First Women Bank Limited.

First Women Bank Ltd.

Financial Statements

For the year ended

31 December 2010

First Women Bank Limited

DIRECTORS' REPORT

The Board of Directors of First Women Bank Ltd. is pleased to present the 21st Annual Report of the Bank, together with the Audited Financial Statements and the Auditors' Report thereon for the year ended December 31, 2010.

Financial Highlights:

(Rs. in '000)

	As at 31 December, 2010	As at 31 December, 2009
Advances (Gross)	6,535,694	3,481,854
Deposits	10,195,214	8,756,793
Total Assets	12,703,160	10,258,060
Paid up Capital	283,650	283,650
Reserves	233,282	228,540
Un-appropriated profit	567,585	546,128
Surplus on revaluation of assets (net)	21,504	35,049
Total Net Assets:	1,106,021	1,093,367
	For the year ended as at 31 Dec., 2010	**For the year ended as at 31 Dec., 2009**
Net Mark-up / return / interest income	610,707	488,476
Fees, commission & other income	57,141	66,879
Administrative expenses and other charges	(543,072)	(453,889)
Profit before provisions and taxations	124,776	101,466
Provision against non-performing loans – net	(19,967)	(102,149)
Provision for diminution in value of investments	(3,856)	(8,545)
Provision against lendings to financial institutions	(53,076)	(68,500)
Provision against other assets	6,800	(8,526)
Provision	(70,099)	(187,720)
Profit / (loss) before taxation	54,677	(86,254)
Taxation – Current & deferred	(30,966)	6,153
Profit / (loss) after taxation	23,711	(80,101)

Financial Performance:

Profitability: The Bank's operational profit before taxation & provisions against classified assets is Rs. 124.8 million for the year 2010 (2009: Rs. 101.5 million). The Bank absorbed additional burden of booking provisions against non-performing loans and advances Rs. 19.9 million (2009: Rs. 102.1 million), lending to financial institutions Rs. 53.1 million (2009: 68.5 million) and for diminution in value of investments Rs. 3.8 million (2009: Rs. 8.5 million), while, the Bank reversed provision against other assets of RS. 6.8 million (2009: charge of Rs. 8.5 million); the Bank's expectations about reversal and recovery are high. The net profit before tax is Rs. 54.7 million, compared to net loss of Rs. 86.2 million in 2009.

Mark-up income from loans and advances increased by Rs. 429.9 million (compared to increase of Rs. 7.0 million during 2009), due to increase in average advances mainly from commodity financing to the Provincial Governments' Food Department.

Administrative Expenses and other charges increased by Rs. 89.2 million 19.6% (2009: Rs. 82.0 million or 22.4%); Salaries and other benefits increased by Rs. 30.1 million or 13% (2009: Rs. 42.0 million or 21%) and other over-heads such as utilities, rentals, electricity and fuel charges, in line with rising inflationary impacts, increased by Rs. 12.0 million.

Investments portfolio decreased by Rs. 667 million or 16.3% and **Lendings to Financial Institutions** decreased by Rs. 210 million or 18.5% as compared to last year, due to concentration of the Bank on increasing the advances base.

Gross Advances were Rs. 6,536 million at December 31, 2010, showing an increase of Rs. 3,054 million (2009: Rs. 72 million).

Deposits were Rs. 10,195 million as compared to Rs. 8,757 million last year.
Shareholders Equity has increased to Rs. 1,106 million in current year compared to Rs. 1,093 million in December 2009.

Net Assets Value per share has slightly increased to Rs. 38.99, as compared to Rs. 38.55 last year.

Focus on Women Development:

In line with the Bank's Charter: ***"Undertaking the conduct of all forms of business of a Banking Company in a manner designed to meet the special needs of women and to encourage and assist them in promotion and running of trade and industry and practice of profession"***, and its Mission ***"To transform the status of women from passive beneficiaries of social services to dynamic agents of change"*** the Bank's marketing activities were accelerated to target women entrepreneurs – Micro, Small & Medium and Corporate, and to increase the share of women depositors and women borrowers.

Advances to Women/ Women Owned Enterprises:
The Bank has the best outreach to women; to date Rs. 29.6 billion has been disbursed, of which Rs. 17.2 billion has been disbursed to the women, which constitute 58% financing to women, with total outreach to 47,859 borrowers.

First Women Bank Ltd. caters to women at all socio-economic levels; Micro, Small & Medium and Corporate:

o Micro-credit	: Rs. 3.4	billion, which constitute	19.7%	of total disbursements to women
o SMEs	: Rs. 11.4	billion, which constitute	66.3%	of total disbursements to women
o Corporate	: Rs. 2.4	billion, which constitute	14.0%	of total disbursements to women
Total	**Rs. 17.2**	billion	**100.0%**	

During the year 2010 Rs. 7.1 billion has been disbursed, which includes Rs. 1.8 billion or 25.4% disbursed to women, Rs. 4.0 billion or 56.3% for commodity financing and Rs. 1.3 billion or 18.3% to others.

The model of FWBL, a Commercial Bank and a Developmental Financial Institution, is unique, since our credit policies are designed to promote asset ownership, and most importantly to provide the support services required to navigate the obstacles in the development of business, with the vision to assist them in emerging as key players in the economy.

Deposits from Women/ Women owned Enterprises stood at Rs. 3,095 million. The number of women account holders is 57,893 which constitute 58% of the total account holders as at December 2010.

Support Services for Women: The Bank recognizes that access to credit alone is not sufficient to economically empower women. FWBL's credit products are complemented by support services offered through Business Centres, Computer Literacy Centres and Financial Services Desk.

Financial Services Desk (FSD): Financial Services Desk has facilitated the women in business, in five important facets:- Legal counseling, Tax consultancy, Marketing, Credit management and Trade Finance, but also for fast track processing of credit proposals.

Operational Performance Review:

The Bank concentrated its efforts to increase the size of its Balance Sheet by mobilizing Deposits, strengthen the Infra-structure, improve employees' knowledge and skill set, augment I.T resources, to streamline Operations, improve customer services and effectively reposition itself to steer through the internal constraints and external challenges, through optimum utilization of limited available resources.

- Inter-branch reconciliation has been automated, which is under testing and parallel run certification.
- The Bank has automated the Treasury Management System, including Treasury Front Office Dealing System, Treasury Back Office and Risk Management functions.
- The Bank has initiated the process of phase-wise implementation of IT Security Policy in line with the detailed Implementation Plan, recently approved by the Board.
- Thirteen branches have been fully renovated and upgraded to model branches, to facilitate priority-banking services for women entrepreneurs.
- The Bank has launched more interactive new website.
- The Bank has developed the 'Internal Risk Rating Policy' and 'Compliance Policy'.
- A Trust has been set-up under Benazir Employee Stock Option Scheme (BESOS) for employees of the Bank, and the transfer of shares from Ministry of Women Development to BESOS Trust is under process.

Key Financial Indicators of FWBL during 2005-2010:

The significant highlights of the Bank's financial performance during the last 6 years are enclosed as Appendix-I.

Market Recognition:

The Pakistan Credit Rating Agency Ltd. (PACRA) has maintained the Bank's "long-term" and "short-term" entity ratings on stand alone basis at "BBB+" (Triple B Plus) and "A2" (A two), respectively, as per its press release issued on July 21, 2010. These ratings, as defined by PACRA, denote a low expectation of credit risk emanating from an adequate capacity for timely payment of financial commitments.

Minimum Capital Requirements:

The State Bank of Pakistan has granted the Bank an extension in meeting the compliance of the Minimum Paid-up Capital Requirements till December 31, 2011. The Bank's inability to raise its paid-up capital to meet the Minimum Paid-up Capital Requirements, periodic deferments by the State Bank of Pakistan, lowest paid-up capital, sole dependence on limited internal resources generated through profits, are major challenges to compete in a tough competitive scenario and poses serious threat to the institution for meeting its restructuring needs.

Future Outlook:

First Women Bank Ltd. "run and managed by women, for the women of Pakistan" is committed to be the "benchmark employer" of women in the Banking industry, with the best practices and the best financial services, in line with its vision:

> "*To be the lead Bank for women: Dynamic, adaptive and responsive to their special economic needs, offering the best financial services and the best banking practices".*

After the successful launch of the on-line banking, SWIFT, RTGS inter-bank fund transfer system, the Bank is committed to provide more resources for implementation of new innovations in the field of Information Technology for the benefit of our valuable clientele. The Bank would continue to improve its existing infrastructure as well as by acquiring upgraded banking applications, to offer new products, such as Phone Banking, Call Centre, Internet Banking, Utility Bills payment, Point of Sale terminals/ Debit Cards and phase-wise integration of automated centralized MIS.

With the hiring of additional professionals as divisional heads, the Bank has worked-out detailed timeframes to develop and update Manuals and Policy documents, to further strengthen the system of internal controls and to ensure better compliance with the Regulatory requirements.

Compliance with the Best Practices of the Code of Corporate Governance:

First Women Bank Ltd. recognizes the importance of the code of Corporate Governance and the Directors are pleased to give following statement in respect of the Code of Corporate Governance:

- The financial statements present fairly the state of affairs of the Bank, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Bank have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable to Banks in Pakistan, have been followed in preparation of financial statements without any departure there-from.
- The system of internal control in the Bank is sound in design, and has been effectively implemented and monitored.
- There is no reason, what so ever, to doubt the Bank's ability to continue as a going concern.
- There has been no material departure from the best practices of Corporate Governance, in accordance with the relevant regulations.

The Board has appointed the following eight committees with defined terms of reference:

➢ Audit Committee	Comprising of non-executive members
➢ HR Recruitment & Compensation Committee	Comprising of executive & non-executive members

➢	Credit & Risk Management Committee	Comprising of executive & non-executive members
➢	Executive Committee	Comprising of the Bank's Executives
➢	Assets & Liabilities Management Committee (ALCO)	Comprising of the Bank's Executives
➢	Fraud & Forgery Committee	Comprising of the Bank's Executives
➢	Executive Credit Committee	Comprising of the Bank's Executives
➢	IT Steering Committee	Comprising of the Bank's Executives

Risk Management Framework:

In order to comply with SBP guidelines on risk management, the Bank had prepared the 'Basic framework & policy guidelines', which were approved by the Board.

Recognizing the facts that policies and procedures are imperative to strengthen the internal control systems and to ensure smooth functioning of any department of an institution, the Bank prepared several Guidelines and Manuals, which have been approved by the Board of Directors, including 'Credit Manual', 'KYC & Anti Money Laundering Policy & Procedures', 'Policy for Acquisition & Disposal of Fixed Assets', 'Policy for Maturity-wise Distribution of Rate Sensitive Deposits & Other Accounts', 'Consumer Credit Policy', 'Accounting Policy', 'Country Risk Management Policy', 'IT Security Policy', 'Treasury Manual' and 'Investment Policy' .

Staff Retirement Benefit Funds:

The Book value of Investments of the approved contributory/ non-contributory Provident Fund, Pension and Gratuity schemes, based on the last un-audited financial statements of the schemes, were:

	(Rs. in '000s)	
Provident Fund	**As at 30-06-10**	**As at 30-06-09**
Value of Investments & Bank Balance	Rs. 82,450	Rs. 76,729
Pension Fund	**As at 31-12-10**	**As at 31-12-09**
Value of Investments & Bank Balance	Rs. 202,290	Rs. 162,250
Gratuity Fund	**As at 31-12-10**	**As at 31-12-09**
Value of Investments/ Bank Balance	Rs. 8,169	Rs. 7,287

Board Meetings:

During the year under report, the Board of Directors met 6 times (including the Pre-AGM). The number of meetings attended by each Director during the year:

	Name of Directors	Attendance
1.	Mrs. Shafqat Sultana	6
2.	Mr. Atif Aslam Bajwa / Mr. M. U. A. Usmani	- / 2
3.	Mr. R. Zakir Mahmood	-
4.	Mrs. Sarod Lashari / Ms. Batool Iqbal Qureshi	- / 2
5.	Mr. M. Aftab Manzoor / Mr. Khalid Sherwani	1 / 2
6.	Mr. S. Ali Raza	5
7.	Mr. Atif R. Bokhari	3

Pattern of Share holding:

The pattern of shareholding as required U/s. 236 of the Companies Ordinance, 1984 and Article (xix) of the Code of Corporate Governance:

Share Holders:	Number of Shares	% of Holding
MCB Bank Ltd.	7,596,000	26.78%
Habib Bank Ltd.	7,596,000	26.78%
Ministry of Women Development	5,565,000	19.62%
Allied Bank Ltd.	2,544,000	08.96%
National Bank of Pakistan.	2,532,000	08.93%
United Bank Ltd.	2,532,000	08.93%
Total Paid up Shares	**28,365,000**	**100.00%**

Appointment of External Auditors:

On the suggestion of the Audit Committee, the Board of Directors recommends to appoint M/s. M. Yousuf Adil Saleem & Co., Chartered Accountants, as Auditors of the Bank for the financial year ending as at December 31, 2011 as M/s. KPMG Taseer Hadi & Co., Chartered Accountants, has completed the term of five years.

Acknowledgement:

The Board of Directors and the management of the Bank wish to record their thanks to the Government of Pakistan, Ministry of Finance and State Bank of Pakistan for their continued support and guidance. We also take this opportunity to express our gratitude to our valued customers, business partners and the staff for their trust and commitment.

For and on behalf of the Board of Directors

Shafqat Sultana
Chairperson & President/CEO.

Date : March 21, 2011

Appendix – I

Financial Performance at a Glance During 2005 – 2010:

* (Rs. in Million)

Key Financial Indicators	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Total Assets *	10,503	8,989	8,985	7,304	10,258	12,703
Shareholder Equity *	727	935	1,088	1,103	1,093	1,106
Advances (Gross) *	2,505	3,115	3,129	3,410	3,482	6,535
NPLs *	51	47	85	174	331	430
Deposits *	8,716	6,965	7,569	5,939	8,757	10,195
Investments & Lendings to Financial Institutions *	6,691	4,569	4,405	2,615	5,233	4,356
Profit before tax *	220.6	256.5	238.4	190.4	(86.2)	54.7
Net Asset value – Rs. per Share	25.62	32.96	38.35	38.89	38.55	38.99
Earning per Share – Rs. per Share	4.71	5.85	5.57	3.74	(2.82)	0.84
Capital Adequacy Ratio%	15.18%	24.51%	29.52%	22.12%	32.39%	27.24%

STATEMENT OF INTERNAL CONTROLS

REPORTING ON INTERNAL CONTROL SYSTEM:

The Bank's management is primarily responsible for the establishment and maintenance of an adequate and effective system of internal controls that could help in the Bank's endeavor to attain a professional and efficient working environment throughout the Bank. The Internal Control System comprises of control procedures, practices and control environment.

The management ensures the efficiency and effectiveness of the Internal Control System by identifying control objectives, reviewing pertinent policies/ procedures and establishing relevant control procedures. The Board has approved significant policies/ manuals of the Bank, while some policies and procedures are being compared with existing practices and necessary amendments/ updates and preparation of additional new policies/ manuals are in progress.

Further, the management is conscious of appropriate authentication of transactions, strengthening of control environment, identifying areas requiring improvement in Internal Control System and ensuring relevant appropriate follow-ups/corrective actions, on timely basis. In this connection, the Bank has engaged M/s. BDO Ebrahim & Co., Chartered Accountants firm to review the system of internal controls in accordance with established benchmarks including COSO Framework. The consultant has completed 04 stages of ICFR assignment as per structured raod map provided by SBP vide BSD Circular No. 5 dated February 24, 2009. As per revised instructions issued by SBP vide BSD Circular No. 3 dated June 10, 2010 for the banks on Internal Control over Financial Reporting, the management is geared to comply with the requirement of **"Long Form Report"**, to be issued by the Statutory Auditors of the Bank and require to be submitted through the management for the year ended December 31, 2010, latest by **March 31, 2011.**

Internal Control System in the Bank is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

EVALUATION OF EXISTING INTERNAL CONTROL SYSTEMS

The Bank strived during the year 2010 to ensure that an effective and efficient internal control system is implemented, any material compromise is not made in implementing the desired control procedures and a suitable control environment is maintained in general. However, it is an ongoing process that includes identification, evaluation and management of significant risks being faced by the Bank.

The significant observations and weaknesses found / identified by the auditors, both internal and external, have been taken care of and necessary steps were taken by the management, to minimize recurrence of those exceptions and elimination of such weaknesses, as far as possible. Efforts are underway to further strengthen the internal controls. The Board, acting through the Audit Committee, provides supervision and overall guidance in improving the effectiveness of the internal control system. Due attention and focus is being given to improve controls and enhance competence level and knowledge of the staff.

For and on behalf of the Board

Shafqat Sultana
Chairperson & President / CEO

Date : 21 March, 2011

STATEMENT OF COMPLIANCE WITH THE
CODE OF CORPORATE GOVERNANCE
For the Year Ended 31 December 2010

This statement is being presented to comply with the Code of Corporate Governance (the code) issued by the Securities and Exchange Commission of Pakistan and made applicable by the State Bank of Pakistan to banks vide Regulation G-1 of Prudential Regulations (dealing with the responsibilities of the Board of Directors) and BSD Circular No. 15 dated 13 June 2002 for the purpose of establishing a framework of good governance, to manage a bank in compliance with the best practices of corporate governance.

The Bank has adopted the Code of Corporate Governance and applied the principles contained in the Code in the following manner:

1. At present all the members of the Board of Directors (the Board) are non-executive Directors except for the President/ Chief Executive Officer who is also the Chairperson of the Board. The President of the Bank is appointed by the Government of Pakistan (GoP).
2. The Directors have confirmed that none of them is serving as Director in more than ten listed companies.
3. All the Directors of the Bank have confirmed that they are registered as Tax Payers and none of them has defaulted in payment of any loan to a Banking Company, a Development Financial Institution (DFI) or a Non Banking Finance Company (NBFC) or, being a Member of a Stock Exchange, has been declared as defaulter by the Stock Exchange.
4. Three casual vacancies occurred in the Board during the year, which were filled within 30 days.
5. The Directors have confirmed that neither they nor their spouses are engaged in the Business of Stock Brokerage.
6. The Bank has prepared a ‘Statement of Ethics and Business Practices’ duly approved by Executive Committee and is under review of Audit Committee of the Board.
7. The Board has developed a Vision and Mission statements. The Board has approved significant policies of the Bank, most of the policies / manuals have been reviewed and updated while a few are in process.
8. All the meetings of the Board were presided over by the Chairperson in terms of the provisions of Banks (Nationalization) Act, 1974. The Board met at least once in every quarter during the year ended 31 December 2010. Written notices of the Board meetings, along with agenda were circulated at least seven days before the meetings and working papers were distributed before the meetings. The minutes of the meetings were appropriately recorded and circulated along with the agenda of next meeting as desired by the Board of Directors.
9. Out of the six non-executive Directors of the Bank, five are presidents of other banks and in view of their confirmation that they are fully aware of their duties and responsibilities, orientation courses required under the Code were not arranged by the Bank.
10. The appointment of the Chief Financial Officer and Company Secretary has been approved by the Board of Directors and the appointment of the Head of Internal Audit has been approved by the Board’s Committee. Their remuneration and terms of employment are duly approved by the Board/ Board’s Committee.
11. All the powers of the Board have been duly exercised and necessary administrative, financial and credit discretionary powers have been delegated to the management and decisions on material transactions are approved/ ratified/ confirmed by the Board.
12. The Directors’ Report for year ended 31 December 2010 has been prepared in compliance with the requirements of the Code and fully describes the salient matters enumerated in the Annual Report.

13. The financial statements of the Bank were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.

14. The Directors, Chief Executive Officer and Executives do not hold any interest in the shares of the Bank.

15. The Bank has complied with all material Corporate and Financial Reporting requirements of the Code.

16. The Board has formed an Audit Committee. It comprises of three members including the Chairman of the Audit Committee, all of whom are representatives of the stakeholders banks including the Chairman of the Committee as permitted by the State Bank of Pakistan through its letter BSD (SU-14)/432/646/2003 dated 3 March 2003. The terms of reference of this committee have been formulated and advised to the committee for compliance.

17. The meetings of the audit committee were held at least once in every quarter prior to approval of interim and final results of the Bank. The Bank has established an internal audit department. Audit Committee of the Board reviews all Internal Audit's Reports and brings to the notice of Board important matters.

18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan; that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank; and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other than approved services and the auditors have confirmed that they have observed International Federation of Accountants (IFAC) guidelines in this regard.

20. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Shafqat Sultana
Chairperson & President / CEO

Date: 21 March, 2011.

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

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

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

As part of our audit of 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 31 December 2010.

Date: 21 March 2011

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi

Auditors’ Report to the Members

We have audited the annexed statement of financial position of First Women Bank Limited as at 31 December 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the ‘financial statements’) for the year then ended, in which are incorporated the unaudited certified returns from the branches except for 9 branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in the case of loans and advances covered more than 60% of the total loans and advances of the bank, we report that:

a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;

b) in our opinion:

    i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

    ii) the expenditure incurred during the year was for the purpose of the Bank’s business; and

    iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;

c) in our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement, and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at 31 December 2010 and its true balance of the profit, 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.

Date: 21 March 2011

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Amyn Pirani

First Women Bank Limited
Statement of Financial Position
As at 31 December 2010

	Note	2010	2009
		(Rupees in '000)	
Assets			
Cash and balances with treasury banks	6	**836,311**	713,140
Balances with other banks	7	**600,228**	586,849
Lendings to financial institutions	8	**926,323**	1,136,025
Investments - net	9	**3,430,251**	4,097,423
Advances - net	10	**6,308,140**	3,274,221
Operating fixed assets	11	**188,248**	203,972
Deferred tax assets - net	12	**38,861**	52,212
Other assets - net	13	**374,798**	194,218
		12,703,160	10,258,060
Liabilities			
Bills payable	15	**102,182**	89,020
Borrowings	16	**966,885**	31,328
Deposits and other accounts	17	**10,195,214**	8,756,793
Subordinated loan		**-**	-
Liabilities against assets subject to finance lease		**-**	-
Deferred tax liabilities	12	**-**	-
Other liabilities	18	**332,858**	287,552
		11,597,139	9,164,693
Net assets		**1,106,021**	1,093,367
Represented by:			
Share capital	19	**283,650**	283,650
Reserves		**233,282**	228,540
Unappropriated profit		**567,585**	546,128
		1,084,517	1,058,318
Surplus on revaluation of assets - net of tax	20	**21,504**	35,049
		1,106,021	1,093,367
Contingencies and commitments	21		

The annexed notes 1 to 42 form an integral part of these financial statements.

Shahid Mughal
Chief Financial Officer

Shafqat Sultana
President and Chief Executive

Shafqat Sultana
President and Chief Executive

Khalid A. Sherwani
Director

M. U. A. Usmani
Director

Batool I. Qureshi
Director

First Women Bank Limited
Profit and Loss Account
For the year ended 31 December 2010

	Note	2010	2009
		(Rupees in '000)	
Mark-up / return / interest earned	23	**1,374,548**	896,476
Mark-up / return / interest expensed	24	**763,841**	408,000
Net mark-up / return / interest income		**610,707**	488,476
Provision against non-performing loans and advances - net	10.3.2	**19,967**	102,149
Provision for diminution in the value of investments	9.10	**3,856**	8,545
Provision against lendings to financial institutions	8.2	**53,076**	68,500
Bad debts written off directly		**-**	355
		76,899	179,549
Net mark-up / return / interest income after provisions		**533,808**	308,927
Non-mark-up / interest income			
Fee, commission and brokerage income		**26,445**	25,217
Dividend income		**14,025**	7,161
Income from dealing in foreign currencies		**(2,231)**	16,940
Gain on redemption / sale of securities - net	25	**3,210**	2,046
Other income - net	26	**15,692**	15,515
Total non-mark-up / interest income		**57,141**	66,879
		590,949	375,806
Non-mark-up / interest expenses			
Administrative expenses	27	**533,679**	451,930
Provision against other assets	13.1	**(6,800)**	8,526
Other charges	28	**9,393**	1,604
Total non-mark-up / interest expenses		**536,272**	462,060
Extra ordinary / unusual item		**-**	-
Profit / (loss) before taxation		**54,677**	(86,254)
Taxation - current year		**15,867**	5,712
- prior years		**-**	14,882
- deferred		**15,099**	(26,747)
	29	**30,966**	(6,153)
Profit / (loss) after taxation		**23,711**	(80,101)
Unappropriated profit brought forward		**546,128**	623,610
Transferred to statutory reserve		**(4,742)**	-
Transfer from surplus on revaluation of fixed assets - net of tax	20.1	**2,488**	2,619
		543,874	626,229
Profit available for appropriation		**567,585**	546,128
		(Rupees)	
Basic and diluted earnings / (loss) per share - after tax	30	**0.84**	(2.82)

The annexed notes 1 to 42 form an integral part of these financial statements.

Shahid Mughal
Chief Financial Officer

Shafqat Sultana
President and Chief Executive

Shafqat Sultana
President and Chief Executive

Khalid A. Sherwani
Director

M. U. A. Usmani
Director

Batool I. Qureshi
Director

First Women Bank Limited
Statement of Comprehensive Income
For the year ended 31 December 2010

	2010	2009
	(Rupees in '000)	
Profit / (loss) after taxation for the year	**23,711**	(80,101)
Other comprehensive income	**-**	-
Total comprehensive income - profit / (loss) for the year	**23,711**	(80,101)

The annexed notes 1 to 42 form an integral part of these financial statements.

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First Women Bank Limited
Cash Flow Statement
For the year ended 31 December 2010

	Note	2010	2009
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / (loss) before taxation		**54,677**	(86,254)
Dividend income		**(14,025)**	(7,161)
		40,652	(93,415)
Adjustments for non-cash charges:			
Depreciation	*11.1*	**20,222**	19,565
Amortisation of intangible assets	*11.3*	**1,130**	1,412
Provision for diminution in value of investments	*9.10*	**3,856**	8,545
Provision against lendings to financial institutions	*8.2*	**53,076**	68,500
Provision against non-performing loans and advances - net	*10.3*	**19,967**	102,149
Provision against other assets	*13.1*	**(6,800)**	8,526
Loss on sale of operating fixed assets	*26*	**426**	605
Bad debts written off directly		**-**	355
		91,877	209,657
		132,529	116,242
(Increase) / decrease in operating assets			
Lendings to financial institutions		**156,626**	(853,676)
Advances		**(3,053,840)**	(71,302)
Others assets (excluding advance taxation)		**(145,010)**	14,720
		(3,042,224)	(910,258)
Increase / (decrease) in operating liabilities			
Bills payable		**13,162**	(12,973)
Borrowings		**935,557**	4,188
Deposits and other accounts		**1,438,421**	2,817,485
Other liabilities		**45,306**	155,305
		2,432,446	2,964,005
		(477,249)	2,169,989
Income tax paid		**(44,558)**	(61,757)
Net cash flows from operating activities		**(521,807)**	2,108,232
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		**656,471**	(1,742,691)
Net investments in held-to-maturity securities		**6,506**	7,479
Dividend income received		**14,025**	1,000
Investments in operating fixed assets		**(19,309)**	(55,033)
Proceeds from disposal of operating fixed assets		**664**	4,312
Net cash flows from investing activities		**658,357**	(1,784,933)
Increase in cash and cash equivalents		**136,550**	323,299
Cash and cash equivalents at beginning of the year		**1,299,989**	976,690
Cash and cash equivalents at end of the year	*31*	**1,436,539**	1,299,989

The annexed notes 1 to 42 form an integral part of these financial statements.

Shahid Mughal **Chief Financial Officer**	**Shafqat Sultana** **President and Chief Executive**

Shafqat Sultana **President and Chief Executive**	**Khalid A. Sherwani** **Director**	**M. U. A. Usmani** **Director**	**Batool I. Qureshi** **Director**

First Women Bank Limited
Statement of Changes in Equity
For the year ended 31 December 2010

	Note	**Share capital**	**Statutory reserve**	**Revenue reserve unappropriated profit**	**Total**
		(Rupees in '000)			
Balance as at 31 December 2008		283,650	228,540	623,610	1,135,800
Changes in equity for the year 2009					
Total comprehensive income for the year ended 31 December 2009 - loss for the year		-	-	(80,101)	(80,101)
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	*20.1*	-	-	2,619	2,619
Balance as at 31 December 2009		283,650	228,540	546,128	1,058,318
Changes in equity for the year 2010					
Total comprehensive income for the year ended 31 December 2010 - profit for the year		-	-	23,711	23,711
Transferred to statutory reserve		-	4,742	(4,742)	-
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	*20.1*	-	-	2,488	2,488
Balance as at 31 December 2010		**283,650**	**233,282**	**567,585**	**1,084,517**

The annexed notes 1 to 42 form an integral part of these financial statements.

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Director

Batool I. Qureshi
Director

1. STATUS AND NATURE OF BUSINESS

First Women Bank Limited (the Bank) was incorporated under the Companies Ordinance, 1984 on 21 November 1989 in Pakistan as an unquoted public limited company and commenced operations on 2 December 1989. The Bank is engaged in commercial banking and related services. The registered office of the Bank is situated at ground floor, S.T.S.M. Foundation Building, Civil Lines, Karachi. The number of branches as at 31 December 2010 was thirty eight (2009: thirty eight).

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade related mode of financing include purchase of goods by the banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the directives issued by the SBP. In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the directives issued by the SBP shall prevail.

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

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

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after 01 January 2011:

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 01 February 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the right, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Bank's financial statements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 01 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Bank's financial statements.

- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 01 January 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government- related entities. The amendment would result in certain changes in disclosures.

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 01 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Bank's financial statements.

- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after 01 January 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 01 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The amendment has no impact on financial statements of the Bank.

3.4 Benazir Employees’ Stock Option Scheme

Amendments to IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions became effective from 01 July 2010 which requires an entity receiving goods or services (receiving entity) in either an equity-settled or a cash-settled share-based payment transaction to account for the transaction in its separate or individual financial statements.

On August 14, 2009, the Government of Pakistan launched a scheme called Benazir Employees’ Stock Option Scheme (‘BESOS’) for the employees of state owned entities including First Women Bank Limited. On 26 May 2010, a Trust Deed was executed for creating and regulating a trust known as the FWBL Employees Empowerment Trust (“Trust”). As per Trust Deed, the Ministry of Finance (MOF) Government of Pakistan shall transfer 12% of the shares held by MOF to the Trust without any consideration subject to transfer back of these shares to the MOF. Eligible employees shall be allotted units of the Trust, based on the length of service till 14 August 2009. Furthermore, on the cessation of employment, each employee shall be required to surrender the units for cash payment from the Trust equivalent to the break-up value of the shares based on the last audited financial statements (in case of unlisted entities) and that the eligible employees will not be entitled to get the benefit unless they have served five more years from the date of enforcement of BESOS except for other reasons to be mentioned in the Trust deed.

Since the scheme may have significant impact on a large number of SOEs, it has been referred to Securities and Exchange Commission of Pakistan (SECP) for exemption from applicability of International Financial Reporting Standard - 2 Share Based Payments (IFRS 2). At present the matter is pending before SECP and the management is confident that applicability of IFRS 2 will be exempted by SECP. Accordingly, the above mentioned scheme has not been accounted for under the requirements of IFRS-2 in the financial statements of the Bank for the year ended 31 December 2010.

Further, the Bank’s management has not yet quantified the impact of this scheme on the financial statements and is of the view that the charge for the current period is estimated not to be material under the vesting conditions of the scheme.

4. BASIS OF MEASUREMENT

4.1 These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts less accumulated depreciation, available for sale and held for trading investments and derivative financial instruments are measured at fair value.

4.2 The financial statements are presented in Pakistan Rupees, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Pakistan Rupees has been rounded to nearest thousand.

4.3 Critical accounting judgements and key sources of estimation of uncertainty

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates that affect the reported amounts of assets, liabilities, income and expenses. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

a) Classification of investments

- In classifying investments as 'held for trading', the Bank determines the securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days. However, currently no held-for-trading instruments are held by the Bank.

- In classifying investments as 'held to maturity', the Bank follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investment to maturity.

- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Valuation and impairment of available for sale equity investments

The Bank determines that 'available for sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The 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 the impairment may be appropriate when there is an evidence of deterioration in the financial health of investee, industry and sector performance, changes in technology and operational and financing cash flows.

c) Provision against non performing loans and advances and debt securities classified as investments

The Bank reviews its loan portfolio and debt securities classified as investments to assess amount of non-performing loans and advances and debt securities and provision required there against on a regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of the securities and the requirements of the Prudential Regulations are considered. The Bank also maintains general provision against consumer advances in accordance with the requirement set out in Prudential Regulations of the SBP. These provisions change due to changes in requirements.

d) Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks, at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

e) Operating fixed assets, depreciation, amortisation and revaluation

In making estimates of the depreciation / amortisation method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such a change is accounted for as change in accounting estimates in accordance with International Accounting Standard, 'Accounting Policies, Changes in Accounting Estimates and Errors' (IAS 8). Further, the Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers and such valuations are carried out with sufficient regulatory so that the valuation at the year end is close to their fair value.

f) Staff retirement benefits

Liability is determined on the basis of actuarial advice using the Projected Unit Credit Method. The actuarial assumptions used to determine the liability and related expense are disclosed in note 33. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may effect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the financial statements of the Bank for the year ended 31 December 2009 and are enumerated as follows:

5.1 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks.

5.2 Investments

The Bank classifies its investments as follows:

a) Held for trading

These are securities, which are either acquired for generating profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists. However, currently no held-for-trading investments are held by the Bank.

b) Held to maturity

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

c) Available for sale

These are securities, that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognised at cost being fair value of the consideration given and includes transaction costs associated with the investment except that in case of held for trading financial instruments, these are charged off to the profit and loss account.

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

In accordance with the requirements of the SBP, quoted securities, other than those classified as held to maturity, are carried at market value. Investments classified as held to maturity are carried at amortized cost.

Unrealized surplus / (deficit) arising on revaluation of the Bank’s quoted held for trading investment portfolio is taken to the profit and loss account (however, at 31 December 2010, no investments were held in the held for trading category). Surplus / (deficit) arising on revaluation of quoted securities classified as available for sale is kept in a separate account 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 or when the investment is considered to be impaired.

Unquoted equity securities (including the investment in associated undertaking where the Bank does not have significant influence) are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Associates as defined under local statutes but not under IAS are accounted for as ordinary investments.

Provision for diminution in the values of securities (except for term finance certificates) is made currently after consideration of impairment, if any, in their value. Provision for diminution in the value of term finance certificates is determined as per the requirements of the Prudential Regulations issued by the SBP.

5.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of borrowing (re-purchase) from and lending (reverse re-purchase) to financial institutions, at contracted rates for a specified period of time. These are recorded as under:

Sale under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repo) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investments and counter party liability is included in borrowing from financial institutions. The difference between sale and repurchase price is amortised as an expense over the term of the repo agreement.

Purchase under resale obligation

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repo) are not recognised in the balance sheet and instead amounts paid under these arrangements are included in lendings to financial institutions. The difference between purchase and resale price is accrued as income over the term of the agreement.

Other obligation

Other borrowings including borrowings from SBP are recorded at the proceeds received. Mark up on such borrowing is charged to the profit and loss account on a time proportion basis.

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. General provision is maintained against consumer and microfinance portfolio in accordance with the requirements of the Prudential Regulations issued by the SBP.

Advances are written-off when there is no realistic prospect of recovery.

5.5 Fixed assets and depreciation

5.5.1 Tangible assets

Property and equipment owned by the Bank other than land the carrying value of which is not amortised, are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses, if any. Land is carried at revalued amounts.

Depreciation is charged to the profit and loss account applying the diminishing balance method except for vehicles which are depreciated using the straight line method. The rates of depreciation are given in note 11.1 to these financial statements. The residual values, useful lives and depreciation methods are reviewed and changes, if any, are treated as change in accounting estimates, at each balance sheet date. Depreciation on additions to operating fixed assets is charged for the whole year, while no depreciation is charged on operating fixed assets disposed off during the year.

Surplus arising on revaluation of land and buildings is credited to the surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above mentioned surplus account as allowed under the provisions of the Companies Ordinance, 1984. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets, is transferred directly to unappropriated profit (net of deferred tax).

An item of property and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on sale of property and equipment are included in the profit and loss account in the year the asset is de-recognised, except that the related surplus on revaluation of land and buildings (net of deferred tax) is transferred directly to unappropriated profit.

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

5.5.2 Intangible assets

Intangible assets comprise of cost of computer software and are stated at cost less accumulated amortisation and impairment losses, if any. The cost of intangible assets are amortised over their estimated useful lives using the diminishing balance method at the rates stated in note 11.3. Costs associated with maintaining the computer software are recognised as expense in the profit and loss account as and when incurred. The useful lives of intangible assets are reviewed and adjusted, if appropriate, at each balance sheet date.

5.5.3 Capital work-in-progress

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

5.6 Impairment

At each balance sheet date, the Bank reviews the carrying amount of its assets (other than deferred tax assets) to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of assets is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the greater of net selling price and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. The resulting impairment loss is recognised as an expense immediately, except that the impairment loss on revalued fixed assets is first adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of those assets.

5.7 Taxation

5.7.1 Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the year. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments finalised during the year for such years.

5.7.2 Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences at the balance sheet date between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is calculated at the rates that are expected to apply to the periods when the difference will reverse, based on tax rates that have been enacted or substantially enacted at the balance sheet date.

Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and operating fixed assets (other than land) which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard, 'Income Taxes' (IAS 12).

5.8 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

Provision against identified non-funded losses is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. The loss is charged to the profit and loss account net of expected recovery and is classified under other liabilities.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

5.9 Staff retirement benefits

Staff retirement benefits are available to the employees of the Bank under two schemes, viz. old scheme and a new scheme.

5.9.1 For employees of the Bank who were transferred from other scheduled banks and who did not opt for the new scheme, the Bank operates the following schemes:

Approved funded gratuity scheme (defined benefit plan)

The Bank operates a funded gratuity scheme for its employees. The fund was granted approval by the Commissioner of Income Tax on 31 December 2003 to take effect from 1 January 2003. Contributions to the fund are made on the basis of actuarial recommendations.

Approved contributory provident fund (defined contribution plan)

The Bank operates a recognised contributory provident fund to which equal contributions are made both by the Bank and the employees at a rate of 8.33% of basic salary.

5.9.2 For new employees and for those who have opted for the new scheme, the Bank operates the following schemes:

Approved funded pension scheme (defined benefit plan)

The Bank operates a funded pension scheme for its employees. The fund was granted approval by the Commissioner of Income Tax on 6 March 2000 to take effect from 1 October 1999. Contributions are made on the basis of actuarial recommendations.

Approved non contributory provident fund (defined contribution plan)

The Bank operates a non contributory provident fund in which monthly contributions are made by employees at a rate of 12% of basic salary.

5.9.3 Contributions to the defined benefit plans are made on the basis of actuarial recommendations using the projected unit credit method. The above benefits are payable to staff at the time of separation / retirement from the Bank's services subject to the completion of qualifying period of service.

5.9.4 Actuarial gains and losses

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation at the end of the last reporting year are charged or credited to income over the employees' expected average remaining working lives. These limits are calculated and applied separately for each defined benefit plan.

5.9.5 Past service cost

Past service cost resulting from changes to defined benefit plans to the extent the benefits are already vested is recognized immediately and the remaining unrecognized past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested.

5.10 Employees’ compensated absences

The Bank recognises liability in respect of compensated absences of its employees in the period in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

5.11 Revenue recognition

- Mark-up / return / interest on regular advances and investments is recognised on a time proportion basis using effective interest method. Where debt securities are purchased at premium or discount, the same is amortized through the profit and loss account using the effective interest rate method.

- Mark-up / return / interest recoverable on classified advances and investments is recognised on receipt basis. Mark-up / return / interest on classified rescheduled / restructured advances and investments is recognised as permitted by the regulations of the SBP.

- Dividend income is recognised when the Bank's right to receive dividend is established.

- Gain / loss on sale of investments is recognised to the profit and loss account.

- Fees, brokerage and commission on letters of credit / guarantee are recognised at the time of performance of services. Account maintenance and service charges are recognised when realised.

5.12 Foreign currencies

5.12.1 Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at the rates applicable to their respective maturities.

5.12.2 Translation gains and losses

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

5.12.3 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at committed amounts / contracted rates. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling at the balance sheet date.

5.13 Off-setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the Bank intends to either settle on net basis, or to realise the assets and to settle the liabilities simultaneously.

5.14 Financial instruments

5.14.1 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised at the time when the Bank becomes a party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial assets and liabilities is recognised in the profit and loss account of the current period. The particular recognition and subsequent measurement methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

5.14.2 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value using valuation techniques. All derivative financial instruments are carried as assets when the fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

5.15 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognized separately as part of other liabilities and is charged to the profit and loss account on a time proportion basis.

5.16 Dividend distribution and appropriations

Bonus and cash dividend and other appropriations (except for the appropriations required by law), declared / approved subsequent to balance sheet date are considered as non-adjusting event and are not recorded in financial statements of the current year. These are recognized in the period in which these are declared / approved.

5.17 Earnings / loss per share

The Bank present earnings / loss per share data for its ordinary shares. Earnings / loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank with the weighted average number of ordinary shares outstanding during the year.

5.18 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented as per the Bank's functional structure and the guidance of the SBP. The Bank comprises of the following main business segments:

5.18.1 Business segment

Corporate finance

Corporate finance includes syndications and advances to corporate enterprises.

Trading and sales

It includes fixed income, equity, foreign exchange commodities, lendings to financial institutions and borrowings.

Retail and consumer banking

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

Commercial banking

It includes project finance, export finance, trade finance, other lendings, guarantees and bills of exchange.

5.18.2 Geographical segment

The Bank operates in Pakistan only.

6. CASH AND BALANCES WITH TREASURY BANKS		**2010**	2009
		(Rupees in '000)	
In hand			
Local currency	*6.1*	**164,033**	145,249
Foreign currencies		**33,609**	31,530
With State Bank of Pakistan in:			
Local currency current account	*6.2*	**440,655**	376,923
Foreign currency deposit account	*6.3*	**123,745**	118,781
US Dollar clearing account		**9,977**	1,919
With National Bank of Pakistan in local currency current account - a related party		**64,292**	38,738
		836,311	713,140

6.1 This includes National Prize Bonds of Rs. 0.476 million (2009: Rs 0.02 million).

6.2 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve as percentage of its time liabilities and demand liabilities in Pakistan as may be prescribed by SBP.

6.3 The balance held in foreign currency deposit account with the SBP represents the 5% cash reserve requirement and 15% special cash reserve for holding FE-25 deposits. This amount include special cash reserve of Rs. 92.488 million (2009: Rs. 88.454 million) at nil return per annum (2009: nil return per annum).

7. BALANCES WITH OTHER BANKS

		2010	2009
		(Rupees in '000)	
In Pakistan			
On current account	*7.1*	**57,404**	55,717
On deposit account	*7.2*	**375,941**	438,056
Outside Pakistan			
On current account		**166,883**	93,076
		600,228	586,849

7.1 This represents balances with related parties.

7.2 Placement of funds with banks, against foreign currency deposit scheme (FE-25), are unsecured and carry mark-up rates ranging from 0.8% to 1.3% per annum (2009: 0.55% to 2.5% per annum).

8. LENDINGS TO FINANCIAL INSTITUTIONS - in local currency

Term lendings - secured	*8.1*	**155,441**	181,027
Repurchase agreement lendings	*8.3*	**892,458**	1,023,498
		1,047,899	1,204,525
Provision against term lendings	*8.2*	**(121,576)**	(68,500)
		926,323	1,136,025

8.1 This represents secured financings to two financial institutions carrying profit rate at one month KIBOR on a lending of Rs. 76.027 (which at year end amounted to 13.32%) and fixed rate of 10% on a balance of Rs. 79.414 million. These are due to mature by December 2012 and are adjustable in monthly instalments. Provision of Rs. 121.576 million has been made against these lendings. These are secured against the term finance certificates and Sukkuk certificates given by a borrowing entity and specific charge / hypothecation of leased receivable / assets.

8.2 **Provision against term lendings**

Opening balance	**68,500**	-
Charge for the year	**53,076**	68,500
Closing balance	**121,576**	68,500

8.3 Securities held as collateral against repurchase agreement lendings

	2010			2009		
	Held by bank	**Further given as collateral**	**Total**	Held by bank	Further given as collateral	Total
	------------------------------------(Rupees in '000)------------------------------------					
Market Treasury Bills	**892,458**	**-**	**892,458**	1,023,498	-	1,023,498

Market value of securities held as collateral against repurchase agreement lendings at 31 December 2010 amounted to Rs. 892.457 million (2009: 1,024.59 million) and carry mark-up rate ranging from 13% to 13.6% per annum (2009: 12.10% to 12.40% per annum).

9. INVESTMENTS - net

9.1 Investments by types

		2010			2009		
		Held by bank	**Given as collateral**	**Total**	Held by bank	Given as collateral	Total
		------------------------------------(Rupees in '000)------------------------------------					
Available-for-sale							
- Market Treasury Bills	*9.4*	**1,528,369**	**673,588**	**2,201,957**	2,664,927	-	2,664,927
- Pakistan Investment Bonds	*9.4*	**813,646**	**225,936**	**1,039,582**	1,185,053	-	1,185,053
- Term Finance Certificates (TFCs)	*9.5*	**35,434**	**-**	**35,434**	53,464	-	53,464
- Units / certificates of mutual funds	*9.6*	**20,000**	**-**	**20,000**	50,000	-	50,000
- Preference shares of a listed company	*9.7*	**10,000**	**-**	**10,000**	10,000	-	10,000
- Ordinary shares of an unlisted company	*9.8*	**954**	**-**	**954**	954	-	954
		2,408,403	**899,524**	**3,307,927**	3,964,398	-	3,964,398
Held-to-maturity							
- Pakistan Investment Bonds	*9.9*	**217,786**	**-**	**217,786**	224,292	-	224,292
Investments at cost		**2,626,189**	**899,524**	**3,525,713**	4,188,690	-	4,188,690
Provision for diminution in value of investments	*9.10*	**(19,460)**	**-**	**(19,460)**	(15,604)	-	(15,604)
Investments (Net of Provisions)		**2,606,729**	**899,524**	**3,506,253**	4,173,086	-	4,173,086
Deficit on revaluation of available for sale securities - net	*20.2*	**(59,299)**	**(16,703)**	**(76,002)**	(75,663)	-	(75,663)
Investments at revalued amounts		**2,547,430**	**882,821**	**3,430,251**	4,097,423	-	4,097,423

9.2 Investments by segments

		2010	2009
		(Rupees in '000)	
Federal Government Securities:			
- Market Treasury Bills	*9.4*	**2,201,957**	2,664,927
- Pakistan Investment Bonds	*9.4 & 9.9*	**1,257,368**	1,409,345
Fully Paid-up Ordinary Shares / Certificates / Units:			
- Listed mutual funds	*9.6*	**20,000**	50,000
- Unlisted company (related party)	*9.8*	**954**	954
Fully Paid-up Preference Shares:			
- Shares of a listed company	*9.7*	**10,000**	10,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates	*9.5*	**29,772**	47,800
- Unlisted Term Finance Certificates	*9.5*	**5,662**	5,664
		35,434	53,464
Total investments at cost		**3,525,713**	4,188,690
Provision for diminution in value of investments	*9.10*	**(19,460)**	(15,604)
Total investments (Net of Provisions)		**3,506,253**	4,173,086
Deficit on revaluation of available for sale securities - net	*20.2*	**(76,002)**	(75,663)
Investments at revalued amounts		**3,430,251**	4,097,423

9.3 Quality of available-for-sale securities

	2010			2009		
	Market value/ carrying value of investments (Rupees in '000)	**Credit rating Long Term**	**Credit rating Short Term**	Market value/ carrying value of investments (Rupees in '000)	Credit rating Long Term	Credit rating Short Term
Market Treasury Bills	**2,196,912**	**(Unrated - Government Securities)**		2,661,712	(Unrated - Government Securities)	
Pakistan Investment Bonds	**1,181,801**	**(Unrated - Government Securities)**		1,110,211	(Unrated - Government Securities)	
Listed Term Finance Certificates						
Searle Pakistan Limited	**3,729**	**A-**	**(Unrated)**	10,880	A-	(Unrated)
Telecard Limited - I	**8,792**	**BBB**	**(Unrated)**	10,224	BBB	(Unrated)
Bank Al-Habib Limited - I	**4,120**	**AA**	**(Unrated)**	3,990	AA	(Unrated)
Orix Leasing Pakistan Limited - II	**12,391**	**AA+**	**(Unrated)**	20,906	AA+	(Unrated)
	29,032			46,000		
Un-listed Term Finance Certificates						
Pakistan International Airlines Corporation	**5,662**	**(Unrated)**	**(Unrated)**	5,664	(Unrated)	(Unrated)
Shares in listed companies / certificates / units of mutual funds						
Meezan Balanced Fund	**7,500**	**(Unrated)**	**(Unrated)**	6,100	FR 5 star	(Unrated)
Pakistan Strategic Allocation Fund	**8,390**	**FR 4 star**	**(Unrated)**	4,440	FR 4 star	(Unrated)
MCB Cash Management Optimizer Fund	-	-	-	20,546	AA(f)	(Unrated)
United Growth and Income Fund	-	-	-	10,504	A(f)	(Unrated)
Chenab Limited - preference shares	-	-	-	7,000	(Unrated)	(Unrated)
	15,890			48,590		
Shares in an un-listed company						
National Institutional Facilitation Technologies (Private) Limited	**954**	**(Unrated)**	**(Unrated)**	954	(Unrated)	(Unrated)
	3,430,251			3,873,131		

9.4 Available-for-sale Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan.

9.5 Term Finance Certificates (TFCs) - available-for-sale

Investee	Number of certificates held	Paid up value per certificate	Total Paid up value (before redemption)	Profit	Principal Redemption	Value as at 31 December 2010	Name of the Chief Executive
		(Rupees)	(Rupees in '000)			(Rupees in '000)	
Listed TFCs							
Bank AL Habib Limited - I	871	5,000	4,355	6 months KIBOR + 1.5% p.a.	0.02% of total issue in 2 semi annual instalments in first 78 months and the remaining principal in 3 equal semi-annual instalments from the 84th month from July 2004.	**4,345**	Mr. Abbas D. Habib
Searle Pakistan Limited	6,000	5,000	30,000	6 month KIBOR + 2.50% p.a.	0.02% of total issue in 2 semi annual instalments in first 12 months and the remaining in 8 equal semi-annual instalments from the 18th month from March 2006.	**3,749**	Mr. Rashid Abdullah
Telecard Limited	5,000	5,000	25,000	6 months KIBOR + 3.75% p.a.	0.02% of total issue in 2 semi annual instalments in first 12 months, 6.25% of total issue in 2 semi annual instalments in 18th and 24th month, 20.84% of total issue in 1 annual instalment in 36th month, 4.17% of total issue in 1 semi annual instalment in 42nd month, 21.66% of the total issue in 2 semi-annual instalments in 48th and 54th month, 1.47% of the total issue in 1 semi annual instalment in 60th month, 13.23% of the total issue in 3 semi-annual instalments in 66th to 78th month, 25% of the total issue in 4 semi-annual instalments in 84th to 102nd month, the remaining in 1 semi-annual instalment in 108th month.	**9,188**	Mr. Shams ul Arfeen
Orix Leasing Pakistan Limited - II	5,000	5,000	25,000	6 month KIBOR + 1.50% p.a.	0.02% of total issue in 4 semi annual instalments in first 24 months and remaining in 6 semi annual instalments from 30th month from September 2006.	**12,490**	Mr. Humayun Murad
						29,772	
Unlisted TFCs							
Pakistan International Airlines Corporation	1,133	5,000	5,665	6 months KIBOR + 0.85%	0.08% of the total issue in 4 semi-annual instalments in 6th to 24th month, 83.30% of the total issue in 5 semi-annual instalments in 30th to 54th month, The remaining in 60th month.	**5,662**	Mr. M. Aijaz Haroon
						5,662	
Total (at cost)						**35,434**	
Deficit on revaluation of listed TFCs - net						**(740)**	
Carrying value as at 31 December 2010						**34,694**	

9.6 Mutual fund units / certificates

Investee	Number of units / certificates held	Paid-up value per certificate / unit	Total paid-up / nominal value	Value as at 31 December 2010	Name of the Chief Executive
		(Rupees)	(Rupees in '000)		
Open end mutual funds					
Pakistan Strategic Allocation Fund	1,000,000	10	10,000	**10,000**	Mr. Nasim Beg
Closed end mutual funds					
Meezan Balanced Fund	1,000,000	10	10,000	**10,000**	Mr. Mohammad Shoaib
Total (at cost)				**20,000**	
Provision for diminution				**(9,460)**	
Total (net of provision)				**10,540**	
Surplus on revaluation				**5,350**	
Carrying value as of 31 December 2010				**15,890**	

9.7 Preference shares in a listed company

This represents cumulative redeemable preference shares of Chenab Limited, containing dividend entitlement at 9.25% per annum on the issue price. Market value of these shares at 31 December 2010 amounted to Rs. 2.5 million (2009: Rs. 7 million).

9.8 Shares in an unlisted company - related party

This represents investment in 616,082 ordinary shares (2009: 616,082 ordinary shares) of Rs. 10 of National Institutional Facilitation Technologies (Private) Limited (NIFT). The Bank's investment in NIFT is carried at cost and is not accounted under the equity method of accounting as the Bank does not have significant influence over the entity. However, an employee of the Bank is a Director of NIFT. The Bank has 5.67% (2009: 5.67%) stake in the above company.

The details of assets, liabilities, net assets, revenue and profit of the above company as at 30 June 2010 (the latest available audited financial statements) are as follows:

	30 June 2010	30 June 2009
	(Rupees in '000)	
Assets	**641,702**	625,790
Liabilities	**68,687**	73,978
Net assets	**573,015**	551,812
Revenue	**886,811**	814,592
Profit	**189,047**	152,592

Based on the financial statements of the above investee company as of 30 June 2010, the break-up value per share amounts to Rs. 52.72 per share (2009: Rs. 50.77 per share).

9.9 Market value of Pakistan Investment Bonds classified as 'held-to-maturity' as at 31 December 2010 amounted to Rs. 179.290 million (2009: Rs. 180.842 million).

9.10 Provision for diminution in the value of investments

	2010	2009
	(Rupees in '000)	
Opening balance	**15,604**	10,716
Charge for the year	**3,856**	8,545
	19,460	19,261
Adjustment on disposal of investments	**-**	(3,657)
Closing balance	**19,460**	15,604

10. ADVANCES - net

	Note	2010	2009
		(Rupees in '000)	
Loans, cash credits, running finances, etc.			
In Pakistan	*10.1*	**6,535,694**	3,481,854
Provision against non-performing loans and advances			
Specific provision	*10.3*	**222,799**	206,222
General provision	*10.3*	**4,755**	1,411
		227,554	207,633
Advances - net		**6,308,140**	3,274,221

10.1 Particulars of advances (gross)

10.1.1

	2010	2009
In local currency	**6,535,694**	3,481,854
In foreign currencies	-	-
	6,535,694	3,481,854

10.1.2

	2010	2009
Short-term (for upto one year)	**3,561,069**	3,135,120
Long-term (for over one year)	**2,974,625**	346,734
	6,535,694	3,481,854

10.2 Advances include Rs. 430.232 million (2009: Rs. 330.957 million) which have been placed under the non-performing status as detailed below:

Category of classification	2010								
	Classified advances			Specific provision required			Specific provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Substandard	**70,416**	-	**70,416**	**2,015**	-	**2,015**	**2,015**	-	**2,015**
Doubtful	**134,805**	-	**134,805**	**24,148**	-	**24,148**	**24,148**	-	**24,148**
Loss	**225,011**	-	**225,011**	**196,636**	-	**196,636**	**196,636**	-	**196,636**
	430,232	-	**430,232**	**222,799**	-	**222,799**	**222,799**	-	**222,799**

Category of classification	2009								
	Classified advances			Specific provision required			Specific provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Substandard	136,053	-	136,053	23,736	-	23,736	23,736	-	23,736
Doubtful	12,047	-	12,047	6,023	-	6,023	6,023	-	6,023
Loss	182,857	-	182,857	176,463	-	176,463	176,463	-	176,463
	330,957	-	330,957	206,222	-	206,222	206,222	-	206,222

10.3 Particulars of provision against non-performing loans and advances

	Note	2010			2009		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance		**206,222**	**1,411**	**207,633**	104,441	1,071	105,512
Charge for the year		**29,451**	**3,344**	**32,795**	110,254	716	110,970
Reversals		**(12,828)**	-	**(12,828)**	(8,445)	(376)	(8,821)
	10.3.2	**16,623**	**3,344**	**19,967**	101,809	340	102,149
Amounts written off	*10.4*	**(46)**	-	**(46)**	(28)	-	(28)
Closing balance		**222,799**	**4,755**	**227,554**	206,222	1,411	207,633

10.3.1 Particulars of provision against non-performing loans and advances

	2010			2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	**222,799**	**4,755**	**227,554**	206,222	1,411	207,633
In foreign currencies	-	-	-	-	-	-
	222,799	**4,755**	**227,554**	206,222	1,411	207,633

10.3.2 The following amounts have been charged to the profit and loss account:

	Note	2010	2009
		(Rupees in '000)	
Specific provision		**16,623**	101,809
General provision	*10.3.3*	**3,344**	340
		19,967	102,149

10.3.3 This represents general provision against consumer loans representing provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan.

		2010	2009
10.4	**Particulars of write offs**	**(Rupees in '000)**	
10.4.1	Against provisions	**46**	28
	Directly charged to the profit and loss account	**-**	355
		46	383
10.4.2	Write offs of Rs. 500,000 and above	**-**	-
	Write offs of below Rs. 500,000	**46**	383
		46	383

10.5 In accordance with BSD Circular No. 2 dated 27 January 2009 issued by the State Bank of Pakistan, during the year the Bank has further availed the benefit of FSV against the non-performing advances (excluding consumer housing finance portfolio). The State Bank of Pakistan vide its Circular dated 20 October 2009 has further increased the limit for consideration of FSV benefit from 30% to 40% and has also allowed the FSV of industrial property for calculation of provisioning requirement. Had this benefit of FSV not been taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 70.547 million and profit after taxation for the year ended 31 December 2010 would have been lower by approximately Rs. 45.856 million. As of 31 December 2010, had the benefit of FSVs not taken by the Bank, the specific provision against non-performing advances would have been higher by Rs. 56.692 million and accumulated profit would have been lower by Rs. 87.219 million. This amount of Rs. 56.692 million is not available for the distribution of cash and stock dividend to the shareholders.

10.6 **Particulars of advances to directors, associated companies, etc.**

Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons:

	2010	2009
Balance at beginning of the year	**75,782**	55,489
Loans granted during the year	**30,010**	31,787
Repayments	**(16,073)**	(11,494)
Balance at end of the year	**89,719**	75,782

Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members:

	2010	2009
Balance at beginning of year	**41,667**	58,334
Loans granted during the year	**75,000**	25,000
Repayments	**(25,000)**	(41,667)
Balance at end of year	**91,667**	41,667

Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties:

	2010	2009
	(Rupees in '000)	
Balance at beginning of the year	**57,794**	57,788
Loans granted during the year	**289,034**	830
Repayments	**(240,000)**	(824)
Balance at end of the year	**106,828**	57,794

11. OPERATING FIXED ASSETS

		2010	2009
Property and equipment	*11.1*	**176,699**	178,423
Intangible asset	*11.3*	**4,520**	5,650
Capital Work in Progress	*11.4*	**7,029**	19,899
		188,248	203,972

11.1 Property and equipment

2010

Description	Cost/ revalued amount				Accumulated depreciation			Net book value at 31 December 2010	Annual rate of depreciati-on
	At 1 January 2010	Additions / (disposals)	Adjustment (11.1.1)	At 31 December 2010	At 1 January 2010	Charge for the year / (deprecation on disposals)	At 31 December 2010		
	(Rupees in '000)								
Land - leasehold	**36,614**	**-**	**(11,125)**	**25,489**	**-**	**-**	**-**	**25,489**	**-**
Buildings on leasehold land	**89,066**	**-**	**-**	**89,066**	**4,453**	**4,231**	**8,684**	**80,382**	**5%**
Building Improvement	**406**	**9,935**	**-**	**10,341**	**40**	**1,030**	**1,070**	**9,271**	**10%**
Furniture and fixtures	**33,277**	**8,320 (2,707)**	**-**	**38,890**	**20,805**	**2,434 (1,693)**	**21,546**	**17,344**	**10% to 33.33%**
Electrical, office and computer equipment	**68,766**	**8,414 (2,996)**	**-**	**74,184**	**43,455**	**6,146 (1,782)**	**47,819**	**26,365**	**20%**
Vehicles	**51,643**	**5,510 (504)**	**-**	**56,649**	**32,596**	**6,381 (176)**	**38,801**	**17,848**	**20%**
	279,772	**32,179 (6,207)**	**(11,125)**	**294,619**	**101,349**	**20,222 (3,651)**	**117,920**	**176,699**	

2009

Description	Cost/ revalued amount				Accumulated depreciation			Net book value at 31 December 2009	Annual rate of depreciati-on
	At 1 January 2009	Additions / (disposals)	Revaluation	At 31 December 2009	At 1 January 2009	Charge for the year / (deprecation on disposals)	At 31 December 2009		
Land - leasehold	36,614	-	-	36,614	-	-	-	36,614	-
Buildings on leasehold land	89,066	-	-	89,066	-	4,453	4,453	84,613	5%
Building Improvement	-	406	-	406	-	40	40	366	10%
Furniture and fixtures	32,729	4,176 (3,628)	- -	33,277	20,092	2,593 (1,880)	20,805	12,472	10% to 33.33%
Electrical, office and computer equipment	62,628	6,996 (858)	- -	68,766	37,916	6,351 (812)	43,455	25,311	20%
Vehicles	33,490	23,482 (5,329)	- -	51,643	28,674	6,128 (2,206)	32,596	19,047	20%
	254,527	35,060 (9,815)	-	279,772	86,682	19,565 (4,898)	101,349	178,423	

11.1.1 The land and buildings of the Bank were revalued in December 2008 by independent valuers (M/s. Iqbal A. Nanjee & Co., valuation and engineering consultants), on the basis of market value. The impact of valuation was incorporated in the financial statements as at 31 December 2008 and resulted in surplus of Rs. 25.775 million over the written down value of Rs. 88.779 million of these assets (total revalued amount being Rs. 125.680 million). During the year an amount of Rs. 11.125 million was reversed relating to the revaluation of land in Nawabshah. The details of revalued amounts (net of reversal) are as follows:

	(Rupees in '000)
Total revalued amount of land	25,489
Total revalued amount of buildings	89,066
	114,555

Had the Land and building not been revalued, total carrying amounts as at 31 December 2010 would have been as follows:

Land	3,192
Buildings	7,452

11.1.2 The gross carrying amount of fully depreciated assets (vehicles only) that are still in use amounts to Rs. 24.744 million (2009: Rs. 21.006 million).

11.1.3 Summarised details of the valuation of properties across the country:

Location of properties		Original Cost Land	Original Cost Buildings	Original Cost Total	Revalued Amount Land	Revalued Amount Buildings	Revalued Amount Total
		(Rupees in '000)			(Rupees in '000)		
Mehdi Tower, Karachi		-	5,167	5,167	-	16,752	16,752
Gurumandir, Karachi		-	1,010	1,010	-	15,345	15,345
Sukkur		-	1,017	1,017	-	9,000	9,000
Faisalabad		-	3,627	3,627	-	29,952	29,952
F.B. Area, Karachi		-	815	815	-	5,000	5,000
Gulshan-e-Iqbal, Karachi		-	1,322	1,322	-	5,500	5,500
P.E.C.H.S., Karachi		3,000	5,284	8,284	24,124	5,041	29,165
Mirpurkhas	*11.1.4*	67	95	162	1,240	47	1,287
Kohat	*11.1.4*	-	708	708	-	2,429	2,429
Nawabshah	*11.1.4 & 11.1.5*	125	-	125	125	-	125
		3,192	**19,045**	**22,237**	**25,489**	**89,066**	**114,555**

11.1.4 Represents temporarily idle properties.

11.1.5 The land in Nawabshah is under litigation. Sindh High Court has issued an injunction in favour of the Bank under which the sale of land (by a party who illegally transferred the title in his own name) has been stayed.

11.2 Disposals of fixed assets during the year

		Cost	Accumulated depreciation	Carrying value	Sale proceeds	Mode of disposal	Particulars of Buyers
		(Rupees in '000)					
Furniture and fixtures							
Items having book value of less than Rs. 250,000 and cost of less than Rs. 1,000,000:							
Miscellaneous scrapped items		995	816	179	174	Auction	Various vendors
Miscellaneous items		1,712	877	835	680	Damaged	Insurance claim lodged.
		2,707	1,693	1,014	854		
Electrical, office and computer equipment							
Items having book value of less than Rs. 250,000 and cost of less than Rs. 1,000,000:							
Miscellaneous scrapped items		807	753	54	67	Auction	Various vendors.
Miscellaneous items		2,189	1,029	1,160	786	Damaged	Insurance claim lodged.
		2,996	1,782	1,214	853		
Vehicles							
Mehran	2009	504	176	328	423	Stolen / Theft	Insurance claim lodged.
Total	**2010**	**6,207**	**3,651**	**2,556**	**2,130**		
Total	2009	9,815	4,898	4,917	4,312		

11.3 Intangible assets

	2010							
	Cost			Accumulated amortisation			Net book value at 31 December 2010	Rate of amortisation %
	At 1 January 2010	Additions	At 31 December 2010	At 1 January 2010	Amortisation for the year	At 31 December 2010		
	(Rupees in '000)							
Computer software	15,184	-	15,184	9,534	1,130	10,664	4,520	20%
	15,184	-	15,184	9,534	1,130	10,664	4,520	

	2009							
	Cost			Accumulated amortisation			Net book value at 31 December 2009	Rate of amortisation %
	At 1 January 2009	Additions	At 31 December 2009	At 1 January 2009	Amortisation for the year	At 31 December 2009		
	(Rupees in '000)							
Computer software	15,110	74	15,184	8,122	1,412	9,534	5,650	20%
	15,110	74	15,184	8,122	1,412	9,534	5,650	

11.4 Capital work-in-progress

This represents civil works, advances to contractors and payments for certain equipments acquired by the Bank for the purpose of renovation being carried out at the Branches, etc.

12. DEFERRED TAX ASSET / (LIABILITY) - net

12.1 The details of the tax effect of taxable and deductible temporary differences are as follows:

	Note	2010	2009
		(Rupees in '000)	
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	*20.1*	**(25,453)**	(26,793)
Accelerated tax depreciation		**(4,450)**	(3,822)
		(29,903)	(30,615)
Deductible temporary differences on:			
Compensated leave absences		**1,848**	1,848
Deficit on revaluation on investments	*20.2*	**27,938**	27,531
Provision against non-performing loans and advances		**36,078**	48,452
Carry forward of tax losses		**2,900**	4,996
		68,764	82,827
Net deferred tax asset recognised by the Bank		**38,861**	52,212

12.2 Reconciliation of deferred tax

	Balance as at 1 January 2009	Recognised in the profit and loss	Recognised in surplus / (deficit) on revaluation of assets	Balance as at 31 December 2009	Recognised in the profit and loss	Recognised in surplus / (deficit) on revaluation of assets	Balance as at 31 December 2010
	(Rupees in '000)						
Deferred debits arising in respect of:							
Compensated leave absences	-	1,848	-	**1,848**	**-**	**-**	**1,848**
Provision against non-performing loans and advances (note 29.5)	25,983	22,469	-	**48,452**	**(12,374)**	**-**	**36,078**
Deficit on revaluation of investment	60,107	-	(32,576)	**27,531**	**-**	**407**	**27,938**
Carry forward of tax losses	-	4,996	-	**4,996**	**(2,096)**	**-**	**2,900**
	86,090	29,313	(32,576)	**82,827**	**(14,470)**	**407**	**68,764**
Deferred credits arising due to							
Surplus on revaluation of fixed assets	(28,203)	-	1,410	**(26,793)**	**-**	**1,340**	**(25,453)**
Accelerated tax depreciation	(1,257)	(2,565)	-	**(3,822)**	**(628)**	**-**	**(4,450)**
	(29,460)	(2,565)	1,410	**(30,615)**	**(628)**	**1,340**	**(29,903)**
	56,630	26,747	(31,166)	**52,212**	**(15,099)**	**1,747**	**38,861**

13. OTHER ASSETS - net

	Note	2010	2009
		(Rupees in '000)	
Mark-up / return / interest accrued in local currency		**248,500**	106,560
Mark-up / return / interest accrued in foreign currency		**945**	533
Advances, deposits, prepayments and other receivables		**24,741**	19,778
Advance taxation (net of provisions)		**80,278**	51,583
Receivable from staff retirement benefit fund	*33.3*	**554**	1,444
Stationery and stamps on hand		**3,751**	3,420
Suspense account (fully provided - net of liquid assets)		**5,050**	5,050
Branch adjustment account		**1,449**	-
Dividend & receivable from mutual fund		**10,000**	16,161
Others		**5,258**	2,217
		380,526	206,746
Provision against other assets	*13.1*	**(5,728)**	(12,528)
		374,798	194,218

13.1 Provision against other assets

	2010	2009
Opening balance	**12,528**	7,492
Charge for the year	**-**	8,526
Reversal during the year	**(6,800)**	-
	(6,800)	8,526
	5,728	16,018
Write-off against provision	**-**	(3,490)
Closing balance	**5,728**	12,528

14. CONTINGENT ASSETS

There were no contingent assets of the Bank as at 31 December 2010.

15. BILLS PAYABLE

	2010	2009
In Pakistan	**96,821**	84,606
Outside Pakistan	**5,361**	4,414
	102,182	89,020

16. BORROWINGS

	2010	2009
In Pakistan - in local currency	**966,885**	31,328

16.1 Details of borrowings (secured / unsecured)

	Note	2010	2009
Secured			
Borrowings from State Bank of Pakistan under			
- Export refinance scheme	*16.2*	**85,000**	31,328
- Repurchase agreement borrowings		**881,885**	-
- Locally manufactured machinery		**-**	-
		966,885	31,328
Unsecured			
Call borrowings		**-**	-
		966,885	31,328

16.2 The Bank has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. These carry mark-up rates ranging from 7.5% to 9.5% per annum (2009: 6.5% per annum). These borrowings are repayable up to August 2011.

17. DEPOSITS AND OTHER ACCOUNTS

	Note	2010	2009
		(Rupees in '000)	
Customers			
Fixed deposits		**2,016,785**	1,242,612
Savings deposits		**3,078,276**	3,360,424
Current (saving cum current) accounts - remunerative		**2,994,797**	2,430,347
Current accounts - non remunerative		**1,951,992**	1,532,206
Call deposits		**129,923**	125,584
Sundry deposits	*17.1*	**20,729**	38,221
		10,192,502	8,729,394
Financial institutions			
Remunerative deposits		**2,000**	2,193
Non-remunerative deposits		**712**	25,206
		2,712	27,399
		10,195,214	8,756,793

17.1 Sundry deposits include margin account balance of Rs. 1.3 million (2009: Rs. 22.29 million).

17.2 Particulars of deposits

	2010	2009
In local currency	**9,583,518**	8,176,945
In foreign currencies	**611,696**	579,848
	10,195,214	8,756,793

18. OTHER LIABILITIES

	Note	2010	2009
Mark-up / return / interest payable in local currency		**287,165**	232,309
Accrued expenses		**6,271**	5,013
Branch adjustment account		**-**	6,746
Payable to defined contribution plans		**10**	198
Payable to defined benefit plans	*33.3*	**3,490**	10,959
Provision for employees' compensated absences	*33.10.4*	**24,575**	18,164
Workers welfare fund		**5,720**	4,604
Others		**5,627**	9,559
		332,858	287,552

19. SHARE CAPITAL

19.1 Authorised capital

2010	2009		2010	2009
(Number of shares)			(Rupees in '000)	
30,000,000	30,000,000	Ordinary shares of Rs 10 each	**300,000**	300,000

19.2 Issued, subscribed and paid up capital

This comprises of fully paid-up ordinary shares of Rs 10 each as follows:

2010	2009		2010	2009
24,365,000	24,365,000	Issued for cash	**243,650**	243,650
4,000,000	4,000,000	Issued as bonus shares	**40,000**	40,000
28,365,000	28,365,000		**283,650**	283,650

19.3 Major shareholders (associated undertakings)

	2010 & 2009	
	Number of shares held	**Percentage of shareholding %**
MCB Bank Limited	**7,596,000**	26.78
Habib Bank Limited	**7,596,000**	26.78
Allied Bank Limited	**2,544,000**	8.96
National Bank of Pakistan	**2,532,000**	8.93
United Bank Limited	**2,532,000**	8.93
Ministry of Women Development, Government of Pakistan	**5,565,000**	19.62
	28,365,000	100.00

19.4 According to BSD Circular No. 07 of 2009 dated 15 April 2009, the Bank was required to raise its paid-up capital to Rs. 7 billion (free of losses) by 31 December 2010. However, the State Bank of Pakistan (SBP) through its letter reference BSD/BAI-3/608/2566/2011 dated 02 March 2011, keeping in view the fact that restructuring / recapitalisation of the Bank is underway, has granted the Bank an extension to meet the Minimum Paid-up Capital Requirement (MCR) up till 31 December 2011. At the same time SBP has mentioned that the Bank would need to comply with the Capital Adequacy Ratio requirement.

20. DEFICIT / SURPLUS ON REVALUATION OF ASSETS - net of tax

		2010	2009
Surplus arising on revaluation (net of tax) of:			
- fixed assets	*20.1*	**69,568**	83,181
- available-for-sale securities	*20.2*	**(48,064)**	(48,132)
		21,504	35,049

20.1 Surplus on revaluation of fixed assets - net of tax

	2010	2009
	(Rupees in '000)	
Surplus on revaluation of fixed assets as at 1 January	**109,974**	114,003
Transferred to accumulated profit representing incremental depreciation charged during the year - net of tax	**(2,488)**	(2,619)
Related deferred tax liability	**(1,340)**	(1,410)
	(3,828)	(4,029)
	106,146	109,974
Reversal during the year	**(11,125)**	-
	95,021	109,974
Deferred tax liability on:		
Revaluation surplus as at 1 January	**26,793**	28,203
Incremental depreciation charged during the year	**(1,340)**	(1,410)
	25,453	26,793
	69,568	83,181

20.2 Deficit on revaluation of available-for-sale securities - net of tax

	2010	2009
Federal Government Securities	**(80,612)**	(78,057)
Listed Securities		
- Units / certificates of mutual funds / preference shares	**5,350**	4,194
- Term Finance Certificates	**(740)**	(1,800)
	4,610	2,394
	(76,002)	(75,663)
Related deferred tax asset - net	**27,938**	27,531
	(48,064)	(48,132)

21. CONTINGENCIES AND COMMITMENTS

21.1 Transaction-related contingent liabilities

	2010	2009
Guarantees in favour of:		
Government	**44,441**	54,761
Others	**400**	1,149
	44,841	55,910

21.2 Trade-related contingent liabilities

	2010	2009
Letter of credit and acceptances on behalf of:		
Government	**-**	2,706
Others	**2,394**	11,788
	2,394	14,494

21.3 Commitments in respect of lending

	2010	2009
	(Rupees in '000)	
Commitments to extend credit	-	-

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

21.4 Other contingencies

Claims against the Bank not acknowledged as debt	154,037	154,037

21.5 Commitments in respect of forward foreign exchange contracts

Purchase	-	-
Sale	-	-

21.6 Commitment for the acquisition of operating fixed assets

Capital commitments	-	1,646

22. DERIVATIVE INSTRUMENTS

The Bank, as a policy does not enter into derivatives except for forward foreign exchange contracts, which are primarily backed by trade finance related business of customers. The volume and quantum of such forward contracts is low.

23. MARK-UP / RETURN / INTEREST EARNED

On loans and advances to:		
Customers	828,838	392,371
Financial institutions	2,042	8,523
	830,880	400,894
On investments in:		
Available for sale securities	439,413	313,090
Held to maturity securities	18,000	10,524
	457,413	323,614
On deposits with financial institutions (including lendings)	20,233	31,477
On securities purchased under resale agreements	66,022	140,491
	1,374,548	896,476

24. MARK-UP / RETURN / INTEREST EXPENSED

		2010	2009
		(Rupees in '000)	
On deposits		**679,856**	407,625
On securities sold under repurchase agreements		**83,249**	308
On other short-term borrowings		**736**	67
		763,841	408,000

25. GAIN ON REDEMPTION / SALE OF SECURITIES - net

Units of Mutual Funds		**3,210**	2,046

26 OTHER INCOME - net

Loss on sale of fixed assets		**(426)**	(605)
Rent on lockers		**6,099**	5,545
Others		**10,019**	10,575
		15,692	15,515

27. ADMINISTRATIVE EXPENSES

Salaries and allowances		**269,674**	239,591
Charge for employees' compensated absences	*33.10.4*	**6,411**	4,341
Charge for defined benefit plans:			
Approved pension fund	*33.7*	**33,866**	20,791
Approved gratuity fund	*33.7*	**2,951**	12,651
		36,817	33,442
Contribution to defined contribution plan - provident fund	*34*	**428**	1,132
Non-executive directors' fees		**8**	12
Rent, taxes, insurance, electricity		**73,902**	61,934
Legal and professional charges		**15,123**	8,425
Worker Welfare Fund		**1,116**	-
Communications		**13,553**	12,089
Repairs and maintenance		**15,899**	12,691
Stationery and printing		**14,232**	13,764
Advertisement and publicity		**8,848**	9,687
Donations	*27.1*	**5,971**	5,000
Auditors' remuneration	*27.2*	**2,225**	3,090
Depreciation	*11.1*	**20,222**	19,565
Amortization of intangible asset	*11.3*	**1,130**	1,412
Remittances, cash handling service charges		**8,276**	8,042
Conveyance, travelling, etc.		**8,517**	7,207
Others		**31,327**	10,506
		533,679	451,930

27.1 The Donation of Rs. 5 million (2009: Rs. 5 million) charged in these financial statements has been made to the ‘Prime Minister’s Special Fund for the Victims of Flood'. Goods amounting to Rs. 0.971 million were given to victims of flood by the Bank under First Women Bank's Flood Relief Campaign. Donations were not made to any donee in which the Bank or any of its directors or their spouses had any interest.

27.2 Auditors' remuneration

	2010	2009
	(Rupees in '000)	
Audit fee	**1,090**	980
Fee for half yearly review of financial statements	**380**	345
Fee for special certifications, etc.	**355**	317
Fee for tax services	**250**	1,145
Out of pocket expenses	**150**	303
	2,225	3,090

28. OTHER CHARGES

Penalties imposed by the State Bank of Pakistan	**9,393**	1,604

29. TAXATION

For the year		
Current	**15,867**	5,712
Deferred	**15,099**	(29,083)
	30,966	(23,371)
Prior years		
Current	**-**	14,882
Deferred	**-**	2,336
	-	17,218
	30,966	(6,153)

29.1 Relationship between tax expense and accounting profit

Accounting (loss) / profit for the year	**54,677**	(86,254)
Tax rate	**35%**	35%
Tax on income / (loss)	**19,137**	(30,189)
Minimum tax payable	**15,867**	5,712
Tax effect of expenses not allowable for tax purposes	**3,288**	561
Tax effect of income taxable at reduced rates	**(4,251)**	(2,343)
Tax effect of prior year tax charge	**-**	17,218
Others	**(3,075)**	2,888
Tax charge for the year	**30,966**	(6,153)

29.2 Income tax assessments of the Bank have been finalised up to and including the tax year 2008 (financial year ended 31 December 2007) while returns for the tax years 2009 and 2010 (financial year ended 31 December 2008 and 31 December 2009) have been filed which are deemed to have been assessed under section 120 of the Income Tax Ordinance, 2001 (unless selected for audit).

The tax authorities have made certain disallowances primarily against Nostro account balances and bad debts written-off by the Bank and unrealised income suspended by the Bank in respect of the tax years from 2004 to 2008 (financial years ended from 31 December 2003 to 31 December 2007) against which appeals have been filed by the Bank at appellate forums. In case of adverse decisions, additional charge to the Bank would be Rs. 8.973 million.

However, the management is confident that the decision in appeals would be in its favour and as such no provision has been made against the above amount.

29.3 For the financial years ended 31 December 2008 and 2009, notices were received from the taxation authorities, indicating the need to revise the return for the years then ended due to certain expenses claimed as admissible by the Bank; Tax amount on such expenses would be Rs. 47.084 million. Responses to the notices have been submitted and till date the tax authorities have not served any further notice. The Bank's management is of the view that expenses claimed, etc., are allowable within the purview of the Seventh Schedule of the Income Tax Ordinance 2001.

29.4 Subsequent to the year end, Income Tax (Amendment) Ordinance, 2011 was promulgated to amend the Income Tax Ordinance, 2001 under which surcharge would be payable by the Bank for the tax year 2011 only (financial year ended 31 December 2010). The Surcharge amounting to Rs.2.380 million shall be recognized in the financial statements for the year ending 31 December 2011.

29.5 Through Finance Act, 2010 certain amendments have been introduced in Seventh Schedule to the Income Tax Ordinance, 2001. The provision for advances & off balance sheet items will now be allowed at 5% of total gross advances for consumer and SMEs (as defined in SBP prudential Regulation). The provision for advances and off balance sheet items other than those falling in definition of consumer & SMEs will be allowed upto 1% of such total gross advances.

Further a new Rule 8(A) has been introduced in Seventh Schedule to allow for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

With reference to allowability of provision, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognized deferred tax asset on such provision amounting to Rs. 36.078 million (including Rs. 23.184 million representing the deferred tax asset on disallowances exceeding 1% limit mentioned above.

30. BASIC AND DILUTED EARNINGS / (LOSS) PER SHARE

	2010	2009
	(Rupees in '000)	
Profit / (loss) after taxation	**23,711**	(80,101)
	(Number of shares)	
Weighted average number of ordinary shares outstanding during the year	**28,365,000**	28,365,000
	(Rupees)	
Basic and diluted earnings / (loss) per share	**0.84**	(2.82)

31. CASH AND CASH EQUIVALENTS

		(Rupees in '000)	
Cash and balances with treasury banks	*6*	**836,311**	713,140
Balances with other banks	*7*	**600,228**	586,849
		1,436,539	1,299,989

32. STAFF STRENGTH

	2010	2009
	(Number)	
Permanent	**358**	317
Temporary / on contractual basis	**205**	223
Daily wages	**22**	29
Bank's own staff strength at the end of the year	**585**	569
Outsourced	**-**	-
	585	569

33. STAFF RETIREMENT AND OTHER BENEFITS

33.1 General description

The Bank operates the following final salary retirement benefits for its employees as explained in detail in notes 5.9 to these financial statements:

- Approved pension fund - funded
- Approved gratuity fund - funded

In addition, the bank also makes provisions for employees compensated absences details of which are given in note 33.10.4.

33.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, approved gratuity fund and employee's compensated absences were carried out at as at 31 December 2010. The principal actuarial assumptions used are as follows:

	Approved pension fund		Approved gratuity fund	
	2010	2009	**2010**	2009
	(Percentages)		**(Percentages)**	
Valuation discount rate	**14.50**	12.75	**14.50**	12.75
Expected rate of return on plan assets	**12.50**	10.75	**12.50**	10.75
Salary increase rate	**13.50**	11.75	**13.50**	11.75
Indexation in pension	**6.50**	8.00	-	-

33.3 The amounts recognised in the balance sheet

		Approved pension fund		Approved gratuity fund	
		2010	2009	**2010**	2009
		(Rupees in '000)			
Present value of funded obligations	*33.4*	**292,430**	227,188	**6,411**	7,320
Fair value of plan assets	*33.5*	**(210,441)**	(159,653)	**(6,341)**	(7,379)
Funded status / (deficit)		**81,989**	67,535	**70**	(59)
Unrecognised actuarial losses		**(78,499)**	(68,979)	**(624)**	(2,932)
Gratuity payable to outgoing members		**-**	-	**-**	13,950
Recognised liability / (asset)		**3,490**	(1,444)	**(554)**	10,959

		Approved pension fund		Approved gratuity fund	
33.4 Movement in present value of defined benefit obligations		**2010**	2009	**2010**	2009
		--------(Rupees in '000)--------			
Present value of obligations as at 1 January		**227,188**	167,383	**7,320**	7,263
Current service cost		**14,437**	12,299	**375**	385
Interest cost		**33,981**	25,968	**814**	1,111
Actual benefits paid during the year		**(1,495)**	(10,295)	**(1,964)**	(13,950)
Actuarial losses / (gains) on obligation		**18,319**	31,833	**(134)**	1,003
Vested past service cost recognized		**-**	-	**-**	11,508
Present value of obligation as at 31 December		**292,430**	227,188	**6,411**	7,320

33.5 Movement in fair value of plan assets

Fair value of plan assets as at 1 January	**159,653**	136,652	**7,379**	5,173
Expected return on plan assets	**17,856**	18,523	**432**	694
Contributions during the year	**28,932**	21,564	**14,464**	1,692
Benefits paid	**(1,495)**	(10,295)	**(15,914)**	-
Actuarial gains / (losses) on plan assets	**5,495**	(6,791)	**(20)**	(180)
Fair value of plan assets as at 31 December	**210,441**	159,653	**6,341**	7,379

33.6 Movements in net (asset) / liability recognised in the balance sheet

Opening balance		**(1,444)**	(671)	**10,959**	-
Charge for the year	*33.7*	**33,866**	20,791	**2,951**	12,651
Contribution to the fund made during the year		**(28,932)**	(21,564)	**(14,464)**	(1,692)
Closing balance		**3,490**	(1,444)	**(554)**	10,959

33.7 Amounts recognised in the profit and loss account

Current service cost	**14,437**	12,299	**375**	385
Interest cost	**29,789**	25,968	**814**	1,111
Expected return on plan assets	**(17,856)**	(18,523)	**(432)**	(694)
Vested Benefits	**-**	-	**-**	11,508
Unrecognised past service cost	**4,192**	-	**-**	
Actuarial losses recognised during the year	**3,304**	1,047	**2,194**	341
Cost for the year ended	**33,866**	20,791	**2,951**	12,651

33.8 Actual return on plan assets	**19,308**	14,896	**412**	519

33.9 Components of plan assets as percentage of total assets

Government securities	**96.00%**	11.19%	**86.00%**	0.00%
Term Deposits	**0.00%**	42.99%	**0.00%**	80.11%
Mutual Funds	**0.00%**	34.91%	**0.00%**	0.00%
Cash at Bank - First Women Bank Limited	**4.00%**	10.91%	**14.00%**	19.89%
	100.00%	100.00%	**100.00%**	100.00%

33.10 Other relevant details of above funds are as follows:

33.10.1 Approved pension fund

	2010	2009	2008	2007	2006
	--------------------	--------------------	(Rupees in '000)	--------------------	--------------------
Present value of defined benefit obligation	**292,430**	227,188	167,383	150,082	127,691
Fair value of plan assets	**210,441**	159,653	136,652	122,290	96,544
Deficit	**81,989**	67,535	30,731	27,792	31,147
Experience adjustments on plan liabilities loss / (gain)	**18,319**	31,833	(5,273)	(369)	13,388
Experience adjustments on plan assets (loss) / gain	**1,452**	(3,627)	(8,033)	(3,539)	2,961

33.10.2 Approved gratuity fund

	2010	2009	2008	2007	2006
Present value of defined benefit obligation	**6,411**	7,320	7,263	6,069	6,685
Fair value of plan assets	**6,341**	7,379	5,173	3,754	3,742
Deficit / (surplus)	**70**	(59)	2,090	2,315	2,943
Experience adjustments on plan liabilities loss / (gain)	**(134)**	1,003	201	(399)	(274)
Experience adjustments on plan assets (loss) / gain	**(20)**	(180)	(1)	(96)	(235)

33.10.3 Expected contribution to be paid to the funds in the next financial year

The Bank contributes to the pension and gratuity fund as per actuarial's expected charge for the next one year. Based on actuarial advice, management estimates that the charge in respect of the defined benefit plans for the year ending 31 December 2011 would be as follows:

Pension fund	**37,192**
Gratuity fund	**367**

33.10.4 Employee compensated absences

The liability of the Bank in respect of long-term employees compensated absences is determined based on actuarial valuation carried out using Projected Unit Credit Method. The liability of the Bank as per the latest actuarial valuation carried out as at 31 December 2010 amounted to Rs. 24.575 million (2009: Rs. 18.164 million) which has been fully provided by the Bank. The charge for the year in respect of these absences is Rs. 6.411 million (2009: Rs. 4.341 million) which is included in note 27 to these financial statements. Discount rate of 14.5% (2009: 12.75%) and salary increase of 13.5% (2009: 11.75%) per annum has been used for the above valuation.

34. Defined Contribution Plan

The Bank operates an approved contributory provident fund for 4 employees (2009: 5 employees) where contributions are made by the Bank and employees at 8.33% per annum (2009: 8.33% per annum) of the basic salary. During the year, Bank contributed Rs. 0.395 million (2009: 1.132 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 274 employees (2009: 313 employees) who have opted for the new scheme, where contributions are made by the employee at 12% per annum (2009: 12% per annum) of the basic salary.

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for compensation, including all benefits, to the Chief Executive, Directors and Executives of the Bank was as follows:

	President / Chief Executive		Directors		Executives	
	2010	2009	**2010**	2009	**2010**	2009
	(Rupees in '000)					
Fees	**-**	-	**8**	12	**-**	-
Managerial remuneration	**2,340**	2,520	**-**	-	**36,131**	29,497
Charge for defined benefit plan	**195**	210	**-**	-	**1,702**	1,520
Contribution to defined contribution plan	**195**	210	**-**	-	**211**	492
Rent and house maintenance	**1,500**	1,220	**-**	-	**12,327**	9,937
Utilities	**402**	126	**-**	-	**3,613**	2,950
Medical	**454**	1,131	**-**	-	**3,968**	2,057
Conveyance	**420**	616	**-**	-	**6,738**	8,615
Others (bonus, special allowance, expense reimbursement, etc)	**6,631**	7,537	**-**	-	**3,451**	2,623
	12,137	13,570	**8**	12	**68,141**	57,691
Number of persons	**1**	1	**6**	6	**41**	30

The Chief Executive and certain executives are provided with free use of the Bank's maintained car and household equipments in accordance with the terms of their employment.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable Pakistan Investment Bonds classified by the Bank as 'held to maturity'. These 'held to maturity' Bonds are being carried at amortised cost in order to comply with the requirements of BSD Circular 14 dated 24 September 2004. The fair value of these investments amounts to Rs. 179.290 million (2009: Rs. 180.842 million). Fair value of an unquoted equity investments is determined on the basis of break up value of those investments as per the latest available audited financial statements. The details of this investments is given in note 9.8.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision against non-performing loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4 of these financial statements.

The maturity and repricing profile and effective rates are stated in notes 41.4.3, 41.4.5.1 and 41.4.5.2 respectively.

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

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

2010	**Corporate Finance**	**Trading and Sales**	**Retail & Consumer Banking**	**Commercial Banking**	**Total**
	--------(Rupees in '000)				**--------**
Total income	**485,251**	**472,417**	**431,884**	**42,137**	**1,431,689**
Total expenses	**196,768**	**230,092**	**945,918**	**4,234**	**1,377,012**
Income tax					**30,966**
Net income	**288,483**	**242,325**	**(514,034)**	**37,903**	**23,711**
Segment assets - (Gross)	**3,872,916**	**4,640,634**	**2,758,552**	**1,762,238**	**13,034,341**
Advance tax					**80,278**
Deferred tax assets					**38,861**
Total assets	**3,872,916**	**4,640,634**	**2,758,552**	**1,762,238**	**13,153,480**
Segment non performing loans	**300,499**	**-**	**129,733**	**-**	**430,232**
Segment specific provision required	**155,616**	**-**	**67,183**	**-**	**222,799**
Segment liabilities	**1,598,020**	**881,885**	**8,597,194**	**520,040**	**11,597,139**
Segment return on net assets (ROA)	**13.61%**	**6.45%**	**8.70%**	**3.05%**	**1.95%**
Segment cost of funds	**6.67%**	**9.52%**	**6.67%**	**0.81%**	**11.87%**
2009					
Total income	136,112	490,217	295,307	41,719	963,355
Total expenses	160,435	608,131	239,509	41,534	1,049,609
Income tax					(6,153)
Net loss	(24,323)	(117,914)	55,798	185	(80,101)
Segment assets - (Gross)	1,969,794	6,006,859	2,436,704	45,173	10,458,530
Advance tax					51,583
Deferred tax assets					52,212
Total assets	1,969,794	6,006,859	2,436,704	45,173	10,562,325
Segment non performing loans	-	-	174,287	156,670	330,957
Segment specific provision required	-	-	104,681	101,541	206,222
Segment liabilities	3,995	14,453	9,113,693	32,552	9,164,693
Segment return on net assets (ROA) (%)	-1.24%	-1.97%	-0.82%	-0.21%	-7.36%
Segment cost of funds (%)	4.00%	3.50%	7.60%	2.50%	7.60%

38. TRUST ACTIVITIES

The Bank is not involved in any significant trust activities.

39. RELATED PARTY TRANSACTIONS AND BALANCES

The Bank has related party relationships with associated undertakings, employee benefits, directors and key management personnel and companies with common directors.

Details of advances to the companies or firms in which the directors of the Bank are interested as directors, partners or in case of private companies as members, are given in note 10.6 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to and accruals in respect of staff retirement benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan as disclosed in notes 33 and 34. Remuneration to the executives and disposals of vehicles are disclosed in noted 35 and 11.2 to these financial statements. The details of transactions and balances with related parties are as follows:

A. Balances

	Directors		Associated undertakings		Key management personnel		Other related parties	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
Deposits	---(Rupees in '000)---							
Balance at beginning of the year	**1,296**	1,734	**25,022**	-	**3,381**	3,250	**25,508**	67,620
Deposited during the year	**9,167**	29,252	**75,000**	25,027	**33,219**	63,097	**438,410**	466,657
Withdrawn during the year	**8,457**	30,415	**100,003**	5	**32,197**	62,240	**449,535**	508,769
Adjustments - net	**-**	725	**-**	-	**(1,471)**	(726)	**-**	-
Balance at end of the year	**2,006**	1,296	**19**	25,022	**2,932**	3,381	**14,383**	25,508
Deposits carry mark-up rate at 5% to 13.5% per annum (2009: 5% to 13% per annum).								
Mark-up / return / interest expensed	**59**	21	**-**	-	**126**	77	**666**	4,071
Mark-up payable in local currency	**38**	18	**-**	-	**78**	47	**139**	400
Advances (secured)								
Balance at beginning of the year	**-**	4,980	**41,666**	58,333	**7,677**	3,385	**57,795**	57,788
Loans granted during the year	**-**	960	**75,000**	25,000	**301**	4,662	**289,034**	830
Repayments received during the year	**-**	582	**25,000**	41,667	**625**	370	**240,000**	823
Adjustments*	**-**	(5,358)	**-**	-	**-**	-	**-**	-
Balance at end of the year	**-**	-	**91,666**	41,666	**7,353**	7,677	**106,829**	57,795
Advances carry profit rates ranging from 5% to 15.31 % per annum (2009: 5% to 14.8% per annum)								
Mark-up / return / interest earned	**-**	80	**4,745**	7,100	**375**	228	**19,394**	7,803
Mark-up receivable in local currency	**-**	-	**46**	95	**187**	146	**5,540**	1,970

B. Other transactions and balances (including profit and loss related transactions)

	Associated undertakings		Other related parties	
Balances as at the year end	**2010**	2009	**2010**	2009
	---------------------------(Rupees in '000)---------------------------			
Cash and balance with treasury bank	**64,292**	38,738	**-**	-
Balances with other banks	**433,345**	55,717	**-**	-
Investment in National Institutional Facilitation Technologies (Private) Limited	**954**	954	**-**	-
Investment in MCB Cash Optimizer Fund (market value)	**-**	20,546	**-**	-
Investment in United Growth and Income Fund (market value)	**-**	10,504	**-**	-
Mark-up receivable in local currency	**46**	95	**-**	-
Mark-up payable in local currency	**641**		**-**	-
MCB ATM settlement account balance	**417**	417	**-**	-
Net (payable) / receivable from defined benefit plan	**-**	-	**2,936**	(9,515)
Payable to defined contribution plan	**-**	-	**10**	198
Transactions during the year				
Interest income on lendings to financial institutions	**20,068**	69,298	**-**	-
Interest expense on repurchase agreement borrowings	**52,990**	99	**-**	-
Dividend income	**12,322**	6,161	**-**	-
Charge for retirement benefits:				
Approved pension fund	**-**	-	**33,866**	20,791
Approved gratuity fund	**-**	-	**2,951**	12,651
Contributory provident fund	**-**	-	**428**	1,132
	-	-	**37,245**	34,574
Proceeds from sale of fixed assets	**-**	-	**-**	1,895
Remuneration of key management personnel	**-**	-	**20,792**	18,157

40. CAPITAL ADEQUACY

40.1 Capital management

Objectives and goals of managing capital

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

- maintain strong ratings and to protect the Bank against unexpected events;

- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and

- achieve low overall cost of capital with appropriate mix of capital elements.

Statutory minimum capital requirement and management of capital

In order to strengthen the solvency of Banks / Development Financial Institutions (DFI), SBP through its BSD Circular No. 07 of 2009 dated 15 April 2009 has asked the Banks to raise their minimum paid up capital to Rs. 7 billion (free of losses) by the end of financial year 2010. Banks were required to raise the capital from Rs. 6 billion (free of losses) to Rs. 7 billion (free of losses) by the end of financial year 2010. Furthermore the Banks are expected to increase their minimum paid up capital to Rs 10 billion (free of losses) in a phased manner by the end of financial year 2013. However, the paid up capital of the Bank at 31 December 2010 amounting to Rs. 283.65 million is short of the SBP's requirement. The SBP has granted the Bank an extension for meeting the minimum paid-up capital requirement up to 31 December 2011. At the same time SBP has mentioned that the Bank would need to comply with the Capital Adequacy Ratio requirement (refer note 19.4 for more details).

The paid up capital and CAR of the Bank stands at Rs. 283.65 million (free of losses) and 27.23% of its risk weighted exposure as at 31 December 2010 (refer note 19.4 also).

Bank’s regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes fully paid up capital (including the bonus shares), general reserves as per the financial statements and net un-appropriated profits, etc after deductions for deficit on revaluation of available for sale investments, if any.

- Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 % risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 45 % of the balance in the related revaluation reserves).

Tier 3 capital has also been prescribed by the State Bank of Pakistan. However the Bank doesn't have any Tier 3 capital.

The Capital of the Bank is managed keeping in view the minimum “Capital Adequacy Ratio” required by SBP. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The Bank is required to manage its capital based on Basel II accord under the standardised approach and the Bank is complying with reporting of calculating the capital requirement under this basis.

The required capital adequacy ratio (10% of the risk-weighted assets) is tested with reference to the risk weighted exposure of the Bank. It is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk, market risk and operational risk.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk. Ratings for assets are applied using various ECAI's and aligned with appropriate risk buckets. Collaterals if any, are used as an outflow adjustment. Risk weights notified, are applied at net adjusted exposure. Collaterals used include: Government of Pakistan guarantees for advances and investments in PSE / GOP, deposits / margins, lien on deposits, saving certificates and lending of securities (repo & reverse repo).

The risk weighted amount for operational risk is computed according to basic indicator approach.

The Bank's risk weighted amount for market risk comprise of foreign exchange rate risk, which includes net spot positions. Trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book, financial instruments must be held with the intent of trading and free of any restrictive covenants on their tradability. In addition, positions need to be frequently and accurately valued and the portfolio should be actively managed.

All investments excluding trading book are considered as part of banking book, which includes:

i) Available for sale securities.

ii) Held to maturity securities.

iii) Other strategic investments, if any.

Treasury investments parked in the banking book include:

i) Government securities.

ii) Capital market investments (except for investments in closed end mutual funds, considered as part of trading book).

iii) Strategic investments, if any.

iv) Investments in bonds, certificates, etc.

Due to the diversified nature of investments in banking book, it is subject to interest rate and equity price risk.

40.2 Tier I Capital

	31 December 2010	31 December 2009
	(Rupees in '000)	
Shareholders' equity /Assigned Capital	**283,650**	283,650
Reserves	**233,282**	228,540
Unappropriated profits (Net of Losses)	**567,585**	546,128
Book value of intangibles	**(4,520)**	(5,650)
Shortfall in provisions required against classified assets irrespective of relaxation allowed	**-**	-
Deficit on account of revaluation of investments held in AFS category	**-**	-
	(4,520)	(5,650)
Total Tier I Capital	**1,079,997**	1,052,668
Tier II Capital		
General Provisions subject to 1.25% of Total Risk Weighted Assets	**4,755**	1,411
Revaluation Reserve (upto 45%)	**8,559**	15,440
Total Tier II Capital	**13,314**	16,851
Eligible Tier III Capital	**-**	-
Total Regulatory Capital Base	**1,093,311**	1,069,519

40.3 Capital Requirements and Risk Weighted Assets

		Capital Requirements		Risk Weighted Assets	
		31 December 2010	31 December 2009	31 December 2010	31 December 2009
		(Rupees in '000)			
	Credit Risk				
	Portfolios subject to standardized approach (Simple)				
	On- Balance Sheet				
(a)	Cash and Cash Equivalents	**-**	-	**-**	-
(b)	Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR	**-**	-	**-**	-
(c)	Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan	**-**	-	**-**	-
(d)	Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR	**998**	192	**9,977**	1,919
(e)	Claims on Bank for International Settlements, International Monetary Fund, European Central Bank, and European Community	**-**	-	**-**	-
(f)	Claims on Multilateral Development Banks	**-**	-	**-**	-
(g)	Claims on Public Sector Entities in Pakistan	**297**	24,022	**2,973**	240,217
(h)	Claims on Banks	**2,434**	1,889	**24,339**	18,891
(i)	Claims, denominated in foreign currency, on banks with original maturity of 3 months or less	**10,875**	10,633	**108,754**	106,333
(j)	Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR	**3,576**	4,101	**35,764**	41,009
(k)	Claims on Corporates (excluding equity exposures)	**115,285**	44,322	**1,152,851**	443,222
(l)	Claims categorized as retail portfolio	**81,271**	76,619	**812,713**	766,189
(m)	Claims fully secured by residential property	**2,841**	2,378	**28,406**	23,778
(n)	Past Due loans:				
	1 The unsecured portion of any claim (other than loans and claims secured against eligible residential mortgages as defined in section 2.1 of circular 8 of 2006) that is past due for more than 90 days and / or impaired:				
	1.1 where specific provisions are less than 20 per cent of the outstanding amount of the past due claim.	**19,278**	-	**192,780**	-
	1.2 where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim.	**6,222**	8,384	**62,219**	83,841
	1.3 where specific provisions are more than 50 per cent of the outstanding amount of the past due claim.	**835**	320	**8,348**	3,197
	2 Loans and claims fully secured against eligible residential mortgages that are past due for more than 90 days and / or impaired	**-**	3,450	**-**	34,499
	3 Loans and claims fully secured against eligible residential mortgage that are past due by 90 days and /or impaired and specific provision held there against is more than 20% of outstanding amount	**-**	-	**-**	-
(o)	Listed Equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in the banking book.	**432**	419	**4,322**	4,191
(p)	Unlisted equity investments (other than that deducted from capital) held in banking book	**143**	143	**1,431**	1,431
(q)	Investments in venture capital	**-**	-	**-**	-
(r)	Investments in premises, plant and equipment and all other fixed assets	**18,373**	19,832	**183,728**	198,322
(s)	Claims on all fixed assets under operating lease	**-**	-	**-**	-
(t)	All other assets	**9,233**	8,775	**92,326**	87,753
		272,093	205,479	**2,720,931**	2,054,792
	Off- Balance Sheet - Non Market related Exposures				
	Direct Credit Substitutes/ Lending of securities or posting of securities as collateral	**3,964**	1,882	**39,642**	18,819
	Trade Related contingencies/Other Commitments with original maturity of one year or less	**24**	-	**239**	-
		3,988	1,882	**39,881**	18,819
	Total Credit Risk (A)	**276,081**	207,361	**2,760,812**	2,073,611
	Market Risk				
	Capital Requirement for portfolios subject to Standardized Approach				
	Interest rate risk	**-**	-	**-**	-
	Equity position risk etc.	**1,500**	2,108	**15,000**	21,075
	Capital Requirement for portfolios subject to Internal Models Approach				
	Interest rate risk	**-**	-	**-**	-
	Foreign exchange risk, etc.	**9,703**	12,523	**97,031**	125,225
		9,703	12,523	**97,031**	125,225
	Total Market Risk (B)	**11,203**	14,631	**112,031**	146,300
	Operational Risk				
	Basic Indicator Approach-Total of operational risk (C)	**114,034**	108,245	**1,140,339**	1,082,450
	TOTAL of A + B + C	**401,318**	330,237	**4,013,182**	3,302,361

		31 December 2010	31 December 2009
Capital Adequacy Ratio			
Total eligible regulatory capital held (Note 39.2)	(a)	**1,093,311**	1,069,519
Total Risk Weighted Assets (Note 39.3)	(b)	**4,013,182**	3,302,361
Capital Adequacy Ratio	(a) / (b)	**27.24%**	32.39%

40.4 Types of exposures and External Credit Assessment Institutions (ECAIs) used

	31 December 2010	
Exposures	**JCR-VIS**	**PACRA**
Corporate	Yes	Yes
Banks	Yes	Yes
Sovereigns	-	-
SME's	-	-
Securitizations	-	-
Others	Yes	Yes

40.5 Credit exposures subject to Standardized Approach

		31 December 2010			31 December 2009		
Exposures	**Rating Category**	**Amount Outstanding**	**Deduction CRM**	**Net Amount**	Amount Outstanding	Deduction CRM	Net Amount
		(Rupees in '000)					
Corporate	1	**12,580**	**-**	**12,580**	21,204	-	21,204
	2	**95,622**	**-**	**95,622**	107,789	-	107,789
	3 , 4	**40,984**	**-**	**40,984**	68,307	-	68,307
	5 , 6	**-**	**-**	**-**	60,000	-	60,000
Claims on banks with original maturity of 3 months or less		**892,787**	**713,966**	**178,821**	1,463,313	819,680	643,633
Retail		**1,090,390**	**1,673**	**1,088,717**	1,026,542	4,939	1,021,603
Others		**8,052,750**	**-**	**8,052,750**	5,325,421	-	5,325,421
Unrated		**2,558,017**	**898,813**	**1,659,204**	2,231,163	1,410,148	821,015

41. RISK MANAGEMENT

Risk Management is a process consisting of defined steps, which support better decision making by contributing to a greater insight into risks and their impacts. The Bank has in place the "Basic Framework & Policy Guidelines", which cover organizational set up and functions of Risk Management Department (RMD). Risk management processes help to improve safety, quality and performance of activities. The Bank intends to further augment its RMD in line with the regulatory requirements, etc.

41.1 Credit risk

Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. The Bank's Credit Manual contains detailed procedures and guidelines to address credit risk methodology for identifying, assessing, monitoring and mitigating the risk factors. The credit manual is under process of implementation and it will be followed in conjunction with risk based lending approach.

The Bank's policies and procedures on Country Risk Management have been approved by the Board of Directors.

41.2 Concentration of credit and deposit

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is monitored, reviewed and analysed by Asset and Liability Management Committee (ALCO), which has established credit lines and credit limits to control exposure to counter parties. Investments are made only in instruments with good credit ratings.

Out of the total financial assets of Rs. 12,360.020 million (2009: 9,924.878 million), the financial assets which were subject to credit risk amounted to Rs. 7,877.775 million (2009: Rs. 5,224.265 million). To manage credit risk the Bank applies credit limits to its customers and obtains adequate collateral.

The following financial assets are guaranteed by the Federal / Provincial Government or the State Bank of Pakistan.

	2010	2009
	(Rupees in '000)	
Investments	**3,384,375**	3,777,587
Mark-up receivable on government guaranteed financial assets	**26,603**	26,789
Cash and balances with the State Bank of Pakistan	**574,377**	497,623

41.3 Segmental information

Segmental information is presented in respect of the class of business and geographical distribution of advances (gross), deposits, contingencies and commitments. The details are as follows:

41.3.1 Segments by class of business

	2010					
	Advances (gross)		**Deposits**		**Contingencies and commitments**	
	(Rupees in '000)	**Percent (%)**	**(Rupees in '000)**	**Percent (%)**	**(Rupees in '000)**	**Percent (%)**
Food, beverages and allied	**3,068,748**	**46.95**	**6,237**	**0.06**	**-**	**-**
Agriculture, forestry, hunting and fishing	**23,057**	**0.35**	**82,624**	**0.81**	**-**	**-**
Textile	**149,352**	**2.29**	**25,884**	**0.25**	**7,030**	**3.49**
Chemical and pharmaceuticals	**90,924**	**1.39**	**3,037**	**0.03**	**2,394**	**1.19**
Cement	**116,354**	**1.78**	**-**	**-**	**-**	**-**
Production and Transmission of Energy	**449,467**	**6.88**	**1,479,915**	**14.52**	**-**	**-**
Footwear and leather garments	**2,435**	**0.04**	**-**	**-**	**-**	**-**
Wholesale and Retail Trade	**265,431**	**4.06**	**-**	**-**	**3,678**	**1.83**
Electronics and electrical appliances	**13,418**	**0.21**	**2,653**	**0.03**	**50**	**0.02**
Construction	**233,585**	**3.57**	**41,205**	**0.40**	**5,610**	**2.79**
Transport, storage and communication	**24,054**	**0.37**	**11,732**	**0.12**	**1,000**	**0.50**
Financial	**91,667**	**1.40**	**2,712**	**0.03**	**-**	**-**
Services / Social Development and Education	**190,735**	**2.92**	**952,211**	**9.34**	**-**	**-**
Individuals	**286,639**	**4.39**	**3,450,828**	**33.85**	**-**	**-**
Others	**1,529,828**	**23.41**	**4,136,176**	**40.57**	**181,510**	**90.18**
	6,535,694	**100.00**	**10,195,214**	**100.00**	**201,272**	**100.00**
	-		-		-	

	2009					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Food, beverages and allied	689,767	19.81	5,367	0.06	-	-
Agriculture, forestry, hunting and fishing	44,980	1.29	31,376	0.36	1,300	0.57
Textile	136,719	3.93	24,092	0.28	161,327	71.36
Chemical and pharmaceuticals	6,201	0.18	4,626	0.05	5,636	2.49
Cement	76,914	2.21	-	-	-	-
Production and Transmission of Energy	451,390	12.96	1,560,330	17.82	24,753	10.95
Footwear and leather garments	5,686	0.16	-	-	-	-
Wholesale and Retail Trade	88,078	2.53	-	-	-	-
Electronics and electrical appliances	13,704	0.39	3,208	0.04	73	0.03
Construction	394,984	11.34	-	-	5,760	2.55
Transport, storage and communication	21,378	0.61	3,339	0.04	112	0.05
Financial	41,667	1.20	25,030	0.29	-	-
Services/ Social Development and Education	854,046	24.53	890,057	10.16	4,897	2.17
Individuals	163,447	4.69	2,877,070	32.86	-	-
Others	492,893	14.16	3,332,298	38.05	22,229	9.83
	3,481,854	100.00	8,756,793	100.00	226,087	100.00

41.3.2 Segment by sector

	2010					
	Advances (gross)		**Deposits**		**Contingencies and commitments**	
	(Rupees in '000)	**Percent (%)**	**(Rupees in '000)**	**Percent (%)**	**(Rupees in '000)**	**Percent (%)**
Public / government	**2,971,799**	**45.47**	**3,301,875**	**32.39**	**44,441**	**22.08**
Private	**3,563,895**	**54.53**	**6,893,339**	**67.61**	**156,831**	**77.92**
	6,535,694	**100.00**	**10,195,214**	**100.00**	**201,272**	**100.00**

	2009					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Public / government	455,800	13.09	3,136,189	35.81	57,467	25.42
Private	3,026,054	86.91	5,620,604	64.19	168,620	74.58
	3,481,854	100.00	8,756,793	100.00	226,087	100.00

41.3.3 Details of non-performing advances and specific provisions by class of business segment

	2010		2009	
	Classified advances	**Specific provision held**	Classified advances	Specific provision held
	(Rupees in '000)			
Agriculture, forestry, hunting and fishing	**1,846**	**1,846**	1,996	1,996
Textile and garment	**113,799**	**46,333**	113,668	43,593
Chemical and pharmaceuticals	**2,063**	**2,063**	2,146	2,146
Cement	**59,952**	**1,649**	-	-
Sugar	**13,906**	**2,225**	14,225	8,225
Footwear and leather garments	**1,631**	**534**	1,758	634
Electronics and electrical appliances	**3,977**	**3,977**	5,300	5,300
Construction	**37,560**	**1,248**	35,499	1,000
Electricity, gas, water, sanitary	**90,000**	**90,000**	90,000	90,000
Wholesale and retail trade	**10,475**	**6,397**	6,845	6,813
Exports / imports	**1,526**	**1,526**	1,896	1,896
Transport, storage and communication	**1,905**	**1,905**	1,905	1,905
Services	**37,718**	**23,425**	1,310	1,310
Individuals	**1,304**	**1,304**	1,381	1,381
Others	**52,570**	**38,367**	53,028	40,023
	430,232	**222,799**	330,957	206,222

41.3.4 Details of non-performing advances and specific provisions by sector

Private	**430,232**	**222,799**	330,957	206,222

41.3.5 Geographical segment analysis

	2010			
	Profit before taxation	**Total assets employed**	**Net assets employed**	**Contingencies and commitments**
	(Rupees in '000)			
Pakistan	**54,677**	**12,703,160**	**1,106,021**	**201,272**

	2009			
	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in '000)			
Pakistan	(86,254)	10,258,060	1,093,367	226,087

Total assets employed include intra group items of nil (2009: nil).

41.4 Market risk management

Market risk is the risk of loss arising from movements in market variables, such as interest rates, exchange rates and equity indices, etc. Concentration limits and other controls are applied through various checks and controls.

The Asset and Liability Management Committee (ALCO) of the Bank is responsible for reviewing policies relating to risk assets, primarily in lending and treasury related transactions as well as in reviewing / approving the procedures, setting of limits, monitoring and implementation as per Board’s approved policies.

Procedural guidelines for covering the risks involved in various types of financing and customers’ transactions are being followed to ensure customers’ due diligence.

A number of developments are underway more particularly for operational and credit risk areas. Information technology infrastructure is being developed so as to strengthen the monitoring capacity as well as to keep pace with the modern banking facilities.

The management ensures all policies and procedures are regularly reviewed with a view to have full compliance with SBP guidelines as far as feasible and practicable with a view to ensure an efficient and effective system.

41.4.1 Foreign exchange risk management

Main objective of foreign exchange risk management is to ensure that foreign exchange exposure of the Bank remains within the defined risk appetite (20% of the paid up capital). Daily reports are generated to evaluate the exposure in different currencies. Details of the Bank's currency risk exposure are as follows:

	2010			
	Assets	**Liabilities**	**Off-balance sheet items**	**Net foreign currency exposure**
	(Rupees in '000)			
Pakistan Rupee	**11,992,039**	**10,985,443**	**2,394**	**1,008,990**
United States Dollar	**603,441**	**517,589**	**(2,394)**	**83,458**
Pound Sterling	**23,830**	**19,044**	**-**	**4,786**
Japanese Yen	**488**	**-**	**-**	**488**
Euro	**82,190**	**75,063**	**-**	**7,127**
Other currencies	**1,172**	**-**	**-**	**1,172**
	12,703,160	**11,597,139**	**-**	**1,106,021**

	2009			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
Pakistan Rupee	9,574,341	8,584,845	(14,494)	975,002
United States Dollar	605,039	479,881	14,494	139,652
Pound Sterling	11,796	27,202	-	(15,406)
Japanese Yen	45	-	-	45
Euro	66,839	72,765	-	(5,926)
Other currencies	-	-	-	-
	10,258,060	9,164,693	-	1,093,367

41.4.2 Equity price risk

Equity price risk arises, primarily in trading book, due to changes in process of individual stocks or levels of equity indices. The Bank's existing equity book primarily comprises of available for sale portfolio, which is maintained with a medium term view of capital gains and higher dividend yields. Equity price risk is managed by applying nominal limits on individual scrips. The portfolio is also diversified to minimize the risk.

41.4.3 Mismatch of interest rate sensitive assets and liabilities

Yield / interest rate sensitivity position for on-balance sheet instruments is based on the earlier of contractual re-pricing or maturity date and for off-balance sheet instruments is based on settlement date.

2010

	Effective yield / interest rate	Total	Exposed to yield / interest risk									Not exposed to yield / interest risk
			Up to 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	0.00%	836,311	-	-	-	-	-	-	-	-	-	836,311
Balances with other banks	0.87%	600,228	217,048	158,893	-	-	-	-	-	-	-	224,287
Lendings to financial institutions	12.70%	926,323	892,458	-	-	-	-	-	-	-	-	33,865
Investments - net	11.81%	3,430,251	747,015	1,613,767	171,349	284,300	69,875	485,081	42,020	-	-	16,844
Advances - net	15.31%	6,308,140	1,891,652	3,195,575	1,010,817	2,663	-	-	-	-	-	207,433
Other assets - net	-	258,767	-	-	-	-	-	-	-	-	-	258,767
		12,360,020	3,748,173	4,968,235	1,182,166	286,963	69,875	485,081	42,020	-	-	1,577,507
Liabilities												
Bills payable	-	102,182	-	-	-	-	-	-	-	-	-	102,182
Borrowings	11.13%	966,885	45,100	496,302	425,483	-	-	-	-	-	-	-
Deposits and other accounts	7.04%	10,195,214	6,222,095	36,158	182,619	1,091,976	24,657	25,089	54,816	-	49	2,557,755
Other liabilities	-	287,165	-	-	-	-	-	-	-	-	-	287,165
		11,551,446	6,267,195	532,460	608,102	1,091,976	24,657	25,089	54,816	-	49	2,947,102
On-balance sheet gap		808,574	(2,519,022)	4,435,775	574,064	(805,013)	45,218	459,992	(12,796)	-	(49)	(1,369,595)
Off-balance sheet financial instruments		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap			(2,519,022)	4,435,775	574,064	(805,013)	45,218	459,992	(12,796)	-	(49)	
Cumulative yield / interest risk sensitivity gap			(2,519,022)	1,916,752	2,490,816	1,685,804	1,731,022	2,191,014	2,178,218	2,178,218	2,178,169	

2009

	Effective yield / interest rate	Total	Exposed to yield / interest risk									Not exposed to yield / interest risk
			Up to 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	0.00%	713,140	-	-	-	-	-	-	-	-	-	713,140
Balances with other banks	5.89%-2.5%	586,849	493,773	-	-	-	-	-	-	-	-	93,076
Lendings to financial institutions	12.40%	1,136,025	1,024,498	2,000	3,000	6,000	100,527	-	-	-	-	-
Investments - net	11.71%	4,097,423	7,000	877,857	767,919	1,046,481	718,264	95,298	542,060	-	-	42,544
Advances - net	14.60%	3,274,221	2,269,084	38,558	63,038	556,807	134,151	85,294	69,880	17,793	39,616	-
Other assets - net	-	131,189	-	-	-	-	-	-	-	-	-	131,189
		9,938,847	3,794,355	918,415	833,957	1,609,288	952,942	180,592	611,940	17,793	39,616	979,949
Liabilities												
Bills payable	-	89,020	-	-	-	-	-	-	-	-	-	89,020
Borrowings	6.50%	31,328	-	-	31,328	-	-	-	-	-	-	-
Deposits and other accounts	5%-13%	8,756,793	6,118,326	37,918	87,257	763,378	25,617	14,864	149,373	-	2,854	1,557,206
Other liabilities	-	239,110	-	-	-	-	-	-	-	-	-	239,110
		9,116,251	6,118,326	37,918	118,585	763,378	25,617	14,864	149,373	-	2,854	1,885,336
On-balance sheet gap		822,596	(2,323,971)	880,497	715,372	845,910	927,325	165,728	462,567	17,793	36,762	(905,387)
Off-balance sheet financial instruments		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		-	-	-	-	-	-	-	-	-	-	-
Total yield / interest risk sensitivity gap			(2,323,971)	880,497	715,372	845,910	927,325	165,728	462,567	17,793	36,762	
Cumulative yield / interest risk sensitivity gap			(2,323,971)	(1,443,474)	(728,102)	117,808	1,045,133	1,210,861	1,673,428	1,691,221	1,727,983	

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

The reconciliation of:
- total assets and total financial assets; and
- total liabilities and total financial liabilities is as follows:

Reconciliation to total assets	2010	2009
	(Rupees in '000)	
Balance as per balance sheet	**12,703,160**	10,258,060
Less: Non-financial assets		
Operating fixed assets	**188,248**	203,972
Deferred tax assets	**38,861**	52,212
Other assets	**116,031**	63,029
	343,140	319,213
Total financial assets	**12,360,020**	9,938,847

Reconciliation to total liabilities	2010	2009
	(Rupees in '000)	
Balance as per balance sheet	**11,597,139**	9,164,693
Less: Non-financial liabilities		
Other liabilities	**45,693**	48,442
Deferred Tax liability	**-**	-
	45,693	48,442
Total financial liabilities	**11,551,446**	9,116,251

41.4.4 Liquidity risk

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet its own contractual obligations, when due. The liquidity risk is managed through a framework of liquidity policies, controls and limits. These policies and controls ensure that the Bank maintains diversified sources of funding to meet its contractual obligations.

41.4.5 Maturities of assets and liabilities

41.4.5.1 Maturities of assets and liabilities - Based on contractual maturity of the assets and liabilities of the Bank

The below mentioned maturity profile has been prepared on the basis of contractual maturities. The management believes that such a maturity analysis does not reveal the expected maturity of current and saving deposits as a contractual maturity analysis of deposits alone does not provide information about the conditions expected in normal circumstances. The maturity profile disclosed in note 40.4.5.2 includes maturities of current and saving deposits determined by the Asset and Liability Management Committee (ALCO) keeping in view historical withdrawal pattern of these deposits.

2010

	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	**836,311**	**836,311**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balances with other banks	**600,228**	**441,335**	**158,893**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Lendings to financial institutions	**926,323**	**774,882**	**8,000**	**12,000**	**24,000**	**107,441**	**-**	**-**	**-**	**-**
Investments - net	**3,430,251**	**759,741**	**1,609,047**	**155,351**	**296,373**	**77,500**	**490,219**	**42,020**	**-**	**-**
Advances - net	**6,308,140**	**3,261,575**	**2,266,641**	**279,192**	**30,365**	**60,108**	**124,745**	**152,447**	**76,421**	**56,646**
Operating fixed assets	**188,248**	**3,785**	**7,568**	**4,324**	**8,647**	**15,375**	**13,781**	**23,791**	**27,397**	**83,580**
Deferred tax assets	**68,764**	**9,590**	**19,909**	**11,472**	**22,827**	**631**	**3,993**	**342**	**-**	**-**
Other assets - net	**374,798**	**105,687**	**169,088**	**4,997**	**95,026**	**-**	**-**	**-**	**-**	**-**
	12,733,063	**6,192,906**	**4,239,146**	**467,336**	**477,238**	**261,055**	**632,738**	**218,600**	**103,818**	**140,226**
Liabilities										
Bills payable	**102,182**	**102,182**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Borrowings	**966,885**	**45,100**	**496,302**	**425,483**	**-**	**-**	**-**	**-**	**-**	**-**
Deposits and other accounts	**10,195,214**	**8,779,850**	**36,158**	**182,619**	**1,091,976**	**24,657**	**25,089**	**54,816**	**-**	**49**
Deferred tax liabilities	**29,903**	**303**	**603**	**739**	**1,477**	**2,654**	**2,387**	**4,088**	**6,803**	**10,849**
Other liabilities	**332,858**	**141,415**	**191,443**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	11,627,042	**9,068,850**	**724,506**	**608,841**	**1,093,453**	**27,311**	**27,476**	**58,904**	**6,803**	**10,898**
Net assets	**1,106,021**	**(2,875,944)**	**3,514,640**	**(141,505)**	**(616,215)**	**233,744**	**605,262**	**159,696**	**97,015**	**129,328**
Share capital	**283,650**									
Reserves	**233,282**									
Unappropriated profit	**567,585**									
Surplus on revaluation of assets - net of tax	**21,504**									
	1,106,021									

2009

	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	(Rupees in '000)									
Assets										
Cash and balances with treasury banks	713,140	713,140	-	-	-	-	-	-	-	-
Balances with other banks	586,849	586,849	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,136,025	1,024,498	2,000	3,000	6,000	100,527	-	-	-	-
Investments - net	4,097,423	48,591	877,857	767,919	1,046,481	718,264	95,297	542,060	-	954
Advances - net	3,274,221	2,269,084	38,558	63,038	556,807	134,151	85,294	69,880	17,793	39,616
Operating fixed assets	203,972	7,978	15,956	4,035	8,070	14,405	12,972	22,575	24,799	93,182
Deferred tax assets	82,827	-	372	325	730	16,707	1,965	57,732	4,996	-
Other assets - net	194,218	93,641	20,995	12,717	66,865	-	-	-	-	-
	10,288,675	4,743,781	955,738	851,034	1,684,953	984,054	195,528	692,247	47,588	133,752
Liabilities										
Bills payable	89,020	89,020	-	-	-	-	-	-	-	-
Borrowings	31,328	-	-	31,328	-	-	-	-	-	-
Deposits and other accounts	8,756,793	7,675,532	37,918	87,257	763,378	25,617	14,864	149,373	-	2,854
Deferred tax liabilities	30,615	146	293	439	879	1,758	1,758	3,516	7,332	14,494
Other liabilities	287,552	255,050	9,790	14,626	4,604	-	-	3,482	-	-
	9,195,308	8,019,748	48,001	133,650	768,861	27,375	16,622	156,371	7,332	17,348
Net assets	1,093,367	(3,275,967)	907,737	717,384	916,092	956,679	178,906	535,876	40,256	116,404
Share capital	283,650									
Reserves	228,540									
Unappropriated profit	546,128									
Surplus on revaluation of assets - net of tax	35,049									
	1,093,367									

41.4.5.2 **Maturities of assets and liabilities - Based on working prepared by the Asset and Liability Management Committee (ALCO) of the Bank**

Current and savings deposits do not have any contractual maturity therefore, current deposits and savings accounts have been classified between all nine maturities. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

2010

	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	----------(Rupees in '000)----------									
Assets										
Cash and balances with treasury banks	836,311	836,311	-	-	-	-	-	-	-	-
Balances with other banks	600,228	441,335	158,893	-	-	-	-	-	-	-
Lendings to financial institutions	926,323	774,882	8,000	12,000	24,000	107,441	-	-	-	-
Investments - net	3,430,251	759,741	1,609,047	155,351	296,373	77,500	490,219	42,020	-	-
Advances - net	6,308,140	3,261,575	2,266,641	279,192	30,365	60,108	124,745	152,447	76,421	56,646
Operating fixed assets	188,248	3,785	7,568	4,324	8,647	15,375	13,781	23,791	27,397	83,580
Deferred tax assets	68,764	9,590	19,909	11,472	22,827	631	3,993	342	-	-
Other assets - net	374,798	105,687	169,088	4,997	95,026	-	-	-	-	-
	12,733,063	6,192,906	4,239,146	467,336	477,238	261,055	632,738	218,600	103,818	140,226
Liabilities										
Bills payable	102,182	102,182	-	-	-	-	-	-	-	-
Borrowings	966,885	45,100	496,302	425,483	-	-	-	-	-	-
Deposits and other accounts	10,195,214	743,758	1,229,559	1,110,245	2,947,230	785,739	786,171	1,576,981	1,015,482	49
Deferred tax liabilities	29,903	303	603	739	1,477	2,654	2,387	4,088	6,803	10,849
Other liabilities	332,858	141,415	191,443	-	-	-	-	-	-	-
	11,627,042	1,032,758	1,917,907	1,536,467	2,948,707	788,393	788,558	1,581,069	1,022,285	10,898
Net assets	1,106,021	5,160,148	2,321,239	(1,069,131)	(2,471,469)	(527,338)	(155,820)	(1,362,469)	(918,467)	129,328
Share capital	283,650									
Reserves	233,282									
Unappropriated profit	567,585									
Surplus on revaluation of assets - net of tax	21,504									
	1,106,021									

2009

	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	----------(Rupees in '000)----------									
Assets										
Cash and balances with treasury banks	713,140	713,140	-	-	-	-	-	-	-	-
Balances with other banks	586,849	586,849	-	-	-	-	-	-	-	-
Lendings to financial institutions	1,136,025	1,024,498	2,000	3,000	6,000	100,527	-	-	-	-
Investments - net	4,097,423	48,591	877,857	767,919	1,046,481	718,264	95,297	542,060	-	954
Advances - net	3,274,221	2,269,084	38,558	63,038	556,807	134,151	85,294	69,880	17,793	39,616
Operating fixed assets	203,972	7,978	15,956	4,035	8,070	14,405	12,972	22,575	24,799	93,182
Deferred tax assets	82,827	-	372	325	730	16,707	1,965	57,732	4,996	-
Other assets - net	194,218	93,641	20,995	12,717	66,865	-	-	-	-	-
	10,288,675	4,743,781	955,738	851,034	1,684,953	984,054	195,528	692,247	47,588	133,752
Liabilities										
Bills payable	89,020	89,020	-	-	-	-	-	-	-	-
Borrowings	31,328	-	-	31,328	-	-	-	-	-	-
Deposits and other accounts	8,756,793	7,550,706	128,616	63,290	743,773	49,999	28,448	191,704	12	245
Deferred tax liabilities	30,615	146	293	439	879	1,758	1,758	3,516	7,332	14,494
Other liabilities	287,552	255,050	9,790	14,626	4,604	-	-	3,482	-	-
	9,195,308	7,894,922	138,699	109,683	749,256	51,757	30,206	198,702	7,344	14,739
Net assets	1,093,367	(3,151,141)	817,039	741,351	935,697	932,297	165,322	493,545	40,244	119,013
Share capital	283,650									
Reserves	228,540									
Unappropriated profit	546,128									
Surplus on revaluation of assets - net of tax	35,049									
	1,093,367									

41.4.6 Operational Risk

Operational risk is the risk resulting from inadequate or failed internal processes, people system or from external events. This risk arises from operational risk is the risk of inadequate documentation, legal or regulatory incapacity and uncertainty in enforcement of contracts. Procedural guidelines have been issued down the line. Necessary information / guidelines for Know Your Customer (KYC) compliance have also been issued by the Bank.

42. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Bank in their meeting held on 21 March 2011.

Shahid Mughal **Chief Financial Officer**	**Shafqat Sultana** **President and Chief Executive**

Shafqat Sultana **President and Chief Executive**	**Khalid A. Sherwani** **Director**	**M. U. A. Usmani** **Director**	**Batool I. Qureshi** **Director**