept 30, 2010 amounts to Rs 4.689 billion. The Board of BIPL has decided to meet the capital requirement of the Bank by either acquiring another bank through cash-cum-share deal or in case it does not work out, issue right shares. Further, the Bank has applied for relaxation to the SBP in respect of MCR based on the above decisions of the Bank's Board of Directors and that the Bank's CAR as at Sept 30, 2010 stands at 17.50% (un-audited) in comparison to the CAR requirement of 10%.

Based on the above, the Board is of the view that the Bank would have adequate resources to continue its business on a sustainable basis in the foreseeable future.

2. BASIS OF PRESENTATION

- 2.1 These interim condensed financial statements are unaudited and have been prepared in accordance with the requirements of State Bank of Pakistan.
- 2.2 The Bank provides financing mainly through shariah compliant financial products. Except for Murabaha and Ijarah transactions (which are accounted for under the Islamic Financial Accounting Standard - 1 and - 2), the purchases, sales and rentals arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of rental / profit thereon. Income, if any, received which does not comply with the principles of Islamic Shariah is recognized as charity payable.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

- 2.3 These financial statements are separate financial statements of the Bank in which investments in subsidiaries are accounted for on the basis of direct equity interest and are not consolidated.

3. STATEMENT OF COMPLIANCE

- 3.1 These interim condensed financial statements of the Bank for the nine months period ended September 30, 2010 have been prepared in accordance with the requirements of the International Accounting Standard 34 - Interim Financial Reporting, provisions of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and directives issued by the SECP and the SBP. In case where requirements differ, the provisions of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the said directives have been followed.

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

- 3.3 The disclosures made in these interim condensed financial statements have been limited based on the format prescribed by the SBP vide BSD Circular letter No. 2 dated May 12, 2004 and International Accounting Standard 34, "Interim Financial Reporting" and do not include all of the information required in the annual financial statements. Accordingly these interim condensed financial statements should be read in conjunction with the annual financial statements of the Bank for the year ended December 31, 2009.

4. ACCOUNTING POLICIES

- 4.1 The accounting policies and method of computation adopted in preparation of these interim condensed financial statements are consistent with those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2009.

During the period, the Bank has changed its accounting policy in respect of 'revenue recognition on Istisn'a'. The Bank now recognizes profit on Istisn'a financing from time of sale of goods till the realization of sale proceeds by the Bank. The change in accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the treatment specified in IAS 8 "Accounting Policies, Changes in Accounting estimates and Errors". Previously, profit from Istisn'a were recognized on time proportion basis from the date of the contract till the realization of the sale proceeds by the Bank.

The change in accounting policy has the following effects on these Interim condensed financial statements.

**NOTES TO THE INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)**
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

	Nine Months ended Sept 30, 2010 (Rupees '000)
Decrease in other assets	13,388
Increase in deferred tax assets	4,667
Increase in accumulated loss	8,720
Increase in profit for the period	6,259

4.2 In addition to above, following new / revised standards, amendments and interpretations to accounting standards became effective during the period:

IFRS 2 - Share-Based Payment: Amendments relating to Group Cash-Settled Share-based Payment transactions.

IFRS 3 -Business Combination (Revised)

IAS 27 -Consolidated and Separate Financial Statements (Amendment)

IFRIC 17 -Distributions of Non-cash Assets to owners

The adoption of the above standards, amendments and interpretation did not have any effect on the interim condensed financial statements of the Bank.

	Sept 30, 2010	December 31, 2009
Note	—— Rupees in `000 ——	
	(Unaudited)	(Audited)
5. DUE FROM FINANCIAL INSTITUTIONS		
Sukuk Murabaha	6,418	6,418
Commodity Murabaha - local currency	5.1 10,257,236	2,218,813
	10,263,654	2,225,231
Musharaka Placement	-	1,800,000
	10,263,654	4,025,231
Provision against lending	(6,418)	(6,418)
	10,257,236	4,018,813

5.1 The Bank has entered into Commodity Murabaha agreements under which the Bank purchases an underlying commodity from open market through an agent and sells it to a financial institution on credit with profit. The profit rate on Commodity Murabaha ranges between 10% and 12.5% (2009: 11.5% and 12.4%) per annum and have a maturity ranging from 1 day to 94 days.



**NOTES TO THE INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)**
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

6. INVESTMENTS	Note	September 30, 2010 (Unaudited)			December 31, 2009 (Audited)		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
----- Rupees in `000 -----							
Available-for-sale securities							
Sukuk Certificates		6,095,223	-	6,095,223	6,578,908	-	6,578,908
Mutual funds							
- Open ended	15	-	-	15	15	-	15
- Close ended	6	-	-	6	6	-	6
		<u>6,095,244</u>	<u>-</u>	<u>6,095,244</u>	<u>6,578,929</u>	<u>-</u>	<u>6,578,929</u>
Subsidiary							
Unlisted company		191,015	-	191,015	191,015	-	191,015
		<u>6,286,259</u>	<u>-</u>	<u>6,286,259</u>	<u>6,769,944</u>	<u>-</u>	<u>6,769,944</u>
Investments at cost							
Less: Provision for diminution in Value of investments		(15,000)	-	(15,000)	(15,000)	-	(15,000)
		<u>6,271,259</u>	<u>-</u>	<u>6,271,259</u>	<u>6,754,944</u>	<u>-</u>	<u>6,754,944</u>
Investments - net of provisions							
Surplus on revaluation of available-for-sale securities	10	58,616	-	58,616	58,247	-	58,247
		<u>6,329,875</u>	<u>-</u>	<u>6,329,875</u>	<u>6,813,191</u>	<u>-</u>	<u>6,813,191</u>

7. FINANCINGS	Note	Sept 30,	December 31,
		2010 (Unaudited)	2009 (Audited)
----- Rupees in `000 -----			
Financings - in Pakistan			
- Murabaha	7.1	5,064,171	4,180,471
- Istisna	7.2	3,736,198	2,824,849
- Diminishing Musharaka - Housing		920,954	761,743
- Diminishing Musharaka - Others		3,923,860	3,889,569
- Payment against documents		39,872	-
- Against Bills - Salam		1,785	-
- Against Bills - Musawamah		6,364	7,948
- Musawamah		1,040,000	150,000
- Financings to employees		346,363	300,052
		<u>15,079,567</u>	<u>12,114,632</u>
Net investment in Ijarah financing			
In Pakistan		796,410	1,230,034
Net assets/investment in ijarah financing under IFAS 2 in Pakistan		<u>520,869</u>	<u>187,195</u>
Financings - gross		<u>16,396,846</u>	<u>13,531,861</u>
Provision for non-performing financings			
- Specific	7.3	(219,844)	(230,928)
- General		(20,180)	(18,781)
		<u>16,156,822</u>	<u>13,282,152</u>

7.1 Includes financings amounting to Rs. 193.479 million (December 31, 2009: Rs. 169.186 million) against Murabaha under Islamic Export Refinance Scheme.

**NOTES TO THE INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010**

7.2 No profit on Istisna financing has been earned in accordance with change in accounting policy stated in note 4.1 to the Interim condensed financial statements.

7.3 Financings include Rs. 575.195 million (December 31, 2009: Rs. 788.665 million) which have been placed under non-performing status as follows:

Category of classification	September 30, 2010				
	Domestic	Overseas	Total	Provision Required	Provision Held
	Rupees in `000				
Substandard	20,513	-	20,513	3,566	3,566
Doubtful	42,338	-	42,338	11,899	11,899
Loss	512,344	-	512,344	204,379	204,379
	<u>575,195</u>	<u>-</u>	<u>575,195</u>	<u>219,844</u>	<u>219,844</u>

Category of classification	December 31, 2009				
	Domestic	Overseas	Total	Provision Required	Provision Held
	Rupees in `000				
Substandard	282,606	-	282,606	45,514	45,514
Doubtful	142,878	-	142,878	50,501	50,501
Loss	363,181	-	363,181	134,913	134,913
	<u>788,665</u>	<u>-</u>	<u>788,665</u>	<u>230,928</u>	<u>230,928</u>

7.4 Particulars of provision against non-performing financings:

	September 30, 2010			December 31, 2009		
	Specific	General	Total	Specific	General	Total
	Rupees in `000					
Opening balance	230,928	18,781	249,709	141,687	18,242	159,929
Charge for the year	56,825	1,399	58,224	179,550	539	180,089
Reversals	(67,909)	-	(67,909)	(90,309)	-	(90,309)
	(11,084)	1,399	(9,685)	89,241	539	89,780
Closing balance	219,844	20,180	240,024	230,928	18,781	249,709

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

		Sept 30, 2010 (Unaudited)	December 31, 2009 (Audited)
8. DUE TO FINANCIAL INSTITUTIONS		Rupees in `000	
In Pakistan	8.1	313,000	156,160
Outside Pakistan		-	-
		<u>313,000</u>	<u>156,160</u>

8.1 These carry expected profit at rate of 9.5% (December 2009: 6.5% to 7%) per annum.



NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

	Sept 30, 2010	December 31, 2009
	----- Rupees in `000 -----	
	(Unaudited)	(Audited)
9. DEPOSITS AND OTHER ACCOUNTS		
Customers		
Fixed deposits	16,690,931	12,652,075
Savings deposits	8,643,073	7,555,064
Current accounts - non-remunerative	7,304,333	7,265,287
Margin accounts - non-remunerative	55,401	40,749
	<u>32,693,738</u>	<u>27,513,175</u>
Financial institutions		
Remunerative deposits	326,140	201,845
Non remunerative deposits	6,128	272,358
	<u>33,026,006</u>	<u>27,987,378</u>
10. SURPLUS ON REVALUATION OF ASSETS - net of tax		
Surplus on revaluation of available- for-sale securities		
Sukuk Bonds	58,616	58,247
Less: Related deferred tax liability	(20,515)	(20,387)
	<u>38,101</u>	<u>37,860</u>
11. CONTINGENCIES AND COMMITMENTS		
11.1 Transaction-related contingent liabilities		
Guarantees favouring		
- Government	889,575	643,793
- Others	68,869	141,141
	<u>958,444</u>	<u>784,934</u>
11.2 Trade-related contingent liabilities		
Import letters of credit	1,025,705	353,063
Acceptances	365,448	98,079
	<u>1,391,153</u>	<u>451,142</u>
11.3 Commitments in respect of Promises		
Purchase	443,185	8,099
Sales	439,174	16,848
	<u>882,359</u>	<u>24,947</u>
11.4 Commitments for the acquisition of operating fixed assets	6,199	1,726
	<u>6,199</u>	<u>1,726</u>
11.5 Other commitments		
Bills for collection	410,051	177,235
	<u>410,051</u>	<u>177,235</u>

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

Nine months period
Sept 30, 2010 Sept 30, 2009
 Restated
 ----- Rupees in `000 -----
 (Unaudited) (Unaudited)

12. PROFIT / RETURN ON FINANCINGS, INVESTMENTS AND PLACEMENTS EARNED

On financings to:		
Customers	1,428,389	699,298
Financial institutions	690,011	2,476
	2,118,400	701,774
On Investments in available for sale securities	610,460	679,095
On deposits / placements with financial institutions	13,194	171,514
Others	9,856	7,118
	2,751,910	1,559,501

13. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trading & Sales	Retail Banking	Commercial Banking	Support Center	Total
	----- Rupees in '000 -----				
Sept 30, 2010					
Total income	36,704	1,700,256	925,805	252,444	2,915,209
Total expenses	23,198	1,609,988	692,783	587,675	2,913,644
Net income / (loss)	13,506	90,268	233,022	(335,231)	1,565
Segment assets (gross)	18,387,485	2,554,630	17,406,661	2,021,106	40,369,882
Segment non performing loans	61,418	69,013	465,183	-	595,614
Segment provision required	21,418	50,628	189,396	-	261,442
Segment liabilities	322,915	24,521,353	9,640,821	896,231	35,377,780
Segment return on net asset (ROA) (%)	0.10%	4.71%	1.79%	-	-
Segment cost of funds (%)	12.43%	6.87%	7.17%	-	-

	Trading & Sales	Retail Banking	Commercial Banking	Support Center	Total
	----- Rupees in '000 -----				
December 31, 2009 - restated					
Total income- Sept 2009	38,422	878,111	395,250	375,431	1,687,214
Total expenses Sept 2009	9,207	1,171,093	496,012	424,369	2,100,681
Net income / (loss)- Sept 2009	29,215	(292,982)	(100,762)	(48,938)	(413,467)
Segment assets (gross)	16,389,703	3,278,465	13,255,798	1,618,953	34,542,919
Segment non performing loans	(61,418)	(58,037)	(730,628)	-	(850,083)
Segment provision required	(21,418)	(49,848)	(199,861)	-	(271,127)
Segment liabilities	7,080	19,336,743	10,098,990	103,665	29,546,478
Segment return on net asset (ROA) (%)	0.09%	(11.91%)	(0.32%)	-	-
Segment cost of funds (%)	13.00%	6.65%	6.14%	-	-



NOTES TO THE INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

14. RELATED PARTY TRANSACTIONS

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

	Sept 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	----- Rupees in `000 -----	
SUBSIDIARY		
Deposits:		
At January 1	10,726	357
Deposit during the period	708,974	632,165
Withdrawal during the period	(698,940)	(621,796)
At Sept 30/ December 31	20,760	10,726
	Nine months ended	
	Sept 30, 2010 (Unaudited)	Sept 30, 2009 (Unaudited)
	----- Rupees in `000 -----	
Transactions, income and expenses:		
Return on deposits expensed	5,938	7,171
	Sept 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	----- Rupees in `000 -----	
ASSOCIATES		
Financings:		
At January 1	-	-
Disbursed during the period	12,437	-
Repaid during the period	-	-
At Sept 30/ December 31	12,437	-
	Nine months ended	
	Sept 30, 2010 (Unaudited)	Sept 30, 2009 (Unaudited)
	----- Rupees in `000 -----	
Transactions, income and expenses:		
Profit earned on financing	118	-
	Sept 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	----- Rupees in `000 -----	
Transactions, income and expenses:		
Return on deposits expensed	4,493	2,055

**NOTES TO THE INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)**
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

	Sept 30, 2010	December 31, 2009
	----- Rupees in `000 -----	
	(Unaudited)	(Audited)
<u>KEY MANAGEMENT PERSONNEL</u>		
<u>Financings:</u>		
At January 1	48,796	43,871
Disbursed during the period	7,157	15,000
Repaid during the period	(1,039)	(10,075)
At Sept 30/ December 31	<u>54,914</u>	<u>48,796</u>
<u>Deposits:</u>		
At January 1	731	323
Deposit during the period	50,212	49,526
Withdrawal during the period	(50,191)	(49,118)
At Sept 30/ December 31	<u>752</u>	<u>731</u>
Nine months ended		
	Sept 30, 2010	Sept 30, 2009
	----- Rupees in `000 -----	
	(Unaudited)	(Unaudited)
<u>Transactions, income and expenses:</u>		
Profit earned on financing	1,670	1,507
Return on deposits expensed	237	93
Remuneration	23,008	20,680

15. DATE OF AUTHORIZATION FOR ISSUE

These interim condensed financial statements were authorized for issue on October 27, 2010, by the Board of Directors of the Bank.

16. GENERAL

16.1 Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director

Consolidated Financial Statements
of
BankIslami Pakistan Limited
for the nine months ended
September 30, 2010

DIRECTORS' REPORT

On behalf of the Board, I am pleased to present the consolidated third quarterly results of the Bank along with its subsidiary BankIslami Modaraba Investment Ltd. for the period ended September 30, 2010. The highlights of the period under review are:

	(Rs. In millions)		
	Sep-10	Dec-09	Growth (%)
Total Deposits	32,940	27,912	18.02%
Total Assets	40,029	34,193	17.1%
Total Financing net	16,157	13,282	21.6%
Total Investment	6,172	6,653	(7.2%)
Share-holders equity	4,732	4,720	0.25%
Branches	102	102	
	Sep-10	Sep-09	
Basic Earnings/(loss) per share	0.013	(0.774)	102 %

Our group performance remained satisfactory. The Bank has been able to post growth in its Deposits by (+ 18.02%), Financing (+ 21.6%) and Total Assets increased by (+ 17.1%).

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

On behalf of the Board

Hasan A. Bilgrami
Chief Executive Officer
October 27, 2010



CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

FOR NINE MONTHS ENDED SEPTEMBER 30, 2010

	Sept 30, 2010	December 31, 2009 (Restated)
	----- Rupees in `000 ----- (Unaudited)	(Audited)
ASSETS		
Cash and balances with treasury banks	3,112,686	4,217,520
Balances with other banks	407,492	2,059,808
Due from financial institutions	10,257,236	4,018,813
Investments	6,171,514	6,653,447
Financings - net	16,156,822	13,282,152
Operating fixed assets	2,149,327	2,375,515
Deferred tax assets	384,061	366,565
Other assets	1,389,605	1,218,689
	40,028,743	34,192,509
LIABILITIES		
Bills payable	840,602	485,608
Due to financial institutions	313,000	156,160
Deposits and other accounts	32,940,245	27,911,651
Sub-ordinated loans	-	-
Liabilities against assets subject to finance lease	-	-
Deferred tax liabilities	-	-
Other liabilities	1,202,913	918,705
	35,296,760	29,472,124
NET ASSETS	4,731,983	4,720,385
REPRESENTED BY		
Share capital	5,279,679	5,279,679
Reserves	1,366	-
Accumulated loss	(583,603)	(589,070)
	4,697,442	4,690,609
Surplus on revaluation of assets - net of tax	34,541	29,776
	4,731,983	4,720,385

CONTINGENCIES AND COMMITMENTS

The annexed notes from 1 to 7 form an integral part of these financial statements.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director

CONSOLIDATED INTERIM CONDENSED PROFIT AND LOSS ACCOUNT (UNAUDITED)

FOR THE QUARTER AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

	Quarter ended Sept 30, 2010	Nine months ended Sept 30, 2010	Quarter ended Sept 30, 2009 (Restated)	Nine months ended Sept 30, 2009 (Restated)
Rupees in `000				
Profit / return on financings, investments and placements earned	1,029,248	2,754,494	508,997	1,563,199
Return on deposits and other dues expensed	536,431	1,472,596	314,389	831,878
Net spread earned	<u>492,817</u>	<u>1,281,898</u>	<u>194,608</u>	<u>731,321</u>
(Reversal) / provision against non-performing financings	(654)	(9,685)	5,514	73,309
Provision for diminution in the value of investments	-	-	21,418	21,418
Bad debts written off directly	-	-	-	-
	<u>(654)</u>	<u>(9,685)</u>	<u>26,932</u>	<u>94,727</u>
Net spread after provisions	<u>493,471</u>	<u>1,291,583</u>	<u>167,676</u>	<u>636,594</u>
OTHER INCOME				
Fee, commission and brokerage income	25,067	70,214	12,088	24,941
Dividend income	-	-	-	-
Income from dealing in foreign currencies	7,301	47,752	124,915	188,059
Capital gain on sale of securities	-	-	-	-
Unrealized gain/loss on revaluation of investments classified as held-for-trading	-	-	-	-
Other income	12,054	35,648	5,871	18,516
Total other income	<u>44,422</u>	<u>153,614</u>	<u>142,874</u>	<u>231,516</u>
	<u>537,893</u>	<u>1,445,197</u>	<u>310,550</u>	<u>868,110</u>
OTHER EXPENSES				
Administrative expenses	496,541	1,419,251	443,196	1,266,833
Other provisions / write-offs	-	-	-	-
Other charges	7,836	10,449	4,928	33,176
Total other expenses	<u>504,377</u>	<u>1,429,700</u>	<u>448,124</u>	<u>1,300,009</u>
	<u>33,516</u>	<u>15,497</u>	<u>(137,574)</u>	<u>(431,899)</u>
Extraordinary / unusual items	-	-	-	-
PROFIT/(LOSS) BEFORE TAXATION	<u>33,516</u>	<u>15,497</u>	<u>(137,574)</u>	<u>(431,899)</u>
TAXATION				
Current	11,276	30,640	(1,295)	(577)
Prior years	-	-	-	-
Deferred	2,758	(21,976)	10,689	(22,635)
	<u>14,034</u>	<u>8,664</u>	<u>9,394</u>	<u>(23,212)</u>
PROFIT/(LOSS) AFTER TAXATION	<u>19,482</u>	<u>6,833</u>	<u>(146,968)</u>	<u>(408,687)</u>
Profit/(Loss) per share (Rupees) - basic	<u>0.037</u>	<u>0.013</u>	<u>(0.278)</u>	<u>(0.774)</u>

The annexed notes from 1 to 7 form an integral part of these financial statements.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director

**CONSOLIDATED INTERIM CONDENSED
STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**
FOR THE QUARTER AND NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

	Quarter ended Sept 30, 2010	Nine months ended Sept 30, 2010	Quarter ended Sept 30, 2009 (Restated)	Nine months ended Sept 30, 2009 (Restated)
	----- Rupees in `000 -----			
Profit/(Loss) after taxation	19,482	6,833	(146,968)	(408,687)
Other comprehensive income	-	-	-	-
Total comprehensive Profit/(Loss) for the period	<u>19,482</u>	<u>6,833</u>	<u>(146,968)</u>	<u>(408,687)</u>

Surplus / deficit arising on revaluation of fixed assets and available-for-sale investments is required to be shown separately below equity as 'surplus / deficit on revaluation of assets' in accordance with the requirements specified by the State Bank of Pakistan (SBP). Accordingly, these have not been included in comprehensive income which has been shown as part of equity.

The annexed notes from 1 to 7 form an integral part of these financial statements.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director





CONSOLIDATED INTERIM CONDENSED CASH FLOW STATEMENT (UNAUDITED)

FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

	Sept 30, 2010	Sept 30, 2009 (Restated)
	—— Rupees in `000 ——	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) before taxation	15,497	(431,899)
Add: Deferred cost incurred-net	-	-
Less: Dividend Income	-	-
	15,497	(431,899)
Adjustments:		
Depreciation	249,742	230,127
Amortization of intangible asset	21,483	5,185
Depreciation on operating Ijarah	62,103	23,546
(Reversal)/Provision against non-performing financings	(9,685)	73,309
Provision against investment and lending	-	21,418
(Gain) / loss on sale of fixed assets	(2,487)	(192)
Deferred cost amortized	12,062	12,062
	333,218	365,455
	348,715	(66,444)
(Increase) / decrease in operating assets		
Due from financial institutions	(6,238,423)	(270,312)
Financings	(2,927,088)	(817,031)
Others assets (excluding advance taxation and deferred cost)	(199,603)	(547,338)
	(9,365,114)	(1,634,681)
Increase / (decrease) in operating liabilities		
Bills payable	354,994	50,875
Due to financial institutions	156,840	(151,449)
Deposits and other accounts	5,028,594	10,376,695
Other liabilities	284,208	94,005
	5,824,636	10,370,126
	(3,191,763)	8,669,001
Income tax paid	(14,016)	(5,885)
Net cash flow from operating activities	(3,205,779)	8,663,116
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities-net	491,179	(2,090,013)
Investments in operating fixed assets	(48,876)	(472,949)
Sale proceeds of property and equipment disposed-off	6,326	2,502
Net cash flow from investing activities	448,629	(2,560,460)
(Decrease) / increase in cash and cash equivalents		
	(2,757,150)	6,102,656
Cash and cash equivalents at beginning of the period	6,277,328	4,383,058
Cash and cash equivalents at end of the period	3,520,178	10,485,714

The annexed notes from 1 to 7 form an integral part of these financial statements.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director

**CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY (UNAUDITED)**
FOR THE NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2010

	Share capital	Statutory Reserve	Accumulated loss	Total
	----- Rupees in `000 -----			
Balance as at January 01, 2009 - as previously reported	5,279,679	-	(101,364)	5,178,315
Effect of changes in accounting policy	-	-	(3,256)	(3,256)
Balance as at January 01, 2009 - restated	5,279,679	-	(104,620)	5,175,059
Loss for the period ended September 30, 2009 - restated	-	-	(408,687)	(408,687)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period ended September 30, 2009 - restated	-	-	(408,687)	(408,687)
Balance as of September 30, 2009 - restated	5,279,679	-	(513,307)	4,766,372
Loss for the period ended December 31, 2009- restated	-	-	(75,763)	(75,763)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period ended December 31, 2009 - restated	-	-	(75,763)	(75,763)
Balance as of December 31, 2009 - restated	5,279,679	-	(589,070)	4,690,609
Profit for the period ended September 30, 2010	-	-	6,833	6,833
Transferred to statutory reserve	-	1,366	(1,366)	-
Other comprehensive income	-	-	-	-
Total comprehensive profit for the period ended September 30, 2010	-	1,366	5,467	6,833
Balance as of September 30, 2010	<u>5,279,679</u>	<u>1,366</u>	<u>(583,603)</u>	<u>4,697,442</u>

The annexed notes from 1 to 7 form an integral part of these financial statements.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director



**NOTES TO THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**
FOR THE PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)

1. STATUS AND NATURE OF BUSINESS

- 1.1 BankIslami Pakistan Limited was incorporated in Pakistan as a public limited company on October 18, 2004 under the Companies Ordinance, 1984 to carry out business of an Islamic Commercial Bank in accordance with the principles of Islamic Shariah. The registered office of the Bank is situated at 11th Floor, Dolmen City, Marine Drive, Block-4, Clifton, Karachi. The Bank commenced its operations from April 07, 2006. The shares of the Bank are quoted on the Karachi Stock Exchange. The Bank is operating with one hundred and two branches including thirty two sub-branches (December 31, 2009: 102 branches) as at September 30, 2010.
- 1.2 The State Bank of Pakistan (SBP) vide Circular No. 07 of 2009 dated April 15, 2009 has increased the Minimum Capital Requirement (MCR) for Banks upto Rs.10 billion to be achieved in a phased manner by December 31, 2013. The minimum capital requirement (net of losses) as of December 31, 2009 was Rs.6 billion and for the current year ending December 31, 2010 is Rs. 7 billion. The paid up capital of the Bank (net of losses) as of September 30, 2010 amounts to Rs 4.697 billion. The Board of BIPL has decided to meet the capital requirement of the Bank by either acquiring another bank through cash-cum-share deal or in case it does not work out, issue right shares. Further, the Bank has applied for relaxation to the SBP in respect of MCR based on the above decisions of the Bank's Board of Directors and that the Bank's CAR as at September 30, 2010 stands at 17.50% (un-audited) in comparison to the CAR requirement of 10%.

Based on the above, the Board is of the view that the Bank would have adequate resources to continue its business on a sustainable basis in the foreseeable future.

The Bank has acquired 100 percent shares of BankIslami Modaraba Investment Limited (a unquoted public company) on August 31, 2007. The principal activity of the company is to act as Modaraba management company. BankIslami Modaraba Investment Limited was incorporated in Pakistan on January 22, 1986 as a public unquoted company under the Companies Ordinance, 1984. Later on it was registered as a Modaraba Company with the Registrar of Modaraba Companies and Modaraba's, under the Modaraba Companies and Modaraba's (Floatation and Control) Ordinance, 1980. The registered office of the company is situated at 10th Floor, Progressive Square, Shahrah-e-Faisal, Karachi.

2. BASIS OF PRESENTATION

- 2.1 These interim condensed consolidated financial statements are unaudited and have been prepared in accordance with the requirements of State Bank of Pakistan.
- 2.2 The Bank provides financing mainly through shariah compliant financial products. Except for Murabaha and Ijarah transactions (which are accounted for under the Islamic Financial Accounting Standard - 1 and - 2), the purchases, sales and rentals arising under these arrangements are not reflected in these interim condensed consolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of rental / profit thereon. Income, if any, received which does not comply with the principles of Islamic Shariah is recognized as charity payable.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)

3. STATEMENT OF COMPLIANCE

- 3.1 These interim condensed consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and regulations / directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or regulations / directives issued by the SECP and the SBP differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said regulations / directives shall prevail.
- 3.2 The SBP vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurement" and IAS 40, "Investment Property" for Banking companies till further instructions. Further, according to the notification of SECP dated April 28, 2008, IFRS-7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified, accounted for and valued in accordance with the requirement of various circulars issued by SBP.
- 3.3 The disclosures made in these interim condensed consolidated financial statements have been limited based on the format prescribed by the SBP vide BSD Circular letter No. 2 dated May 12, 2004 and International Accounting Standard 34, "Interim Financial Reporting" and do not include all of the information required in the annual financial statements. Accordingly, these interim condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended December 31, 2009.

4. SIGNIFICANT ACCOUNTING POLICIES

- 4.1 The accounting policies and method of computation adopted in preparation of these interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's financial statements for the year ended December 31, 2009.

During the period, the Group has changed its accounting policy in respect of 'revenue recognition on Istisn'a'. The Group now recognizes profit on Istisn'a financing from time of sale of goods till the realization of sale proceeds by the Group. The change in accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the treatment specified in IAS 8 "Accounting Policies, Changes in Accounting estimates and Errors". Previously, profit from Istisn'a was recognized on time proportion basis from the date of the contract till the realization of the sale proceeds by the Group.



**NOTES TO THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**
FOR THE PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)

The change in accounting policy has the following effects on these Interim condensed consolidated financial statements.

	Nine months ended September 30, 2010 (Rupees '000)
Decrease in other assets	13,388
Increase in deferred tax assets	4,667
Increase in accumulated loss	8,720
Increase in profit for the period	6,259

4.2 In addition to above, following new/ revised standards, amendments and interpretations to accounting standards became effective during the period:

- IFRS-2 Share Based payment: Amendments relating to Group Cash Settled Share Based Payment Transactions
- IFRS-3 Business Combination (revised)
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 17 Distribution of Non Cash Assets to owner

The adoption of the above said standards, amendments and interpretations did not have any affect on the interim condensed consolidated financial statements of the Group.

5 BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Bank and BankIslami Modaraba Investment Limited. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

5.1 Business combinations

Acquisition of subsidiary is accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Bank in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, "Business Combinations" are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

**NOTES TO THE INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**
FOR THE PERIOD ENDED SEPTEMBER 30, 2010 (UNAUDITED)

5.2 Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash - generating units expected to benefit from the synergies of the combination. Cash - generating units to which goodwill has been allocated will be tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash - generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

6 DATE OF AUTHORIZATION FOR ISSUE

These interim condensed consolidated financial statements were authorized for issue on October 27, 2010 by the Board of Directors of the Bank.

7 GENERAL

Figures have been rounded off to the nearest thousand rupees, unless otherwise stated.

-Sd-
Chairman

-Sd-
Chief Executive Officer

-Sd-
Director

-Sd-
Director

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