Annual Report

2009

Reflections of Commitment - the SambaWay

samba سامبا

Company Information

Board of Directors

Syed Sajjad Razvi	Chairman
Mr. Beji Tak – Tak	Executive Director
Mr. Farhat Abbas Mirza	Independent Director
Mr. Javed Iqbal	Independent Director
Mr. Mubashar Hanif Khokhar*	Independent Director
Dr. Shujaat Nadeem	Executive Director
Mr. Zaki Abdulmohsen Al-Mousa	Executive Director
Mr. Zahid Zaheer	Independent Director
Mr. Tawfiq A. Husain	President & CEO

Audit Committee

Mr. Javed Iqbal	Chairman
Mr. Beji Tak – Tak	Member
Mr. Zahid Zaheer	Member

Board Credit Committee

Syed Sajjad Razvi	Chairman
Mr. Tawfiq A. Husain	Member
Mr. Beji Tak – Tak	Member
Mr. Zahid Zaheer	Member

Company Secretary

Syed Ali Azfar Naqvi**

Auditors

A. F. Ferguson & Co. — Chartered Accountants

Legal Advisors

Mohsin Tayebaly & Co. — Advocates & Legal Consultants

Head Office & Registered Office

6th Floor, Sidco Avenue Centre, M.D.M. Wafai Road, Karachi

Share Register

Femco Associates (Pvt.) Limited
1st Floor, State Life Building No. 1-A, I.I. Chundrigar Road, Karachi

Samba Phone Banking

11 11 SAMBA (72622)

Website

www.samba.com.pk

Credit Rating by JCR-VIS

Long Term Credit Rating	A (single A)
Short Term Rating	A-1 (A-One)

* Resigned w.e.f. January 1, 2010.

** Appointed as Acting Company Secretary w.e.f July 1, 2009.

Chairman's Message

On behalf of the Board of Directors, I wish to present the annual financial performance of your Bank for the year ending 2009 and to share my views on 2010.

2009 was a very challenging year for the financial sector globally, with some unique challenges for Pakistan. However, Samba Financial Group's (SFG's) long term commitment and support for its local subsidiary, Samba Bank Ltd (SBL), remains steadfast. The Bank is at an advanced stage of issuing right shares to meet State Bank of Pakistan's Minimum Capital Requirement (MCR). As a clear demonstration of SFG commitment it will be taking up any shares that remain unsubscribed, a reflection of its long term support for the local franchise.

2010 is going to be an even more competitive year for the banking sector. Hence, it will be imperative for your Bank to build on existing revenue streams in conjunction to developing new revenues. It will need to respond to the changing business needs of its customers through the introduction of new products and services, improve operational efficiencies and to capitalize on each opportunity where SBL can leverage its core competencies.

The Bank will continue its focus on Corporate, Investment and Retail Banking with a view to grow its balance sheet and therefore strengthen the quality of its earnings – both by deepening existing relationships and building new ones through careful risk diversification. As we execute our strategic priorities our focus on financial performance remains paramount. Our focus is to make Samba Bank Ltd a profitable franchise, which I sincerely believe is its destiny.

On behalf of the Board of Directors and Management, I would like to extend our deepest appreciation to our valued investors and customers for their continued support and confidence in the "Samba" brand, and assisting us in building our local franchise. I would like to assure them of a continuance in the highest quality of service for which the brand is recognized. The relentless effort, hard work and commitment of our management and staff during the year should be recognized and I am confident they will achieve the goals the Board has set for them for 2010.

Finally, I would like to take this opportunity to thank our Board members and my colleagues in SFG for their support and invaluable contributions to this franchise.

Syed Sajjad Razvi
Chairman

Six Years' Performance Highlights

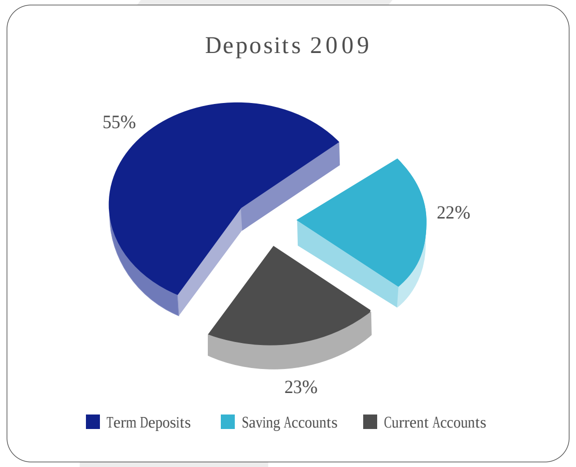
December 31	2004	2005	2006	2007	2008	2009
Balance Sheet	Restated		Restated			
				Rs. in Millions		
Assets						
Cash and balances with treasury and other banks	1,095	950	915	1,067	1,106	1,669
Lending to financial institutions	532	778	493	8,566	2,313	3,123
Investments - Gross	2,953	2,352	2,473	4,277	4,232	6,224
Advances - Gross	5,803	5,332	4,013	7,105	8,606	12,343
Operating Fixed assets	749	831	846	854	1,158	1,112
Other assets - Gross	1,725	1,248	1,421	1,670	2,049	2,405
Total assets - Gross	12,857	11,491	10,161	23,539	19,464	26,876
Provisions against advances - specific & general	(1,786)	(1,608)	(1,618)	(2,413)	(2,443)	(2,620)
Provisions against diminution in value of investment	(358)	(191)	(245)	(329)	(402)	(416)
Provisions held against bad & doubtful other assets	(118)	(72)	(119)	(142)	(131)	(106)
Total assets - net of provision	10,595	9,620	8,179	20,655	16,488	23,734
Liabilities						
Customer deposits	5,093	5,985	5,578	12,645	9,860	12,521
Borrowings	1,946	1,259	442	183	438	3,141
Bills payable	168	57	51	1,057	55	78
Other liabilities	1,044	687	529	568	672	918
Total Liabilities	8,251	7,988	6,600	14,453	11,025	16,658
Net Assets / Liabilities	2,344	1,632	1,579	6,202	5,463	7,076
Share capital	2,216	2,216	2,770	8,770	8,770	8,770
Advance against proposed issue of shares	-	-	-	-	-	2,189
Reserves	136	136	43	43	43	43
Un - appropriated profit / (loss)	3	(741)	(1,220)	(2,594)	(3,336)	(3,929)
Equity	2,355	1,611	1,593	6,219	5,477	7,073
(Deficit)/ Surplus on revaluation of assets	(11)	21	(14)	(17)	(14)	3
Profitability						
Markup / Return / Interest earned	234	469	483	1,183	1,758	1,879
Markup / Return / Interest expensed	136	403	552	838	1,071	1,209
Net Markup / Interest income	98	66	(69)	345	687	670
Fee, Commission, Brokerage and Exchange income	45	76	21	15	61	64
Capital gain & Dividend income	30	21	43	85	17	4
Other income	41	21	20	28	47	24
Non interest income	116	118	84	128	125	92
Gross income	214	184	15	473	812	762
Operating expenses	(223)	(514)	(681)	(893)	(1,510)	(1,456)
Profit / (Loss) before provisions	(9)	(330)	(666)	(420)	(698)	(694)
Provisions / direct write offs	(74)	(409)	(183)	(953)	(313)	(374)
Profit / (Loss) before taxation	(83)	(739)	(849)	(1,373)	(1,011)	(1,068)
Taxation	(4)	(5)	261	50	269	475
Profit / (Loss) after taxation	(87)	(744)	(588)	(1,323)	(742)	(593)

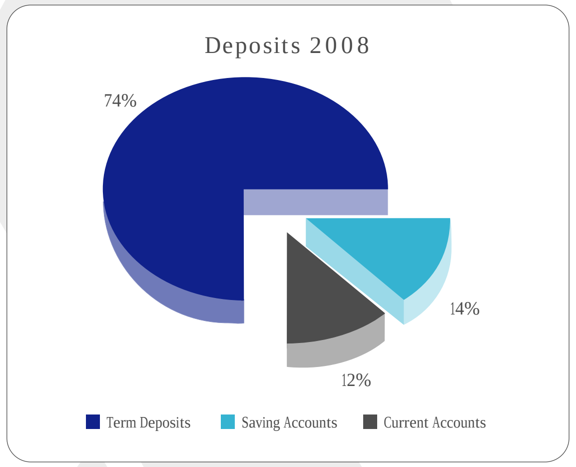
Six Years' Performance Highlights

December 31		2004 Restated	2005	2006 Restated	2007	2008	2009
				Rs. in Millions			
Financial Ratios							
Return on equity (RoE)	%	-4%	-38%	-37%	-34%	-13%	** -9%
Return on assets (RoA)	%	-1.04%	-7.36%	-6.60%	-9.18%	-4.00%	-2.95%
Profit before tax ratio (Profit before tax / Gross Income)	%	-39%	-404%	-5450%	-290%	-125%	-140%
Gross spread ratio	%	42%	14%	-14%	29%	39%	36%
Return on capital employed (ROCE)	%	-4%	-38%	-37%	-34%	-13%	** -9%
Advances to deposits ratio (ADR)	%	79%	62%	43%	37%	63%	* 78%
Income to expense ratio	Times	1.0	0.36	0.02	0.53	0.54	0.52
Efficiency Ratio (cost to revenue)	%	104.0%	278.9%	4677.8%	188.5%	185.9%	191.1%
Growth in gross income	%	-10%	-14%	-92%	2942%	72%	-6%
Growth in net profit / (loss) after tax	%	-179%	-753%	21%	-125%	44%	20%
Total assets to shareholders' funds	Times	4.5	6.0	5.1	3.3	3.0	3.4
Intermediation cost ratio	%	5.2%	9.3%	11.8%	9.8%	13.4%	13.0%
NPL ratio	%	48.22%	38.89%	49.50%	26.35%	22.79%	22.09%
Net infection ratio	%	25.87%	13.28%	20.78%	1.74%	2.84%	1.87%
Share Information							
Earning Per Share (EPS)	Rs.	(0.54)	(3.36)	(2.21)	(1.82)	(0.85)	(0.68)
Market value per share - at the end of the year	Rs.	12.10	15.40	15.10	20.95	4.94	3.31
Market value per share - highest / lowest during the year	Rs.	16.60/9.50	18.50/9.10	19.0/7.75	25.10/14.60	21.50/3.55	7.00/2.60
Book value per share	Rs.	10.6	7.4	5.7	7.1	6.2	8.1
Other Information							
Non - performing loans (NPLs)	Rs. in millions	2,798	2,073	1,987	1,872	1,961	2,726
Number of employees	Nos.	334	495	709	1,224	1,026	787
Number of branches	Nos.	12	18	18	28	28	28

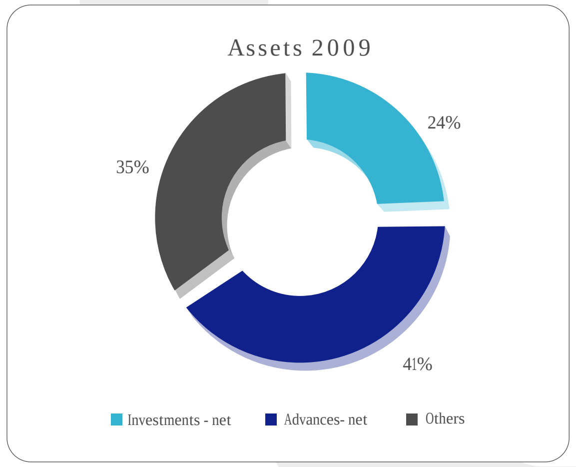
*ADR as per SBP BSD Circular No. 28 of 2008 dated Oct 26, 2008 is 43%.
**Equity also includes an amount of Rs. 2,189 million received as advance for issue of right shares in 2009.

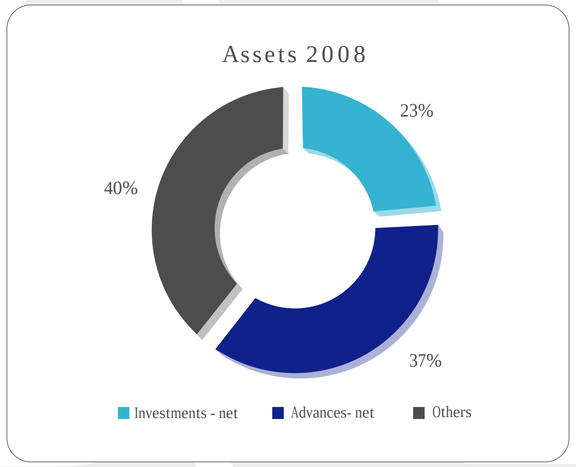
Deposit Mix (Percentage)

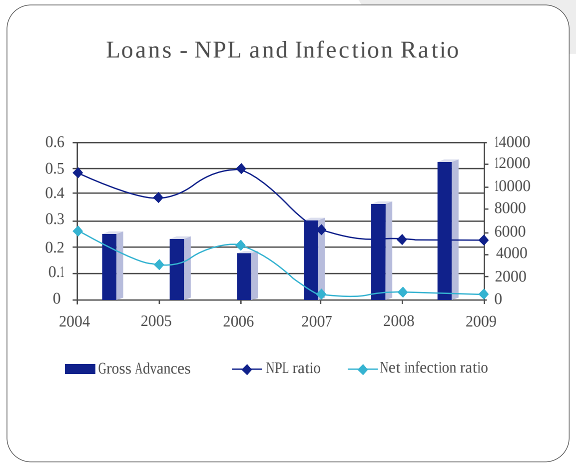


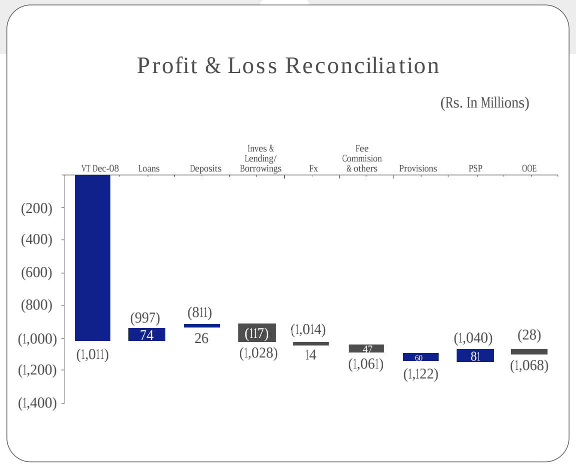


Assets Composition (Percentage)









Vertical and Horizontal Analysis

VERTICAL ANALYSIS

BALANCE SHEET

	2004	2005	2006	2007	2008	2009
Assets						
Cash and balances with treasury and other banks	10.3%	9.9%	11.2%	5.2%	6.7%	7.0%
Lending to financial institutions	5.0%	8.1%	6.0%	41.5%	14.0%	13.2%
Investments - Net	24.5%	22.5%	27.2%	19.1%	23.2%	24.5%
Advances - Net	37.9%	38.7%	29.3%	22.7%	37.4%	41.0%
Operating Fixed assets	7.1%	8.6%	10.3%	4.1%	7.0%	4.7%
Other assets - Net	15.2%	12.2%	15.9%	7.4%	11.6%	9.7%
Total assets - Net	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities						
Customer deposits	48.1%	62.2%	68.2%	61.2%	59.8%	52.8%
Borrowings	18.4%	13.1%	5.4%	0.9%	2.7%	13.2%
Bills payable	1.6%	0.6%	0.6%	5.1%	0.3%	0.3%
Other liabilities	9.9%	7.1%	6.5%	2.7%	4.1%	3.9%
Total Liabilities	77.9%	83.0%	80.7%	70.0%	66.9%	70.2%
Share capital, Advance for issue of shares and Reserves	22.2%	24.4%	34.4%	42.7%	53.4%	* 46.4%
Un-appropriated profit / (loss)	0.0%	-7.7%	-14.9%	-12.6%	-20.2%	-16.6%
Equity	22.2%	16.7%	19.5%	30.1%	33.2%	29.8%
Surplus on revaluation of assets	-0.1%	0.2%	-0.2%	-0.1%	-0.1%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

HORIZONTAL ANALYSIS

BALANCE SHEET

	2004	2005	2006	2007	2008	2009
Assets						
Cash and balances with treasury and other banks	100.0%	86.8%	83.6%	97.5%	101.0%	152.5%
Lending to financial institutions	100.0%	146.2%	92.8%	1611.0%	435.1%	587.4%
Investments - Net	100.0%	83.3%	85.9%	152.1%	147.6%	223.8%
Advances - Net	100.0%	92.7%	59.6%	116.8%	153.4%	242.1%
Operating Fixed assets	100.0%	111.0%	113.0%	114.1%	154.6%	148.5%
Other assets - Net	100.0%	73.2%	81.0%	95.1%	119.4%	143.1%
Total assets - Net	100.0%	90.8%	77.2%	195.0%	155.6%	224.0%
Liabilities						
Customer deposits	100.0%	117.5%	109.5%	248.3%	193.6%	245.9%
Borrowings	100.0%	64.7%	22.7%	9.4%	22.5%	161.4%
Bills payable	100.0%	33.8%	30.1%	628.0%	32.9%	46.3%
Other liabilities	100.0%	65.8%	50.7%	54.4%	64.4%	88.0%
Total Liabilities	100.0%	96.8%	80.0%	175.2%	133.6%	201.9%
Share capital, Advance for issue of shares and Reserves	100.0%	100.0%	119.6%	374.7%	374.7%	* 467.8%
Un-appropriated profit / (loss)	100.0%	-21337.2%	-35140.1%	-74710.7%	-96090.6%	-113162.4%
Equity	100.0%	68.4%	67.6%	264.1%	232.6%	300.4%
Surplus on revaluation of assets	100.0%	-197.2%	128.6%	163.7%	132.7%	-28.1%
	100.0%	90.8%	77.2%	195.0%	155.6%	224.0%

*Equity also includes an amount of Rs. 2,189 million received as advance for issue of right shares in 2009.

Statement of Value Addition

	2009	2008
	Rupees in '000	
Value Added		
Income from banking services	751,816	810,536
Cost of services	(655,709)	(677,158)
Value added by banking services	96,107	133,378
Non - banking income	10,177	1,590
Provision against non-performing assets	(373,929)	(313,464)
	(267,645)	(178,496)
Value Allocated		
to employees		
Salaries, allowances and other benefits	634,360	715,594
to Government		
Income tax	(475,371)	(269,130)
to providers of capital		
As dividends	-	-
to expansion and growth		
Depreciation / Amortization	166,419	117,351
Retained in business	(593,053)	(742,311)
	(267,645)	(178,496)

On behalf of the Board of Directors, I would like to present the annual report along with the financial statements of your bank for the year ending December 31, 2009.

After re-branding and integration with the Samba Financial Group (SFG), Kingdom of Saudi Arbia, the Bank focused on strategic and business priorities. Despite the challenges faced by the banking sector in 2009, the Bank grew its balance sheet, while effectively managing its cost of doing business.

Economic Highlights

Despite the Government's efforts in reducing external imbalances and managing inflation, the macroeconomic situation of the country remained under stress and the outlook reflects the same. Year 2010 is likely to be another challenging year for the Pakistan economy.

On the economic front, GDP is forecasted to grow by 3% in FY2010 compared to 2% in FY2009, with the higher cotton crop expected to positively impact the related sectors. Large scale manufacturing, although showing modest growth, remains vulnerable to infrastructure deficit, particularly power shortages. CPI inflation stands at 10.3% during the first half of the current fiscal year compared to 24.4% during H1-FY2009, allowing the SBP to ease the policy rate by a cumulative 150 basis points during H1-FY2010.

During H1- FY2009, current account deficit has declined to USD 2 billion from USD 7.8 billion, with workers' remittances growing to a record USD 4.5 billion during these six months. The overall balance of payments posted surplus of USD 1.4 billion compared to deficit of USD 4.8 billion in H1-FY2009. Exports are expected to be USD 19 billion in FY2010, a decline of 1% over the previous year, while the import bill is projected at USD 30.7 billion, a reduction of 3.2% over the previous year. Total Foreign Exchange reserves of the country are around USD 14.37 billion. The key risk to the external account is delay in official flows pledged by Friends of Democratic Pakistan (FoDP).

Issuance of Right shares at discount to meet minimum capital requirement

To comply with the minimum capital requirement of State Bank of Pakistan (SBP) of Rs. 6 billion and Rs. 7 billion for December 2009 and 2010 respectively, your Bank is in the process of injecting additional capital through issuance of right shares at the discounted price of Rs. 5.75 per share. With the approval of SBP, the advance against the right issue has been treated as Tier I capital for the purpose of compliance of minimum capital requirement of the Bank.

Bank Operating Results and Financial Review

	2009	2008
	Rupees in '000	
Operational loss before provisions and taxation	(694,495)	(697,977)
Provisions / direct write offs	(373,929)	(313,464)
Loss before taxation	(1,068,424)	(1,011,441)
Taxation	475,371	269,130
Loss after taxation	(593,053)	(742,311)
Accumulated loss brought forward	(3,336,267)	(2,593,956)
Accumulated loss carried forward	(3,929,320)	(3,336,267)
Loss per share - Rupees	(0.68)	(0.85)

Being the first year after the integration, priorities of the management were (a) to align the processes and procedures to SFG standards to facilitate success transfer; (b) to grow and change the composition of the deposit base and risk assets; and (c) to improve the business economics. The latter required taking certain difficult, but necessary decisions. All this was done to optimize operational efficiencies and position the Bank for growth and turn-around.

As part of the franchise building, your Bank introduced new products and plans to launch more exciting products and services. During 2009, your Bank introduced its current account product "Samba Sehal" and also finalized another innovative product "Samba Max", a saving account with flexibility to place funds in high yielding term deposits.

During 2009, the Bank registered after-tax loss of Rs. 593 million compared to Rs. 742 million in 2008. Net markup income of the Bank has decreased by 2% to Rs. 670 million, as compared to Rs. 687 million in 2008. The primary reason was the run off of the high yielding but high risk consumer loan portfolio. During the year, the management also focused on steady buildup of good quality corporate loans while managing the risk profile of the Bank through high credit risk standards. As a result, although consumer loan portfolio of the Bank decreased by Rs. 918 million, the overall loan book increased by Rs. 3.6 billion or 58% to Rs. 9.7 billion during the current year. Similarly, gross loan portfolio increased to Rs. 12.3 billion as compared to Rs. 8.6 billion in 2008.

To fund the growth of its asset base, your Bank successfully increased its deposit base by 27% in 2009 to Rs. 12.5 billion. Despite extreme pressure on deposit pricing, your Bank managed its cost of deposits by improving the deposit mix. This was achieved by shedding price-sensitive, lumpy and expensive deposits and replacing them with stable low cost deposits. A significant achievement of 2009 was the visible improvement in the deposit mix where the Current Account and Saving Account (CASA) proportion improved from 27% in December 2008 to 44% in December 2009.

Non Interest Income of the Bank registered a decrease of 26% mainly due to low dividend income on the legacy equity portfolio and one off income of Rs. 16 million recorded in 2008.

Despite the double digit inflationary environment and one-time cost of right sizing, your Bank maintained its operating cost almost at 2008 level.

Credit Rating

As a result of strong liquidity position and its strategic direction, your Bank's long term credit rating maintained as A (single A) whereas its short term rating remained as A-1 (A-One) as issued by JCR-VIS Credit Rating Agency. These long and short term ratings, respectively, denote the low credit risk due to the adequate credit quality with reasonable protection and strong capacity for timely payment of the financial commitments.

Statement of Internal Controls

The Board is pleased to endorse the management's statement on the evaluation of internal control which is included in the annual report.

Risk Management Framework

Your Bank mitigates the risks through a framework of sound risk management principles which includes an appropriate organizational structure, risk assessment, monitoring processes and various financial techniques to effectively manage business risks. Policies and procedures enable the Bank to effectively manage all aspects of Bank's business through an integrated planning and review process, through which the management also ensures a seamless oversight on the whole process. The Bank's business is exposed to four major risks namely Credit, Market, Liquidity and Operational. These risks are discussed in detail in notes 43 to the annexed financial statements.

Statement Under Code of Corporate Governance

The Board of Directors is aware of its responsibilities under the Code of Corporate Governance and is pleased to report and certify that:

- The financial statements prepared by the management of the Bank fairly present its state of affairs, the result of its operations, cash flows, and changes in equity;
- Proper books of accounts of the Bank have been maintained;
- Appropriate accounting policies have been consistently applied in the preparation of financial statements, except for the changes as mentioned in note 3.3 of the financial statement. Accounting estimates are based on reasonable and prudent judgment;
- International Accounting Standards, as applicable in Pakistan and adopted by State Bank of Pakistan, have been followed in preparation of the Bank's financial statements and departures, if any, have been adequately disclosed;
- The system of internal control is sound in design and has been effectively implemented;
- There are no doubts upon the Bank's ability to continue as a going concern;
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations;
- A summary of key operating and financial data for last six years is included in this Annual Report;
- A statement showing the Pattern of Shareholding in the Bank as at December 31, 2009 is annexed;
- Statement of Compliance with Code of Corporate Governance is annexed;

- In view of the loss for the year, no dividend is proposed to be paid for the year; and
- The financial statements of the Bank have been audited without qualification by auditors of the Bank, Messrs A. F. Ferguson & Company, Chartered Accountants.

Employee Benefits Scheme

The Bank operates a funded provident fund scheme covering all its permanent employees. The un-audited balance of the fund as at December 31, 2009 was Rs. 93.1 million.

Share Acquisitions By Directors & Executives

The Pattern of Shareholding and additional information regarding Pattern of shareholding is attached separately. No trade in the shares of the bank was carried out by the Directors, CEO, CFO and Company Secretary and their spouses and minor children, except that one of the directors, Mr. Zahid Zaheer, bought 500 qualifying shares of the Bank.

Meetings of The Board

Six Board meetings were held during the year under review. The Board granted leave of absence to the directors who did not attend any meetings. The number of meetings attended by each director is:

S. No.	Name	No. of Meetings Attended
1	Syed Sajjad Razvi	6
2	Mr. Tawfiq A. Husain	6
3	Mr. Beji Tak-Tak	5
4	Mr. Farhat Abbas Mirza	5
5	Mr. Javed Iqbal	6
6	Mr. Mubashar Hanif Khokhar (resigned)	2
7	Dr. Shujaat Nadeem	5
8	Mr. Zaki Abdulmohsen Al-Mousa	3
9	Mr. Zahid Zaheer	6

Auditors

The present auditors, Messrs A. F. Ferguson & Company, Chartered Accountants (local representative of Price Waterhouse Coopers), retired and being eligible, offered themselves for re-appointment. The Board of Directors, on the suggestion of the Audit Committee, recommended Messrs A. F. Ferguson & Company, Chartered Accountants for the next term.

Events after the Balance Sheet date

There have not been any material events that occurred subsequent to the date of the balance sheet that require adjustments to the enclosed financial statements.

Future Outlook

Overall economic outlook of the country is indicative of the inherent challenges it faces. Manufacturing sector will feel the impact of the persistent energy shortage and the rising costs. The key challenges facing the banking industry will be weaker revenues, rising cost of doing business and asset quality coming under stress.

Your Bank, with the support of its parent, continues to pursue its strategic objectives and aspirations. While monitoring the prevailing economic conditions, the main focus of the Bank would be to leverage on the building blocks put into place and steadily build up its earning assets, while effectively managing the associated risks and reducing its cost of funds through continued improvement in its deposit mix. This will be facilitated by delivery of world class banking services to our valued customers and by developing and introducing innovative banking products.

Acknowledgment

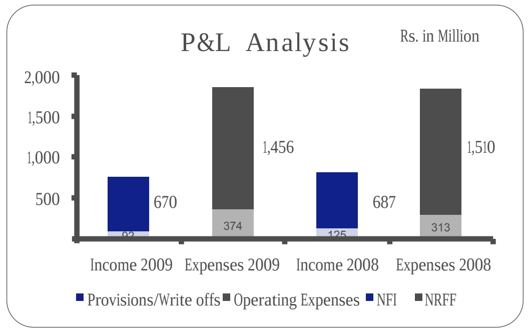
On behalf of the Board of Directors and management, I would like to express sincere gratitude to our customers, business partners and shareholders for their patronage and trust and to thank State Bank of Pakistan and other regulatory bodies for their continuous guidance and support. On behalf of the Board of Directors and the management, I wish to thank our employees for their continued commitment, enthusiasm, and teamwork.

On behalf of Board,

Tawfiq A. Husain
President and Chief Executive Officer

Dated: March 1, 2010
Karachi

Profit & Loss



During the year, the bank focused on building asset base with quality risk assets, while effectively managing its cost of funds. The bank was able to achieve the growth momentum by taking new initiatives and capitalizing on existing relationships. As a result, balance sheet size grew by Rs. 7.2 billion to Rs. 23.7 billion. Inspite of achieving asset growth of almost 44% over last year, the loss before tax for 2009 marginally increased by Rs. 57 million or 5.7% in the current year. The major reasons for this were the reduction in net markup income and non markup income and increase in provisions. However, the bank was successful in reducing its operating expenses owing to effective expense management. In addition, the bank was required to recognize deferred tax which was conservatively recorded at Rs. 475 million, as a result of which the loss after tax was reduced by 20% in 2009. The main focus of the bank would be to leverage on the building blocks put into place and steadily build up its earning assets while effectively managing the associated risks. The management is confident that benefits of the initiatives already taken and those that are in pipeline will convert into healthy returns for the bank in the years to come.

Net Mark-up / Interest Income

Net mark-up / interest income registered a marginal reduction of Rs. 17 million or 2.5% over 2008. The major contributing factors were gradual reduction in high yielding but also high risk consumer portfolio and decline in average yield on loans to 12.3% from 15.7% due to overall decline in market interest rates. The average cost of funds remained around 10% which is almost equal to last year level.

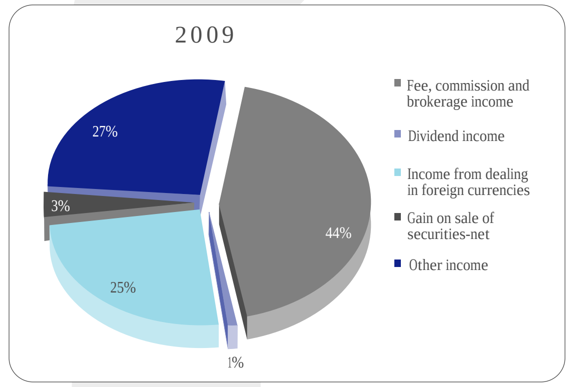
During 2009, mark-up / interest income grew by 6.9% to reach Rs. 1.9 billion. This growth was contributed by increase in income on investments by Rs. 308 million mainly due to significant increase in investments in government securities. The average yield on government securities was improved by 250 bps over last year, whereas the average investment in market treasury bills was Rs. 1.9 billion higher. Markup income on loans improved by Rs. 76 million or 9% mainly due to higher average loan volume by 25% in the current year.

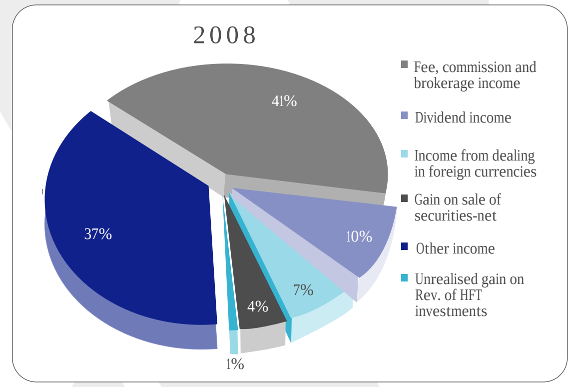
Mark-up / interest expense rose to Rs. 1.2 billion or 12.8% over 2008. The major reason for this increase was higher markup expense on interbank and State Bank borrowings which increased by Rs. 163 million over 2008.

However, the major achievement of the bank was the reduction in cost of deposits by Rs. 24 million or 2.7% over 2008, while increasing total deposit base of the bank to Rs. 12.5 billion or 27% over 2008. This is a significant achievement, especially when there has been severe rate pressure in the market on deposit pricing. This was achieved through focused effort by the management to improve the deposit mix and effectively replace high-priced and lumpy time deposits with low cost and stable deposits. As a result, the management successfully changed the deposit mix where the Current Account and Saving Account (CASA) proportion improved from 27% in December 2008 to 44% in December 2009.

Non Mark-up Income

The non mark-up / interest income declined by Rs. 33 million or 26.4% over 2008. This was due to decline in fees and commission income by Rs. 11 million, dividend income by Rs. 11 million, and other income by Rs. 22 million. This decline was slightly mitigated by increase of Rs. 14 million in income from dealing in foreign currencies as compared to 2008.



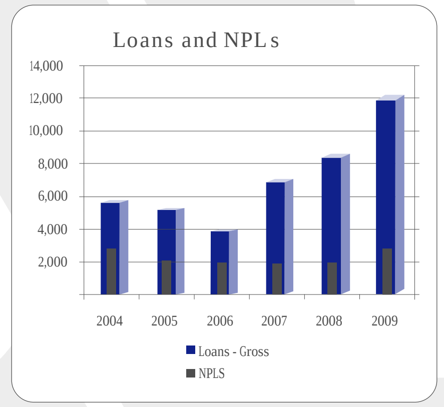


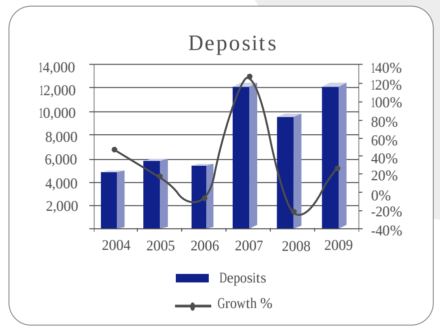
Operating Expenses

In spite of high inflationary environment and full year impact of the expenses of the new branches, the bank was successful in reducing its operating cost by Rs. 54 million or 3.6% over 2008. By recognizing the importance of effective expense management and its contribution in improving its business economics, the bank also managed to reduce its human resource cost by 11%. Similarly, focusing on other areas to bring operational efficiency, the management was able to reduce various categories of its operating expense items.

Loans Quality Analysis

The management focused on developing a high quality corporate loan portfolio, while aggressively addressing the deterioration in the consumer loan portfolio by streamlining and improving its collection and recovery efforts. All non-performing corporate loans which were infected, were adequately provided by the bank as its net infection ratio improved from 2.84% to 1.87% in 2009.



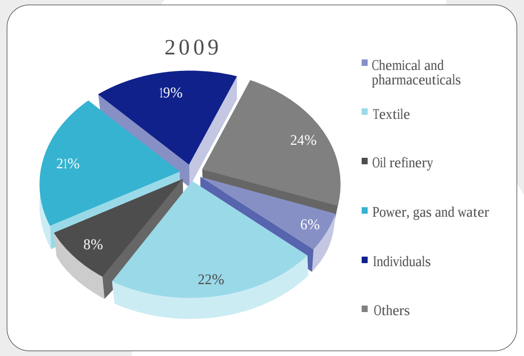


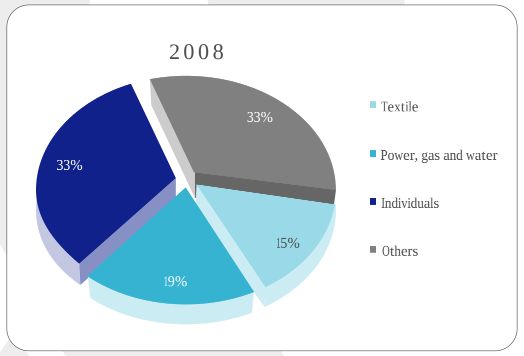
Deposits

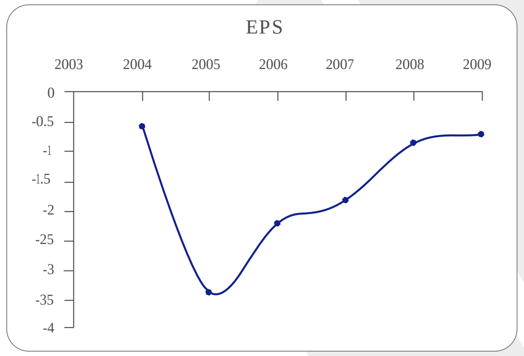
In line with the strategic direction of the bank, the management successfully improved the deposit mix and managed the funding cost. The management applied a two-pronged approach where price-sensitive deposits were gradually replaced either with current account or low cost stable saving accounts. At the same time, through aggressive deposit mobilization efforts, the bank managed to increase its total deposit base. This resulted in higher deposit base by Rs. 2.7 billion or 27% over 2008. The current accounts and savings accounts increased by Rs. 1.6 billion and 1.3 billion respectively, while the fixed deposits reduced by Rs. 842 million.

Loan Book

Despite challenging economic conditions and slowing credit offtake in the banking industry, your bank carefully built its corporate loan book and by year end managed to increase its gross loan book to Rs. 12.3 billion, up by 43.4% from Rs. 8.6 billion in 2008. This was the outcome of the continuous and focused efforts of the management to increase its earning risk assets base while rigorously managing the underlying risks. Major disbursements made during the year were in chemical, pharmaceuticals, textile, oil refinery and energy sectors.







Earnings per Share (EPS)

The loss per share of the bank for the year ended 2009 is Rs. 0.68 per share, showing an improvement by 20% from Rs. 0.85 per share registered in 2008.

Capital Adequacy

The bank's capital adequacy ratio as on December 31, 2009 is 57.04% as compared to 55.13% of 2008. The bank is in the process of issuing right shares against which the bank has already received Rs. 2.189 billion as advance against proposed issue of shares from its parent, Samba Financial Group. As approved by SBP, this amount is included in Tier I capital while computing the CAR.

Statement of Ethics and Business Practice

The Organization of Samba Bank Limited will be guided by the following principles in its pursuit of excellence in all activities for attainment of the organizational objectives:

As Director:

- Formulate and monitor the objectives, strategies and overall business plan of the Company.
- Oversee that the affairs of the Company are being carried out prudently within the framework of existing laws & regulations and high business ethics.
- Ensure compliance of legal and regulatory requirements.
- Protect the interest and assets of the Company.
- Maintain organizational effectiveness for the achievement of organizational goals.
- Foster a conducive environment through responsive policies.
- Ensure that the Company's interest supersedes all other interest.
- Transparency in the functioning of the Company.
- Ensure efficient and effective use of the Company's resources.

As Executives, Managers and Staff:

- Follow the policy guidelines strictly adhering to the rules and procedures as approved by the Board including Whistle Blowers Policy, Anti Money Laundering (AML) & Know Your Customer (KYC) Policies, Policies & Standard Practices, Fraud Management Policy & Procedures, IT Security Policy, Bond of Secrecy, Employee's Agreement respecting Security and Confidentiality of Information, Conflict of Interest, Patent and Confidential Information Agreement, Samba Bank Employee Information Security Guide and Staff Provident Fund Declaration.
- Strive and work diligently for profitable operations of the Company.
- Provide direction and leadership for the organization.
- Ensure client satisfaction through offering quality products and service.
- Promote a culture of excellence, conservation and continual improvement.
- Cultivate work ethics and harmony among colleagues and associates.
- Encourage initiatives and self-realization in employees.
- Ensure an equitable way of working and reward system.
- Institute commitment to healthy environment.
- Productive devotion of time and efforts.
- Promote and protect the interest of the Company and ensure that the company's interest supersedes all other interest.
- Exercise prudence in using the Company's resources.
- Observe cost effective practices in daily activities.
- Strive for excellence and quality.
- Avoid making personal gains (other than authorized salary and benefits) at the company's expense, participating in or assisting activities which compete with those of Samba Bank Limited.
- Appreciate, encourage and create succession in related area(s) of work.

Financial Integrity:

- Compliance with accepted accounting rules and procedures.
- In addition to being duly authorized, all transactions must be properly and fully recorded. No record entry or document may be false or misleading and no undisclosed and unrecorded account, fund or asset may be established or maintained. No corporate payment may be requested, approved or made with the intention that any part of such payment is to be used for any purpose other than as described in the document supporting it.
- All Information supplied to the auditors must be complete and not misleading.
- Samba Bank Limited will not knowingly assist fraudulent activities by others.

Statement of Internal Controls

The management is responsible for establishing and maintaining adequate controls designed to provide reasonable assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. Development of internal control system is an ongoing process. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The responsibility of adherence to controls mainly lies with the business where the risk arises. For monitoring the effectiveness of internal control system, the bank has set roles for certain functions such as internal audit, compliance and control and operations risk unit. Internal audit periodically carries out audits for branches and various departments to monitor compliance with the bank's standards. Compliance ensures that the bank follows all regulatory requirements and Know Your Customer / Anti Money Laundering policies. A Control and Operations Risk unit functions within Operations and periodically carries out quality assurance reviews of the processes and transactions of banking operations in order to ensure compliance of bank's policies and regulatory requirements. An accountability process is in place to ensure the effectiveness of the control environment. Management gives due consideration to the recommendations made by the internal and external auditors and regulators, especially for improvements in the internal control systems, and takes timely action to implement such recommendations.

To implement the Internal Control Guidelines as required by State Bank of Pakistan in BSD Circular No. 7 of 2004, the bank is already in the process of carrying out a detailed exercise including documentation and benchmarking of existing processes and controls relating to financial reporting on internationally accepted standards through consultants, with the appropriate expertise. This project will help in further improving the quality of internal controls across the bank and in ensuring compliance with the SBP requirement for external auditors' opinion and report on Board's endorsement regarding efficacy of Bank's internal control over financial reporting.

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

Tawfiq A. Husain
President and Chief Executive Officer

Dated: March 1, 2010
Karachi

Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2009

This statement is being presented to comply with the clause (xlv) and (xlvi) of the Code of Corporate Governance contained in Regulation No. 35 of Chapter XI and Regulation No. 36 of Chapter XII of Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited, Lahore Stock Exchange (Guarantee) Limited and Islamabad Stock Exchange (Guarantee) Limited, respectively, for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

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

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

3. All the resident Directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non-banking Financial Institution. None of the resident Directors are a member of any of the stock exchanges on which the Bank's shares are listed.

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

5. The Bank has prepared a "Statement of Ethics & Business Practices", which is circulated and signed every year by all the Directors and employees of the Bank.

6. The Board has developed a vision / mission statement, while corporate strategies and significant policies of the Bank have been made with appropriate delegation of authorities and responsibilities to various levels of management. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

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

8. All the meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated in time.

9. The Directors have been provided with the copies of the Listing regulations of the Stock Exchange, the Bank's Memorandum and Articles of Association and the Code of Corporate Governance. All the Directors are well conversant with their duties and responsibilities and affairs of the Bank.

10. The Board has approved the appointment of the Chief Financial Officer and Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the Chief Executive Officer. The CFO is also working as Acting Company Secretary.

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

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

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

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

15. The Board has formed an Audit Committee. It comprises of three members. Two of them are non-executive Directors including the Chairman of the Committee.

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

17. The Board has set up an Internal Audit Function. The staff of the Internal Audit Department are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank. The Internal Audit Department is involved in the Internal Audit Function of the Bank on a full time basis.

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

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

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

Syed Sajjad Razvi
Chairman

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Seventh Annual General Meeting of Samba Bank Limited will be held at Hotel Beach Luxury, Karachi, on March 29, 2010 at 10.00 a.m. to transact the following business:

Ordinary Business:

1. To confirm the minutes of the Extra Ordinary General Meeting held on December 30, 2009.

2. To receive and consider the Balance Sheet and Profit & Loss Account together with the Directors' and Auditors' Report for the year ended December 31, 2009.

3. To appoint Auditors and fix their remuneration.

4. To elect eight directors as fixed by the Board in accordance with the provisions of section 178(1) of the Companies Ordinance 1984, for a period of three years commencing from March 30, 2010.

   The retiring directors are Messrs:

   1. Syed Sajjad Razvi
   2. Mr. Beji Tak-Tak
   3. Mr. Farhat Abbas Mirza
   4. Mr. Javed Iqbal
   5. Mr. Mubashar H. Khokhar (Resigned w.e.f. January 1, 2010)
   6. Dr. Shujaat Nadeem
   7. Mr. Zahid Zaheer
   8. Mr. Zaki Abdulmohsen Al-Mousa

5. Any other business with the permission of the Chair.

By Order of the Board

March 8, 2010
Karachi

Syed Ali Azfar Naqvi
Acting Company Secretary
& Chief Financial Officer

Notes:

1. Share Transfer Books of the Bank will remain closed from March 22, 2010 to March 29, 2010 (both days inclusive). Transfer received in order at Bank's Registrar, M/s Femco Associates (Pvt.) Limited, State Life Building No. 1-A, Ground Floor, I. I. Chundrigar Road, Karachi upto close of business on March 21, 2010 will be considered in time.

2. A member eligible to attend and vote at this meeting may appoint another member as his/her proxy to attend vote and speak at the meeting instead of him/her. Proxies, in order to be effective, must be received at the Bank's Registered Office, not less than 48 hours before the time for holding the meeting and must be duly stamped, signed and witnessed.

3. CDC account holders will be required to follow the under mentioned guidelines as laid down in Circular number 1 dated January 26, 2000 of the Securities and Exchange Commission of Pakistan for attending the meeting.

4. CDC shareholders, entitled to attend and vote at this meeting, must bring with them their Computerized National Identity Cards/Passport in original alongwith Participants' ID Numbers and their Account Numbers to prove his/her identity, and in case of Proxy, must enclose an attested copy of his/her CNIC or Passport.

5. In case of a corporate entity the Board of Directors' resolution/ power of attorney with the specimen signature of the nominee shall be submitted with the proxy form to the company, and the same shall be produced in original at the time of the meeting to authenticate the identity of the nominee.

6. Shareholders are requested to notify any change in their addresses to the Bank immediately.

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Samba Bank Limited ('the Bank') to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by State Bank of Pakistan, Regulation No. 35 of Chapter XI contained in the Listing Regulations issued by the Karachi Stock Exchange, the Lahore Stock Exchange and the Islamabad Stock Exchange where the Bank is listed.

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

As part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Bank's corporate governance procedures and risks.

Further, Sub-Regulation (xii a) of Listing Regulation No. 35 as notified by all the three stock exchanges on which the Bank is listed requires the Bank to place before the board of directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arms' length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the above requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2009.

A. F. Ferguson & Co.
Chartered Accountants

Dated: March 2, 2010
Karachi

Financial Statements
for the year ended Decemeber 31, 2009

Auditors' Report to the Members

We have audited the annexed balance sheet of Samba Bank Limited as at December 31, 2009 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the un-audited certified returns from the branches except for six branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes as stated in note 3.3 to the financial statements, with which we concur;

(ii) the expenditure incurred during the year was for the purpose of the bank's business; and

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

(c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2009, and its true balance of loss, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

A. F. Ferguson & Co.
Chartered Accountants
Engagement Partner: Salman Hussain

Dated: March 2, 2010
Karachi

Balance Sheet

As at December 31, 2009

	Note	2009	2008
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	6	961,280	774,575
Balances with other banks	7	707,912	331,201
Lendings to financial institutions	8	3,123,377	2,313,308
Investments - net	9	5,807,829	3,829,354
Advances - net	10	9,723,411	6,163,008
Operating fixed assets	11	1,112,169	1,157,689
Deferred tax asset - net	12	1,550,008	1,080,273
Other assets	13	748,140	837,928
		23,734,126	16,487,336
LIABILITIES			
Bills payable	15	78,127	55,349
Borrowings	16	3,141,284	437,949
Deposits and other accounts	17	12,520,633	9,859,537
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	18	279	420
Deferred tax liabilities		-	-
Other liabilities	19	918,143	671,927
		16,658,466	11,025,182
NET ASSETS		7,075,660	5,462,154
REPRESENTED BY:			
Share capital	20	8,769,517	8,769,517
Reserves		43,080	43,080
Advance share subscription money received against proposed issue of right shares	21	2,189,440	-
Accumulated loss		(3,929,320)	(3,336,267)
		7,072,717	5,476,330
Surplus / (deficit) on revaluation of assets - net of tax	22	2,943	(14,176)
		7,075,660	5,462,154
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 50 and Annexure 1 form an integral part of these financial statements.

President & Chief Executive Officer	Chairman	Director	Director

Profit and Loss Account

FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
		(Rupees in '000)	
Mark-up / return / interest earned	24	1,878,626	1,758,004
Mark-up / return / interest expensed	25	1,208,857	1,071,307
Net mark-up / return / interest income		669,769	686,697
Provision against loans and advances - net	10.4	229,278	217,601
Provision for diminution in the value of investments - net	9.3	14,172	94,927
Bad debts written-off directly / (recoveries against debts written-off)		(3,939)	-
		239,511	312,528
Net mark-up / return / interest income after provisions		430,258	374,169
Non mark-up / interest income			
Fee, commission and brokerage income		40,781	51,938
Dividend income		873	12,005
Income from dealing in foreign currencies		22,876	8,992
Gain on sale of securities - net	26	3,185	5,359
Unrealised gain on revaluation of investments classified as held for trading		-	872
Other income	27	24,509	46,263
Total non mark-up / interest income		92,224	125,429
		522,482	499,598
Non mark-up / interest expenses			
Administrative expenses	28	1,415,235	1,461,077
Other provisions / write offs - net	29	134,418	936
Other charges	30	41,253	49,026
Total non mark-up / interest expenses		1,590,906	1,511,039
		(1,068,424)	(1,011,441)
Extraordinary items		-	-
Loss before taxation		(1,068,424)	(1,011,441)
Taxation - Current year	31	-	-
- Prior years	31	-	-
- Deferred	31	(475,371)	(269,130)
		(475,371)	(269,130)
Loss after taxation		(593,053)	(742,311)
Accumulated loss brought forward		(3,336,267)	(2,593,956)
Accumulated loss carried forward		(3,929,320)	(3,336,267)
Loss per share (Rupees)	32	(0.68)	(0.85)

The annexed notes 1 to 50 and Annexure 1 form an integral part of these financial statements.

President & Chief Executive Officer	Chairman	Director	Director

Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2009

(Rupees in '000)

	2009	2008
Loss for the year	(593,053)	(742,311)
Items relating to other comprehensive income *	-	-
Total comprehensive income for the year	(593,053)	(742,311)

* Surplus / deficit on revaluation of 'Available for Sale' investments is required to be shown separately below equity as 'surplus / deficit on revaluation of assets' in accordance with the requirements specified by the State Bank of Pakistan. Accordingly, it has not been included in the Statement of Comprehensive Income.

The annexed notes 1 to 50 and Annexure 1 form an integral part of these financial statements.

President & Chief Executive Officer | Chairman | Director | Director

Cash Flow Statement

FOR THE YEAR ENDED DECEMBER 31, 2009

(Rupees in '000)

	Note	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(1,068,424)	(1,011,441)
Less: dividend income		(873)	(12,005)
		(1,069,297)	(1,023,446)
Adjustments for non-cash and other items:			
Depreciation		160,920	111,220
Amortisation of intangible assets		5,499	6,131
Provision against loans and advances - net		229,278	217,601
Finance charges on leased assets		-	893
Provision for diminution in the value of investments - net		14,172	94,927
Gain on sale of securities - net		(3,185)	(5,359)
Other provisions / write offs - net		134,418	936
Net gain on disposal of property and equipment		(10,177)	(1,590)
		530,925	424,759
		(538,372)	(598,687)
Decrease / (increase) in operating assets			
Lendings to financial institutions		(810,069)	6,252,528
Investments - held for trading securities		2,429,297	(2,428,112)
Advances		(3,784,681)	(1,687,496)
Other assets (excluding advance taxation)		73,135	(101,218)
		(2,092,318)	2,035,702
(Decrease) / increase in operating liabilities			
Bills payable		22,778	(1,001,529)
Borrowings from financial institutions		2,703,335	255,338
Deposits and other accounts		2,661,096	(2,785,401)
Other liabilities (excluding current taxation)		82,871	33,474
		5,470,080	(3,498,118)
		2,839,390	(2,061,103)
Income tax paid		(9,219)	(3,735)
Net cash inflow from / (outflow on) operating activities		2,830,171	(2,064,838)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(4,396,004)	2,452,545
Dividend income		873	12,005
Investments in operating fixed assets		(84,388)	(363,174)
Sale proceeds from disposal of property and equipment		23,324	6,155
Net cash (outflow on) / inflow from investing activities		(4,456,195)	2,107,531
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease obligations		-	(3,876)
Advance share subscription money received against proposed issue of right shares		2,189,440	-
Net cash inflow from (outflow on) / financing activities		2,189,440	(3,876)
Increase in cash and cash equivalents		563,416	38,817
Cash and cash equivalents at beginning of the year		1,105,776	1,066,959
Cash and cash equivalents at end of the year	33	1,669,192	1,105,776

The annexed notes 1 to 50 and Annexure 1 form an integral part of these financial statements.

President & Chief Executive Officer | Chairman | Director | Director

Statement of Changes in Equity
FOR THE YEAR ENDED DECEMBER 31, 2009

	Share capital	Capital reserve	Statutory reserve	Advance share subscription money received against proposed issue of right shares	Accumulated loss	Total
	(Rupees in '000)					
Balance as at December 31, 2007	8,769,517	20,935	22,145	-	(2,593,956)	6,218,641
Loss after taxation for the year ended December 31, 2008	-	-	-	-	(742,311)	(742,311)
Balance as at December 31, 2008	8,769,517	20,935	22,145	-	(3,336,267)	5,476,330
Loss after taxation for the year ended December 31, 2009	-	-	-	-	(593,053)	(593,053)
Advance share subscription money received against proposed issue of right shares - note 21	-	-	-	2,189,440	-	2,189,440
Balance as at December 31, 2009	8,769,517	20,935	22,145	2,189,440	(3,929,320)	7,072,717

The annexed notes 1 to 50 and Annexure 1 form an integral part of these financial statements.

President & Chief Executive Officer	Chairman	Director	Director

Notes to and forming part of the Financial Statements
FOR THE YEAR ENDED DECEMBER 31, 2009

1. STATUS AND NATURE OF BUSINESS

1.1 Samba Bank Limited (the bank) is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The bank is listed on all the stock exchanges of Pakistan. Its principal and registered office is located at 6th Floor, Sidco Avenue Centre, Maulana Deen Muhammad Wafai Road, Karachi. The bank is a subsidiary of SAMBA Financial Group of Saudi Arabia, which holds 68.42% shares of the bank as at December 31, 2009 (2008: 68.42%). The bank operates 28 branches (December 31, 2008: 28 branches) inside Pakistan.

1.2 JCR-VIS has determined the bank's long-term rating as 'A' and the short-term rating as 'A-1'.

1.3 In accordance with BSD Circular No 7 dated April 15, 2009, the minimum paid-up capital requirement (net of losses) for banks at December 31, 2009 is Rs 6 billion. The issued, subscribed and paid-up capital of the bank as at December 31, 2009 is Rs 8.770 billion while the bank has accumulated losses of Rs 3.929 billion as of this date. The shareholders of the bank have approved further issue of capital through issue of right shares aggregating to Rs 3.2 billion. The shares will be issued at a discounted value of Rs 5.75 per share. In connection with this issue, the bank has already received an amount of Rs 2.189 billion as advance shars subscription money against proposed issue of right shares. The State Bank of Pakistan through its letter BSD/BIA-2/201/05/2010 dated January 05, 2010 has permitted the bank to classify the received amount as Tier 1 capital of the bank. Consequent to the aforementioned permission and receipt of money, the capital of the bank (net of accumulated losses and after adjusting the effect of advance share subscription money received uptil December 31, 2009) as at December 31, 2009 is Rs 7.030 billion. The disclosure of this matter is given in note 20.3 to the financial statements.

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 has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by 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 (IFRSs) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the directives issued by the SECP and SBP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives prevail.

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 ' Financial Instruments: Disclosures' through its notification S.R.O 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

3.3 Changes in accounting policy and disclosures - standards, interpretations and amendments to published approved accounting standards that are effective in the current year

(a) IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period.

The bank has applied IAS 1 (revised) during the current period, and has accordingly changed its accounting policy to comply with the new requirements of IAS. The bank has elected to show elements of comprehensive income in a separate statement. The change in presentation has not affected the values of the net assets of the bank for either the current or any of the prior periods and there is no impact on the earnings per share.

(b) IAS 23 (Amendment) 'Borrowing costs' (effective from January 1, 2009). This standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. The bank has adopted the aforementioned amendments from January 1, 2009. The management of the bank believes that presently this amendment does not have any impact on the bank's financial statements.

(c) IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009).

- The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, which are not recognised. IAS 19 has been amended to be consistent.

The bank has adopted the aforementioned amendments from January 1, 2009. The management of the bank believes that this amendment does not have any impact on the bank's financial statements.

(d) IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The bank has adopted the aforementioned amendments from January 1, 2009. The management of the bank believes that presently this amendment does not have any impact on the bank's financial statements.

(e) IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The bank has adopted the aforementioned amendments from January 1, 2009. The management of the bank believes that this amendment does not have any impact on the bank's financial statements.

(f) IFRS 2 (Amendment), 'Share-based payment' (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The bank has adopted the aforementioned amendments from January 1, 2009. The management of the bank believes that presently this amendment does not have any impact on the bank's financial statements.

(g) There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or to have any significant effect on the bank's operations and are therefore not detailed in these financial statements.

3.4 IFRS 8 'Operating segments', (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the bank believes that as the SBP has defined the segment categorization in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8 and segment information disclosed in these financial statements is based on the requirements laid down by SBP.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the bank's accounting periods beginning on or after January 1, 2010:

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The bank will apply IFRIC 17 from 1 January 2010. At present, the management of the bank believes that the aforementioned amendment is not expected to have any impact on the bank's financial statements.

IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale' (effective on or after January 1, 2010). The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The bank will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the bank's financial statements.

There are certain other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 or later periods but are considered not to be relevant or to have any significant effect on the bank's operations and are, therefore, not disclosed in these financial statements.

3.6 Early adoption of standards

The bank did not early adopt new or amended standard in 2009.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments, foreign currency balances and commitments in respect of foreign exchange contracts and derivative financial instruments have been marked to market and are carried at fair value.

4.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgements in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 37 to these financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, balances with treasury banks, balances with other banks in current and deposit accounts, national prize bonds, if any, and any overdrawn nostro accounts.

5.2 Lendings to / borrowings from financial institutions

The bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

Sale of securities under repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued on a time proportion basis over the period of the contract and recorded as an expense.

Purchase of securities under resale agreements

Securities purchased under agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings. The difference between the purchase and contracted resale price is accrued on a time proportion basis over the period of the contract and recorded as income.

5.3 Investments

The bank classifies its investments as follows:

(a) Held for trading

These are securities, which are either acquired for generating a 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 making exists.

(b) Held to maturity

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

(c) Available for sale

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

(d) Associates

Associates are all entities over which the bank has significant influence but not control. Investment in associates is carried at cost.

All purchase and sale of investments that require delivery within the time frame established by regulation or market convention are recognised at the trade date. The trade date is the date on which the bank commits to purchase or sell the investment.

Investments are initially recognised at cost which includes transaction costs associated with the investments except for investments classified as 'held for trading', which are recognised at market value. Transaction costs for investments classified as 'held for trading' are recognised in the profit and loss account.

In accordance with the requirements specified by the SBP, quoted securities other than those classified as 'held to maturity' and 'investments in associates', are subsequently re-measured to market value. Investments classified as 'held to maturity' are carried at amortised cost whereas investment in associates are carried at cost, less accumulated impairment losses, if any. Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Surplus / deficit arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the balance sheet below equity. Surplus / deficit arising on revaluation of quoted securities which are classified as 'held for trading' is taken to the profit and loss account.

Impairment loss in respect of investments classified as 'available for sale' (except for term finance certificates) is recognised based on management's assessment of objective evidence of impairment as a result of one or more event that may have an impact on the estimated future cash flows of these investments. A significant or prolonged decline in the value of investment is also considered as an objective evidence of impairment. Provision for diminution in the value of term finance certificates is made as per the requirement of the Prudential Regulations issued by the SBP. In event of impairment of available for sale securities, the cumulative loss that had been recognised directly in surplus on revaluation of securities on the balance sheet below equity is removed thereof and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

Gain / loss on sale of investments is credited / charged to the profit and loss account currently.

5.4 Advances

Loans and advances

Advances are stated at cost less specific and general provisions. Specific provision for non-performing advances is determined keeping in view the bank's policy subject to the minimum requirement set out by the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. The bank also maintains general provision in respect of potential losses present in the portfolio which are not specifically identified. General provision against consumer financing portfolio is maintained as per the requirements set out in the Prudential Regulations issued by the SBP. Advances are written off when there is no realistic prospect of recovery.

Net investment in finance leases

Net investment in finance leases is stated at net of provisions made against non-performing leases.

Leasing arrangements in which the bank transfers substantially all risks and rewards incidental to the ownership of an asset to the lessee, are classified as finance leases. A receivable is recognised on commencement of the lease term at an amount equal to the present value of minimum lease payments including any guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease period so as to produce a constant periodic return on the outstanding net investment in lease.

Unrealised lease income in respect of non-performing finance leases is suspended in accordance with the Prudential Regulations issued by the SBP.

5.5 Fixed assets and depreciation

(a) Owned

Owned assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for capital work in-progress and freehold land.

Depreciation on operating fixed assets (excluding land which is not depreciated) is charged using the straight line method in accordance with the rates specified in note 11.2 to these financial statements after taking into account residual value, if significant. The assets' residual values and useful lives are reviewed and adjusted, if required, at each balance sheet date. Depreciation on additions is charged from the month the assets are available for use. No depreciation is charged in the month of disposal. Annual lease rentals are charged to income and premium paid at the time of renewal, if any, is amortised over the remaining period of lease.

Subsequent costs are included in the asset's carrying amount or 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 repair and maintenance are charged to the profit and loss account as and when incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains / losses on disposal of fixed assets, if any, are taken to the profit and loss account in the period in which they arise.

(b) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged applying the straight-line method over the useful life of the assets. Amortisation is calculated so as to write-off the assets over their expected economic lives at rates specific in note 11.3 to these financial statements. Amortisation is charged from the month in which the asset is available for use. No amortisation is charged for the month in which the asset is disposed off. The residual value, useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

Subsequent costs are included in the asset's carrying amounts or 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.

Intangible assets having an indefinite useful life are stated at acquisition cost. Provisions are made for permanent diminution in the value of assets, if any. Gains and losses on disposals, if any, are taken to the profit and loss account in the period in which they arise.

(c) Capital work in progress

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

(d) Leased assets

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Lease payments, if any, under operating leases are charged to income on a straight line basis over the lease term.

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and accumulated impairment losses, if any. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to the future periods.

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

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

5.6 Impairment

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

5.7 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credit and rebates, if any. The charge for current tax also includes adjustments, where considered necessary relating to prior years, which arises from assessments / developments made during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for taxation purposes. In addition, the bank also records deferred tax asset on available tax losses. Deferred tax is calculated using the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date.

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

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

The bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities which is adjusted against the related deficit / surplus in accordance with the requirements of the revised International Accounting Standard (IAS-12) dealing with income taxes.

5.8 Provisions

Provisions are recognised when the bank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimate.

5.9 Staff retirement benefits

(a) Defined contribution plan

The bank operates a contributory provident fund scheme covering all its permanent employees. Equal monthly contributions are made both by the bank and the employees in respect of this benefit.

(b) Compensated absences

The liability in respect of compensated absences of employees is accounted for in the period in which the absences accrue.

5.10 Borrowings / deposits and their cost

Borrowings / deposits are recorded at the proceeds received. Borrowing / deposits costs are recognised as an expense in the period in which these are incurred using the effective mark-up / interest rate method.

5.11 Proposed dividend and transfers between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the balance sheet date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of International Accounting Standard (IAS) 10, 'Events after the Balance Sheet Date' in the year in which they are approved / transfers are made.

5.12 Revenue recognition

- Mark-up income / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method except that mark-up / income / return on classified advances and investments is recognised on receipt basis in accordance with the requirements of the Prudential Regulations issued by the SBP. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the Prudential Regulations issued by the SBP, except where, in the opinion of the management, it would not be prudent to do so.

- Fee, commission and brokerage income is recognised on a time proportion basis.

- Dividend income from investments is recognised when the bank's right to receive the dividend is established.

- Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of the leased assets) is deferred and taken to income over the term of the lease so as to produce a constant periodic rate of return on the outstanding net investment in lease.

- Unrealised lease income in respect of non-performing finance leases is held in suspense account, where necessary, in accordance with the requirement of the SBP.

- Premium or discount on acquisition of debt investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.

- Gains / losses on termination of lease contracts, documentation charges, front end fee and other lease income are recognised as income when realised.

5.13 Foreign currency transactions

Foreign currency transactions are translated into Pakistani Rupees at the rates of exchange prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at exchange rates prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at the rates applicable to their respective maturities. Exchange gains or losses are included in the profit and loss account.

5.14 Functional and presentation currency

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

5.15 Segment reporting

The bank has structured its key business areas in various segments in a manner that each segment becomes a distinguishable component of the bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(a) Business segments

The business segments within the bank have been categorized into the following classifications of business segments in accordance with the requirements specified by the State Bank of Pakistan.

Corporate finance

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

Trading and sales

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

Retail banking

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

Commercial banking

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

(b) Geographical segments

The operations of the bank are currently based only in Pakistan.

5.16 Commitments

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

5.17 Acceptances

Acceptances comprise undertakings by the bank to pay bills of exchange drawn on customers. The bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

5.18 Earnings per share

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

5.19 Financial instruments

Financial assets and liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, other assets, bills payable, borrowings, deposits and other accounts. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

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 fair value. All derivative financial instruments are carried as assets when 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.

Off-setting

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

(Rupees in '000)

6. CASH AND BALANCES WITH TREASURY BANKS	Note	2009	2008
In hand			
Local currency		163,287	140,102
Foreign currency		73,221	38,449
		236,508	178,551
With State Bank of Pakistan in			
Local currency current account	6.1	518,205	508,775
Foreign currency current account	6.2	57,039	26,185
Foreign currency deposit account	6.2	149,528	61,064
		724,772	596,024
		961,280	774,575

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

6.2 This represents foreign currency cash reserve maintained with the SBP at an amount equivalent to at least 20% of the bank's foreign currency deposits mobilised under FE-25 scheme. The foreign currency cash reserve comprises an amount equivalent to at least 5% of the bank's foreign currency deposits mobilised under the FE 25 scheme, which is kept in a non-remunerative account. The balance reserve equivalent to at least 15% of the bank's foreign currency deposits mobilised under FE-25 scheme is maintained in a remunerative account on which the bank is entitled to earn a return which is declared by the SBP on a monthly basis. During the year the SBP has not remunerated any return on deposit account (2008: 0.90% per annum to 3.60% per annum).

7. BALANCES WITH OTHER BANKS

	Note	2009	2008
		(Rupees in '000)	
In Pakistan			
On current account		4,538	12,367
Outside Pakistan			
On current account		703,374	318,834
		707,912	331,201

8. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2009	2008
Call money lendings	8.2	1,450,000	1,250,000
Repurchase agreement lendings (reverse repo)	8.3	1,673,377	1,063,308
		3,123,377	2,313,308

8.1 All lendings to financial institutions are in local currency.

8.2 These represent lendings to various commercial banks in the inter bank money market. These lendings carry mark-up at the rates ranging from 11.80% to 12.90% per annum (2008: 15.00% to 15.40% per annum) and have a maturity period of upto six months (2008: three months) from the date of lending.

8.3 Securities held as collateral against lendings to financial institutions

(Rupees in '000)

Particulars	2009			2008		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
Market treasury bills - note 8.3.1	1,673,377	-	1,673,377	1,063,308	-	1,063,308

8.3.1 These represent short-term lendings to financial institutions against investment securities. These carry mark-up at rates ranging from 12.00% to 12.40% per annum (2008: 12.85% to 14.90% per annum) and have a maturity period of upto one month (2008: upto one month).

9. INVESTMENTS - NET

(Rupees in '000)

9.1 Investments by type	2009			2008		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
Held for trading securities						
Market Treasury Bills	-	-	-	2,427,240	-	2,427,240
Available for sale securities						
Market Treasury Bills	3,672,991	1,535,053	5,208,044	599,251	197,784	797,035
Pakistan Investment Bonds	115,224	-	115,224	113,514	-	113,514
Sukuk Bond	10,000	-	10,000	10,000	-	10,000
Ordinary shares and certificates - listed	123,707	-	123,707	123,707	-	123,707
Ordinary shares - unlisted	65,409	-	65,409	65,409	-	65,409
Preference shares - listed	10,000	-	10,000	10,000	-	10,000
Units of open-end mutual fund - listed	-	-	-	10,000	-	10,000
	3,997,331	1,535,053	5,532,384	931,881	197,784	1,129,665
Held to maturity securities						
Pakistan Investment Bonds	320,071	-	320,071	324,786	-	324,786
Associates						
Ordinary shares and certificates- listed - note 9.5.3	371,470	-	371,470	371,470	-	371,470
Investments at cost	4,688,872	1,535,053	6,223,925	4,055,377	197,784	4,253,161
Less: provision for diminution in the value of investments - note 9.3	(416,424)	-	(416,424)	(402,252)	-	(402,252)
Investments (net of provisions)	4,272,448	1,535,053	5,807,501	3,653,125	197,784	3,850,909
Deficit / (surplus) on revaluation of available for sale securities - net - note 22	(759)	1,087	328	(21,698)	(729)	(22427)
Surplus on revaluation of held for trading securities	-	-	-	872	-	872
Total investments - net of provision	4,271,689	1,536,140	5,807,829	3,632,299	197,055	3,829,354

(Rupees in '000)

	Note	2009	2008
9.2 Investments by segment			
Federal government securities	9.9		
Market Treasury Bills		5,208,044	3,224,275
Pakistan Investment Bonds		435,295	438,300
Sukuk Bond		10,000	10,000
		5,653,339	3,672,575
Fully paid-up ordinary shares			
Listed companies	9.5	495,177	495,177
Unlisted companies	9.6	65,409	65,409
		560,586	560,586
Fully paid-up preference shares			
Listed companies	9.7	10,000	10,000
Other investments			
Units of open-end mutual funds	9.8	-	10,000
Investments at cost		6,223,925	4,253,161
Less: Provision for diminution in the value of investments	9.3	(416,424)	(402,252)
Investments (net of provisions)		5,807,501	3,850,909
Surplus / (deficit) on revaluation of available for sale securities - net	22	328	(22,427)
Surplus on revaluation of held for trading securities		-	872
Total investments - net of provision		5,807,829	3,829,354

9.3 Particulars of provision for diminution in the value of investments

	Note	2009	2008
Opening balance		402,252	329,483
Charge for the year		14,172	112,939
Reversals during the year		-	(18,012)
Amounts written off		-	(22,158)
Closing balance		416,424	402,252

9.3.1 Particulars of provision for diminution in the value of investments by type

	Note	2009	2008
Available for sale securities			
Ordinary shares - listed		104,460	104,460
Ordinary shares - unlisted	9.6	55,409	55,409
		159,869	159,869
Associates			
Ordinary shares and certificates - listed	9.5.2	256,555	242,383
		416,424	402,252

9.3.2 Particulars of provision for diminution in the value of investments by segment

	Note	2009	2008
Fully paid-up ordinary shares			
Listed companies	9.5	361,015	346,843
Unlisted companies	9.6	55,409	55,409
		416,424	402,252

9.4 Quality of available for sale securities

	Note	2009 Market value Rupees in '000	2009 Rating (where available)	2008 Market value Rupees in '000	2008 Rating (where available)
Market Treasury Bills		5,209,143	-	795,925	-
Pakistan Investment Bonds		106,655	-	91,049	-
Sukuk Bond		10,000	-	10,000	-
Ordinary shares - listed					
Bankers Equity Limited	9.4.1	-	-	-	-
B.R.R. Guardian Modaraba		805	A-	991	A
JS Value Fund Limited		4,903	5-star	3,918	5-star
ECOPACK Limited		2,590	-	2,695	-
Fauji Cement Company Limited		1,072	-	818	-
First Dawood Mutual Fund		70	4-star	90	4-star
First Tawakkal Modaraba	9.4.1	-	-	-	-
Haji Muhammad Ismail Mills Limited		1,512	-	1,704	-
Hamid Textile Mills Limited		-	-	732	-
Islamic Investment Bank Limited	9.4.1	-	-	-	-
Nazir Cotton Mills Limited		615	-	1,229	-
Pakistan PVC Limited		5,192	-	27,920	-
Tristar Shipping Lines Limited	9.4.1	-	-	-	-
UTP - Large Capital Fund		15,509	5-star	7,754	5-star
WorldCall Telecom Limited		1,591	A-	1,277	A+
Ordinary shares - unlisted*					
Crescent Bahuman Limited		-	-	-	-
Crescent Industrial Chemical Limited		-	-	-	-
Crescent Powertech Limited		-	-	-	-
ICEPAC Limited		-	-	-	-
Pak Asian Fund Limited		10,000	-	10,000	-
Union Communication (Private) Limited		-	-	-	-
Vision Network Television Limited		-	-	-	-
Preference shares - listed					
Shakarganj Mills Limited		8,990	-	10,200	-
Open-end mutual funds - listed					
HBL - Income Fund		-	-	10,948	-

* Represents book value net of provision

9.4.1 These are listed securities for which no market quotation was available at the year end.

9.5 Particulars of investments held in listed securities

Number of ordinary shares / certificates 2009	Number of ordinary shares / certificates 2008	Paid-up value per share / certificate in Rupees	Name of investee company / modaraba / mutual fund	2009 (Rupees in '000)	2008 (Rupees in '000)
			Available for sale		
400	400	10	Bankers Equity Limited	-	-
314,500	314,500	10	B.R.R. Guardian Modaraba (Management Company: B.R.R. Investment (Private) Limited)	1,906	1,906
872,500	872,500	10	JS Value Fund Limited	9,082	9,082
549,910	549,910	10	ECOPACK Limited	15,761	15,761
174,000	174,000	10	Fauji Cement Company Limited	2,784	2,784
41,500	41,500	10	First Dawood Mutual Fund	341	341
36,500	36,500	10	First Tawakkal Modaraba	104	104
1,008,225	1,008,225	10	Haji Muhammad Ismail Mills Limited	9,362	9,362
1,125,406	1,125,406	10	Hamid Textile Mills Limited	2,757	2,757
60,581	60,581	10	Islamic Investment Bank Limited	285	285
4,097,499	4,097,499	10	Nazir Cotton Mills Limited	29,014	29,014
1,153,725	1,153,725	10	Pakistan PVC Limited	12,871	12,871
131,000	131,000	10	Tristar Shipping Lines Limited	12	12
3,371,500	3,371,500	10	UTP Large Capital Fund	35,105	35,105
430,100	430,100	10	World Call Telecom Limited	4,323	4,323
				123,707	123,707
			Associates		
26,808,938	26,808,938	10	Asian Stocks Fund Limited (holding 29.79%) - note 9.5.1 & 9.5.3	268,089	268,089
17,439,000	17,439,000	10	Zahoor Textile Mills Limited (holding 23.36%)	103,381	103,381
				495,177	495,177
			Less: Provision for diminution in the value of investments	(361,015)	(346,843)
			Surplus on revaluation of listed securities	8,807	-
				142,969	148,334

9.5.1 The market value of the bank's investment in Asian Stocks Fund Limited as at December 31, 2009 amounted to Rs 109.917 million (2008: Rs 165.411 million).

9.5.2 Investments in associates of the bank have been carried at cost less accumulated impairment losses, if any, under the guidelines provided in BSD Circular No 11 dated August 04, 2004. During the current period, an impairment loss amounting to Rs 14.172 million (2008: Rs. 46 million) has been charged to the profit and loss account in respect of the bank's investment in an associate.

9.5.3 Investments in Asian Stocks Fund Limited

Number of shares / units 2009	Number of shares / units 2008		(Rupees in '000) 2009	(Rupees in '000) 2008
26,808,938	26,808,938	Asian Stocks Fund Limited Percentage of holding : 29.79% Net Asset Value per unit: Rs. 7.47 Date of reviewed financial statements : September 30, 2009 Investment Adviser: Safeway Fund Limited (Paid-up value of each unit is Rs. 10)	268,089	268,089

9.5.3.1 Particulars of the assets and liabilities

(Rupees in '000)

	Assets	Liabilities	Revenue	Profit/ (Loss)
2009 Asian Stock Funds Limited	674,976*	1,752*	239,361***	167,402***
2008 Asian Stock Funds Limited	431,966**	5,389**	(293,774)****	(316,791)****

* as at September 30, 2009
** as at December 31, 2008
*** for the period from January 1, 2009 to September 30, 2009
**** for the period from January 1, 2008 to December 31, 2008

9.6 Particulars of investments held in unlisted securities

Number of ordinary shares / certificates 2009	Number of ordinary shares / certificates 2008	Break-up value per share in Rupees 2009	Break-up value per share in Rupees 2008	Based on the latest available financial statements as at	% holding	Name of investee company / fund	2009 (Rupees in '000)	2008 (Rupees in '000)
						Available for Sale Shareholding upto 10%		
250,000	250,000	88.13	88.13	June 2008	5.00%	Crescent Powertech Limited (Chief Executive Officer: Mr. Ahsan Bashir)	2,500	2,500
1,000,000	1,000,000	15.69	16.92	June 2009	8.89%	Pak Asian Fund Limited (Chief Executive Officer: Mr. Ashfaq Ahmed Berdi)	10,000	10,000
50,000	50,000	11.10	11.10	June 2007	0.33%	Union Communication (Private) Limited (Chief Executive Officer: Mr. Khalid Mehmood)	500	500
700,559	700,559	0.98	2.43	June 2009	0.76%	Vision Network Television Limited (Chief Executive Officer: Mr. Zafar Siddiqui)	7,010	7,010
3,184,600	3,184,600	(9.95)	(9.95)	June 2008	3.90%	Crescent Bahuman Limited (Chief Executive Officer: Mr. Nasir Shafi)	31,846	31,846
1,000,000	1,000,000	10.00	10.00	June 2008	0.97%	Crescent Industrial Chemicals Limited (Chief Executive Officer: Mr. Tariq Shafi)	10,000	10,000
						Shareholding exceeding 10%		
355,330	355,330	4.49	(3.35)	June 2009	11.56%	ICEPAC Limited (Chief Executive Officer: Ms. Shala Riza Arifeen)	3,553	3,553
							65,409	65,409
						Provision for diminution in the value of investments	(55,409)	(55,409)
							10,000	10,000

9.7 Particulars of investments held in preference shares - listed

Number of shares 2009	Number of shares 2008	Paid up value per share in Rupees 2009	Paid up value per share in Rupees 2008	Name of investee company	2009 (Rupees in '000)	2008 (Rupees in '000)
				Available for Sale		
1,000,000	1,000,000	10	10	Shakarganj Mills Limited	10,000	10,000
				(Deficit) / surplus on revaluation of available for sale preference shares	(1,010)	200
					8,990	10,200

9.7.1 These are redeemable after five years of issuance / allotment, subject to conversion option exercisable by the bank. These carry preference dividend at the rate of 8.5 percent per annum on cumulative basis.

9.8 Particulars of investments held in open ended mutual funds

2009	2008	Nominal value per unit in Rupees	Name of fund	2009	2008
Number of units				(Rupees in '000)	
-	115,242	100	HBL - Income Fund	-	10,000
			Surplus on revaluation of securities	-	948
				-	10,948

9.9 Particulars of Federal government securities

Market Treasury Bills have a tenor of upto one year. The yield on these instruments ranges from 11.65 percent to 13.89 percent per annum (2008: 9.73 percent to 13.85 percent per annum) with maturities of upto September 09, 2010 (2008: upto March 12, 2009).

Pakistan Investment Bonds are for periods of 10 years. These securities carry profits ranging from 8 percent to 9 percent per annum (2008: 8 percent to 9 percent per annum) with maturities from June 30, 2013 to April 29, 2014 (2008: June 30, 2013 to April 29, 2014).

Sukuk Bond is for a period of three years (2008: 3 years). It carries profit at the latest weighted average yield of the 6 month Market Treasury Bills determined on day prior to the start of each 6 month rental period with the maturity upto September 26, 2011 (2008: upto September 26, 2011).

9.10 Investments include certain approved / government securities which are held by the bank to comply with the statutory liquidity requirements determined on the basis of the bank's demand and time liabilities as set out under the Banking Companies Ordinance, 1962.

(Rupees in '000)

10. ADVANCES - NET	Note	2009	2008
Loans, cash credits, running finances, etc.			
In Pakistan		11,605,399	7,766,435
Net investment in finance leases			
In Pakistan	10.2	567,821	705,510
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		119,372	133,944
Payable outside Pakistan		50,768	-
Advances - gross		12,343,360	8,605,889
Provision against advances - specific and general	10.4	(2,619,949)	(2,442,881)
Advances - net of provision		9,723,411	6,163,008
10.1 Particulars of advances - gross			
10.1.1 In local currency		12,292,592	8,605,889
In foreign currency		50,768	-
		12,343,360	8,605,889
10.1.2 Short-term (upto one year)		6,675,168	2,440,569
Long-term (over one year)		5,668,192	6,165,320
		12,343,360	8,605,889

10.2 Net investment in finane leases

(Rupees in '000)

	2009				2008			
	Not later than one year	Later than one year and less than five years	Over five years	Total	Not later than one year	Later than one year and less than five years	Over five years	Total
Lease rentals receivable	79,391	211,232	180,393	471,016	138,527	269,624	172,522	580,673
Residual value	53,143	5,894	45,543	104,580	58,403	29,364	51,296	139,063
Minimum lease payments	132,534	217,126	225,936	575,596	196,930	298,988	223,818	719,736
Finance charge for future periods	(6,806)	-	(969)	(7,775)	(6,408)	(5,823)	(1,995)	(14,226)
Present value of minimum lease payments	125,728	217,126	224,967	567,821	190,522	293,165	221,823	705,510

10.3 Advances include Rs 2,726.295 million (2008: Rs 1,961.143 million) which have been placed under non-performing status and Rs Nil (2008: Rs 533.161 million) placed under the special mention category as detailed below:

(Rupees in '000)

Category of classification	2009								
	Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Classified portfolio									
Substandard	158,112	-	158,112	38,177	-	38,177	38,177	-	38,177
Doubtful	9,341	-	9,341	4,671	-	4,671	4,671	-	4,671
Loss	2,558,842	-	2,558,842	2,501,869	-	2,501,869	2,501,869	-	2,501,869
	2,726,295	-	2,726,295	2,544,717	-	2,544,717	2,544,717	-	2,544,717
Special Mention Category - Note 10.3.1	-	-	-	-	-	-	-	-	-
	2,726,295	-	2,726,295	2,544,717	-	2,544,717	2,544,717	-	2,544,717

(Rupees in '000)

Category of classification	2008								
	Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Classified portfolio									
Substandard	174,607	-	174,607	55,646	-	55,646	55,646	-	55,646
Doubtful	464	-	464	232	-	232	232	-	232
Loss	1,786,072	-	1,786,072	1,730,295	-	1,730,295	1,730,295	-	1,730,295
	1,961,143	-	1,961,143	1,786,173	-	1,786,173	1,786,173	-	1,786,173
Special Mention Category - Note 10.3.1	533,161	-	533,161	533,161	-	533,161	533,161	-	533,161
	2,494,304	-	2,494,304	2,319,334	-	2,319,334	2,319,334	-	2,319,334

10.3.1 This represented a restructured facility allowed to a customer which was placed under 'Special Mention Category' as per the State Bank of Pakistan's letter number BID (Insp) / 3333 / 71-25-2006 dated December 26, 2006. The management had maintained full provision of Rs 533.161 million (2008: Rs 533.161 million) against outstanding balance of the customer. During the current year, the management has transferred the outstanding balance of the customer to the loss portfolio of the bank.

10.3.2 The State Bank of Pakistan vide BSD circular No. 10 of 2009 dated October 20, 2009 has allowed banks to avail the benefit of 40% of the forced sales values of certain collaterals held by them while determining provisioning requirement against non-performing loans and advances. However, on account of prudence, the management has not considered any benefit of the collaterals held by it while determining provisioning requirements as at December 31, 2009.

10.4 Particulars of provision against advances

(Rupees in '000)

	Note	2009 Specific	2009 General	2009 Total	2008 Specific	2008 General	2008 Total
Opening balance		2,319,334	123,547	2,442,881	2,292,023	120,302	2,412,325
Charge for the year		337,784	12,065	349,849	353,540	10,942	364,482
Reversals		(60,191)	(60,380)	(120,571)	(139,184)	(7,697)	(146,881)
		277,593	(48,315)	229,278	214,356	3,245	217,601
Amounts written off	10.5	(47,210)	-	(47,210)	(187,045)	-	(187,045)
Adjustments	10.4.3	(5,000)	-	(5,000)	-	-	-
Closing balance		2,544,717	75,232	2,619,949	2,319,334	123,547	2,442,881

10.4.1 General provision includes provision amounting to Rs 54.415 million (2008: Rs 113.795 million) against consumer finance portfolio as required by the revised Prudential Regulations issued by State Bank of Pakistan. General provision also includes provision amounting to Rs 20.817 million (2008: Rs 9.752 million) made in respect of potential losses present in the portfolio but not specifically identified and has been determined on the basis of management's best estimate

10.4.2 Particulars of provisions against advances

(Rupees in '000)

	2009 Specific	2009 General	2009 Total	2008 Specific	2008 General	2008 Total
In local currency	2,544,717	75,232	2,619,949	2,319,334	123,547	2,442,881

10.4.3 This represents provision against off-balance sheet exposure of a customer which has been reclassified and shown as a part of other liabilities.

10.5 Particulars of write-offs

(Rupees in '000)

	Note	2009	2008
10.5.1 Against provisions	10.4	47,210	187,045
10.5.2 Write-offs of Rs 500,000 and above	10.6	40,571	15,075
Write-offs of below Rs 500,000		6,639	171,970
		47,210	187,045

10.6 Details of loan write-off of Rs 500,000/- and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person during the year ended December 31, 2009 is given in Annexure-1 to these financial statements. These loans are written off as a book entry without prejudice to the Bank's right of recovery against the customers.

(Rupees in '000)

	Note	2009	2008
10.7 Particulars of loans and advances to executives, directors, associated companies, etc.			
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons - note 10.7.1			
Balance at beginning of the year		295,529	224,460
Loans granted during the year		108,714	203,329
Repayments during the year		(120,070)	(132,260)
Adjustment during the year		(14,156)	-
Balance at end of the year		270,017	295,529
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of the year		-	-
Loans granted during the year		-	-
Repayments during the year		-	-
Balance at end of the year		-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		45,500	45,500
Loans granted during the year		-	-
Repayments during the year		-	-
Balance at end of the year		45,500	45,500
		315,517	341,029

10.7.1 These include loans provided to employees as per the bank's policy.

11. OPERATING FIXED ASSETS

	Note	2009	2008
Capital work-in-progress	11.1	19,502	37,657
Property and equipment	11.2	1,076,829	1,104,668
Intangible assets	11.3	15,838	15,364
		1,112,169	1,157,689

	2009	2008
11.1 Capital work-in-progress		
Civil works	8,585	35,141
Equipment	10,917	2,516
	19,502	37,657

11.2 Property and equipment

2009

Description	Cost: Balance as at January 1, 2009	Cost: Additions	Cost: Transfers	Cost: Disposals	Cost: Balance as at December 31, 2009	Accumulated depreciation: Balance as at January 1, 2009	Accumulated depreciation: Charge for the year	Accumulated depreciation: Transfers	Accumulated depreciation: Disposals	Accumulated depreciation: Balance as at December 31, 2009	Net book value as at December 31, 2009	Rate per annum
	(Rupees in '000)											%
Owned:												
Freehold land	456,899	-	-	-	456,899	-	-	-	-	-	456,899	-
Buildings on freehold land	211,263	-	-	-	211,263	92,953	8,945	-	-	101,898	109,365	5
Furniture and fixtures	310,107	78,535	-	(1,856)	386,786	72,321	39,397	-	(1,744)	109,974	276,812	10
Electrical, office & computer equipment	429,337	61,677	-	(7,003)	484,011	205,846	102,183	-	(6,909)	301,120	182,891	20 / 33
Vehicles	101,074	6,016	1,884	(29,134)	79,840	34,084	10,258	1,470	(16,193)	29,619	50,221	20
	1,508,680	146,228	1,884	(37,993)	1,618,799	405,204	160,783	1,470	(24,846)	542,611	1,076,188	
Assets held under finance lease:												
Vehicles	3,822	-	(1,884)	-	1,938	2,630	137	(1,470)	-	1,297	641	20
	1,512,502	146,228	-	(37,993)	1,620,737	407,834	160,920	-	(24,846)	543,908	1,076,829	

2008

Description	Cost: Balance as at January 1, 2008	Cost: Additions	Cost: Transfers	Cost: Disposals	Cost: Balance as at December 31, 2008	Accumulated depreciation: Balance as at January 1, 2008	Accumulated depreciation: Charge for the year	Accumulated depreciation: Transfers	Accumulated depreciation: Disposals	Accumulated depreciation: Balance as at December 31, 2008	Net book value as at December 31, 2008	Rate per annum
	(Rupees in '000)											%
Owned:												
Freehold land	456,899	-	-	-	456,899	-	-	-	-	-	456,899	-
Buildings on freehold land	211,263	-	-	-	211,263	83,708	9,245	-	-	92,953	118,310	5
Furniture and fixtures	167,179	142,972	-	(44)	310,107	53,329	19,002	-	(10)	72,321	237,786	10
Electrical, office & computer equipment	215,063	214,844	-	(570)	429,337	135,157	71,207	-	(518)	205,846	223,491	20 / 33
Vehicles	65,908	33,446	15,124	(13,404)	101,074	20,170	11,012	11,827	(8,925)	34,084	66,990	20
	1,116,312	391,262	15,124	(14,018)	1,508,680	292,364	110,466	11,827	(9,453)	405,204	1,103,476	
Assets held under finance lease:												
Vehicles	18,946	-	(15,124)	-	3,822	13,703	754	(11,827)	-	2,630	1,192	20
	1,135,258	391,262	-	(14,018)	1,512,502	306,067	111,220	-	(9,453)	407,834	1,104,668	

	Note	2009	2008
		(Rupees in '000)	
11.2.1 Book value of temporarily idle property	11.2.2	300,795	303,795

11.2.2 This comprises of four idle properties (three vacant plots) having a market value of Rs 474.200 million (2008: Rs 496.977 million). The valuation of these properties was last carried out in 2009 by an independent valuer.

11.3 Intangible assets

2009

Description	Cost: Balance as at January 1, 2009	Cost: Additions	Cost: Disposals	Cost: Balance as at December 31, 2009	Accumulated amortisation: Balance as at January 1, 2009	Accumulated amortisation: Charge for the year	Accumulated amortisation: Disposals	Accumulated amortisation: Balance as at December 31, 2009	Net Book value as at December 31, 2009	Rate per annum
	(Rupees in '000)									%
Computer software	41,101	5,973	-	47,074	25,737	5,499	-	31,236	15,838	20

2008

Description	Cost: Balance as at January 1, 2008	Cost: Additions	Cost: Disposals	Cost: Balance as at December 31, 2008	Accumulated amortisation: Balance as at January 1, 2008	Accumulated amortisation: Charge for the year	Accumulated amortisation: Disposals	Accumulated amortisation: Balance as at December 31, 2008	Net Book value as at December 31, 2008	Rate per annum
	(Rupees in '000)									%
Computer software	33,537	8,714	(1,150)	41,101	20,756	6,131	(1,150)	25,737	15,364	20

11.4 Disposal of fixed assets

Disposal of fixed assets with original cost or book value in excess of one million rupees or two hundred and fifty thousand rupees respectively, whichever is lower, are given below:

(Rupees in '000)

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain	Mode of disposal	Particulars of buyers / insurer
Owned vehicles							
Honda Civic	835	447	388	760	372	Insurance Claim	EFU General Insurance
Toyota Corolla	939	620	319	763	444	Through tender	Mr. Muhammad Akhter
Honda Civic	1,335	606	729	1,106	377	Through tender	Mr. Farhat Jaffer
Toyota Corolla	1,253	733	520	955	435	Through tender	M/s. Honda Quideen
Honda Civic	1,288	585	703	928	225	Through tender	M/s. Cars Advisor
Mitsubishi Lancer	1,079	249	830	953	123	Through tender	M/s. Cars Advisor
Toyota Corolla	954	517	437	900	463	Through tender	Mr. Imran Abbas
Honda Civic	1,223	807	416	510	94	Through tender	Mr. Muhammad Naveed Rauf
Honda Civic	1,004	530	474	880	406	Through tender	Mr. Huzaifah Rasool
Honda City	841	381	460	833	373	Through tender	Mr. Attiq-ur-Rehman
Honda Civic	1,178	777	401	736	335	Through tender	Mr. Mohammad Saleem Aziz
Chevrolet Optra	1,320	750	570	668	98	Through tender	Mr. Zahid Qadri
Honda City	865	542	323	712	389	Through tender	Mr. Ovais Ghaziani
Honda City	846	367	479	802	323	Through tender	Mr. Ovais Ghaziani
Honda City	846	251	595	889	294	Through tender	Mr. Zahid Qadri
Honda City	854	235	619	780	161	Through tender	Mr. Zahid Qadri
Honda Civic	999	594	405	852	447	Through tender	Mr. Irfan Ibrahim
Honda Civic	1,335	778	557	1,032	475	Through tender	Mr. Huzaifa Ari
Toyota Corolla	1,005	276	729	1,037	308	Through tender	Mr. Irfan Ibrahim
Toyota Corolla	1,370	347	1,023	1,218	195	Through tender	Mr. Ovais Ghaziani
Toyota Corolla	1,370	385	985	1,218	233	Through tender	Mr. Ovais Ghaziani
Toyota Corolla	1,019	579	440	688	248	Through tender	Muhammad Naeem
Honda City Automatic	824	544	280	280	-	As per bank policy	Mr. Mazhar Hassan (executive)
Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	4,552	4,293	259	3,319	3,060	Negotiation	Various
	29,134	16,193	12,941	22,819	9,878		
Furniture & fixtures							
Furniture, table & chairs etc							
Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	1,856	1,744	112	285	173	Write-off / negotiation	Various
Electrical, office & computer equipment							
Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	7,003	6,909	94	220	126	Write-off/ Negotiation / Insurance Claim	Various
2009	37,993	24,846	13,147	23,324	10,177		
2008	14,018	9,453	4,565	6,155	1,590		

11.4.1 During the year no assets were sold to the chief executive, directors, executives, or to a shareholder holding not less than ten percent of the voting shares of the bank, other than disclosed above.

12. DEFERRED TAX ASSET - NET

	Note	2009	2008
		(Rupees in '000)	
Taxable temporary differences			
Accelerated tax depreciation		(51,974)	(63,320)
Assets subject to finance lease		(225)	(414)
Net investment in finance leases	12.2	(121,910)	(130,956)
Deductible temporary differences			
Recognised tax losses	12.1	785,853	368,842
Provision against loans and advances, investments and other assets	12.2	935,649	897,870
Assets subject to finance lease		-	-
Deficit on revaluation of securities	22	2,615	8,251
Deferred tax asset recognised		1,550,008	1,080,273

12.1 The bank has an aggregate amount of Rs 4,344.107 million (2008: Rs 3,796.943 million) in respect of tax losses as at December 31, 2009. Out of this amount the management has recognised deferred tax debit balance on losses amounting to Rs 2,245.295 million [including on unabsorbed tax depreciation of Rs 1,217.172 million (2008: Rs 1,053.838 million representing unabsorbed tax depreciation)]. This represents the management's best estimate of the probable benefit expected to be realised in future years in the form of reduced tax liability as the bank would be able to set off the profit earned in these years against losses carried forward from prior years. The amount of this benefit has been determined based on the projections of the bank for the next five years.

12.2 Through the Finance Act, 2007 7th Schedule (the 'Schedule'), was inserted in the Income Tax Ordinance, 2001 for the taxation of banking companies. The schedule seeks to simplify the taxation of banking companies and is applicable from the tax year 2009. The Schedule did not contain transitory provisions to deal with the disallowances made upto December 31, 2007 and certain other matters including treatment relating to leases disbursed by the bank. This issue had been taken up with the tax authorities through the Pakistan Banks' Association for formulation of transitory provisions to deal with the items which were previously treated differently under the applicable provisions. During the current year, the Federal Board of Revenue (FBR) through their letter F.No 4(I)ITP/2008-49 dated December 23, 2009 has clarified that the:

- amount provided for in the tax year 2008 and prior to the said tax year for or against irrecoverable or doubtful advances which were neither claimed nor allowed as a tax deductible in any tax year, shall be allowed in the tax year in which such advances are actually written off against such provisions, in accordance with the provision of Section 29 and 29A to the Income Tax Ordinance 2001.

- amounts provided for in the tax year 2008 and prior to the said tax year for or against irrevocable or doubtful advances, which were neither claimed nor allowed as a tax deductible in any tax year, which were written back in the tax year 2009 and thereafter in any tax year and credited to the profit and loss account, shall be excluded in computing the total income of that tax year under Rule 1 of the Schedule.

- the provision of the Seventh Schedule shall not apply to any assets given or acquired on finance lease by a banking company upto tax year 2008 and recognition of income and deduction in respect of such asset shall be dealt in accordance with the provisions of the Income Tax Ordinance 2001 as if this schedule has not come into force. Provided that un-absorbed depreciation in respect of such assets shall be allowed to be set-off against the said lease rental income only.

In view of the aforementioned clarification, deferred tax on timing differences relating to prior years has been retained by the bank.

13. OTHER ASSETS

(Rupees in '000)

	Note	2009	2008
Income/ mark-up accrued			
- in local currency		197,369	158,653
- in foreign currencies		-	38
Advances, deposits, advance rent and other prepayments		170,299	311,911
Taxation (payments less provisions)		348,485	339,266
Fee and commission receivable		50,942	51,054
Unrealised gain on forward foreign exchange contracts		180	5,120
Others	13.1	87,006	102,387
		854,281	968,429
Provisions held against bad and doubtful other assets	13.2	(106,141)	(130,501)
Other assets (net of provisions)		748,140	837,928

13.1 This includes an amount of Rs 23.3 million (2008: Rs. 23.3 million) receivable from InterAsia Leasing Limited.

13.2 Provisions held against bad and doubtful other assets

	2009	2008
Opening balance	130,501	141,571
Charge for the year	13,200	824
Reversals	(52)	(10,888)
Amounts written-off during the year	(37,508)	(1,006)
Closing balance	106,141	130,501

14. CONTINGENT ASSETS

There were no contingent assets of the bank as at December 31, 2009 (2008: Nil).

15. BILLS PAYABLE

	2009	2008
In Pakistan	78,127	55,349

16. BORROWINGS

	2009	2008
In Pakistan	3,141,284	437,949

16.1 Particulars of borrowings

	2009	2008
In local currency	3,141,284	437,949

16.2 Details of borrowings secured / unsecured

	Note	2009	2008
Secured			
Borrowings from SBP under export refinance scheme	16.2.1	1,286,716	224,000
Repurchase agreement borrowings	16.2.2 & 9.1	1,532,232	191,613
		2,818,948	415,613
Unsecured			
Call money borrowings	16.2.3	300,000	-
Bankers Equity Limited (Under liquidation)	16.2.4	22,336	22,336
		322,336	22,336
		3,141,284	437,949

16.2.1 The bank entered into agreement with the SBP for extending export finance to customers. As per the terms of the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the time of maturity of finances by directly debiting the current account maintained with SBP. This facility is secured against demand promissory note executed in favour of SBP. These borrowings carry mark-up rate of 6.5 percent per annum (2008: 6.5 percent per annum) payable on quarterly basis.

16.2.2 This represents borrowing at rates ranging from 11.91% to 12.00% (2008: 12.5%) per annum having maturity upto January 5, 2010. (2008: upto January 9, 2009).

16.2.3 These represent borrowings at rates ranging from 11.75% to 12.65% (2008: Nil) per annum and having maturity of upto May 3, 2010 (2008: Nil).

16.2.4 This represents amount payable to Bankers Equity Limited (under liquidation) on account of counter receivable from InterAsia Leasing Limited (Note 13.1) and carries no mark-up.

17. DEPOSITS AND OTHER ACCOUNTS

(Rupees in '000)

	2009	2008
Customers		
Fixed deposits	5,980,945	6,822,669
Savings deposits	2,621,126	1,338,633
Current accounts - non-remunerative	2,757,072	1,116,212
Others - non-remunerative	12,364	34,757
	11,371,507	9,312,271
Financial Institutions		
Remunerative deposits	1,102,999	507,456
Non-remunerative deposits	46,127	39,810
	1,149,126	547,266
	12,520,633	9,859,537

17.1 Particulars of deposits and other accounts

	2009	2008
In local currency	11,493,037	9,435,812
In foreign currencies	1,027,596	423,725
	12,520,633	9,859,537

18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

This represents security deposit of outstanding lease agreements which have been kept with the leasing company on account of counter receivable appearing in other assets.

19. OTHER LIABILITIES

(Rupees in '000)

	Note	2009	2008
Mark-up / return / interest payable			
- in local currency		156,944	110,789
- in foreign currencies		1,374	591
Accrued expenses		234,365	164,631
Unclaimed dividends		4,255	4,255
Provision against off-balance sheet obligations	19.1	222,534	96,264
Lease key money		106,733	141,303
Insurance premium payable		9,030	13,155
Unrealised loss on forward exchange contracts		2,561	5,105
Others		180,347	135,834
		918,143	671,927

19.1 Provision against off-balance sheet obligations

	Note	2009	2008
Opening balance		96,264	85,264
Charge for the year		121,270	11,000
Adjustment	10.4.3	5,000	-
Closing balance	19.1.1	222,534	96,264

19.1.1 This includes:

a) A provision of Rs 71.134 million (2008: Rs 71.134 million) made in respect of two counter guarantees amounting to Rs 71.134 million issued by Crescent Investment Bank Limited, an amalgamated entity, on behalf of Mr. Reyaz Shafi favouring Privatisation Commission of Pakistan (PC). The PC had invoked/called for payment of both the guarantees prior to their expiry date. However, Mr. Reyaz Shafi had obtained stay order for payments against the guarantees. Subsequently, the PC filed a suit against Faysal Bank Limited and Al-Baraka Islamic Bank, the guarantees issuing banks, against counter guarantees of the amalgamated entity, in the Lahore High Court under the Privatisation Commission Ordinance, 2000 for payment against the guarantees. The case is still pending for decision. As a matter of prudence, full provision of Rs 71.134 million (2008: 71.134 million) has been made in respect of this matter.

b) A provision of Rs 14.130 million (2008: Rs 14.130 million) made in respect of a guarantee amounting to Rs 14.130 million issued by Crescent Investment Bank Limited, an amalgamated entity, on behalf of Mohammad Amin Muhammad Bashir Limited (MAMB) favouring Collector of Customs. The guarantee has been called twice by the Collector of Customs along with mark-up at the rate of 14 percent per annum. MAMB has filed a petition before the Honourable Supreme Court, which is still pending, therefore, no payment has been made in respect of this guarantee. As a matter of prudence, full provision of Rs 14.130 million (2008: Rs 14.130 million) has been made in respect of this matter.

c) A provision of Rs 22 million (2008: Rs 11 million) in respect of a guarantee amounting to Rs 22 million issued by the bank in favour of a gas utility company on behalf of a customer. The amount of guarantee will be payable by the bank in case of a default by the customer. The customer is currently facing financial distress and as a matter of prudence, full provision of Rs 22 million (2008: Rs 11 million) has been made by the bank in respect of this matter.

d) A 100% provision in respect of a guarantee amounting to Rs 105.525 million issued by the bank in favour of a gas utility company on behalf of one of its customers. The amount of guarantee will be payable by the bank when a call is made upon the bank by the beneficiary and in case of a default by the customer. The amount of guarantee will be payable at the lower of the amount guaranteed by the bank or dues payable by the customer. The customer is currently facing financial distress to settle the outstanding dues and as a matter of prudence, full provisioning has been made by the management of the bank in respect of this matter.

e) A provision amounting to Rs 9.745 million primarily in respect of guarantees issued by the bank on behalf of two customers. The customers are currently facing financial distress to settle the outstanding dues and as a matter of prudence, full provisioning has been made by the management of the bank in this matter.

20. SHARE CAPITAL

20.1 Authorised capital

Number of Shares 2009	Number of Shares 2008		(Rupees in '000) 2009	(Rupees in '000) 2008
1,500,000,000	1,500,000,000	Ordinary shares of Rs 10 each	15,000,000	15,000,000

20.2 Issued, subscribed and paid-up capital

Number of shares 2009			2008				2009	2008
Issued for cash	Issued for consideration other than cash	Total	Issued for cash	Issued for consideration other than cash	Total	Ordinary shares of Rs 10 each	(Rupees in '000)	
655,394,335	221,557,340	876,951,675	655,394,335	221,557,340	876,951,675	Balance as at December 31	8,769,517	8,769,517

20.2.1 Shares held by the related parties of the bank

	Number of shares 2009	2008
Directors, their spouses and minor children		
Mr. Mubashar Hanif Khokhar	500	500
Mr. Farhat Abbas Mirza	125,000	125,000
Mr. Javed Iqbal	5,000	5,000
Mr. Zahid Zaheer	500	-
	131,000	130,500
Associated Companies, undertakings and related parties		
Asian Stock Funds Limited	1,993,285	499,559
Crescent Steel and Allied Products Limited	5,425,808	6,257,956
Samba Financial Group	600,000,000	600,000,000
	607,550,093	606,888,015

20.3 The State Bank of Pakistan vide BSD Circular No. 19 dated September 5, 2008 has specified minimum capital requirements for all commercial banks operating in Pakistan. As per these requirements, banks are required to raise their capital to Rs 10 billion (net of losses), to be achieved in a phased manner by December 31, 2013. The minimum paid-up capital requirements (net of losses) to be achieved by December 31, 2009 is Rs 6 billion (net of accumulated losses).

In order to comply with the minimum paid-up capital requirement, and in accordance with the resolution approved in the extraordinary general meeting of the bank held on December 30, 2009, the bank intends to issue 556.522 million ordinary shares of par value of Rs 10 per share each through issue of right shares at a discounted subscription price of Rs 5.75 per share to all existing shareholders of the bank.

The further issue of shares at discount was approved by the SBP through its letter BSD/BIA-2/201/901/2009 dated September 19, 2009. Presently, the bank is in process of formalising the matters relating to issue of right letters and is seeking approval of the respective stock exchanges.

Consequent to the aforementioned further issue of capital upon issue of rights shares at discount, the issued, subscribed and paid-up capital of the bank (net of discount) subsequent to the year ended December 31, 2009 is expected to be increased to Rs. 11,969.517 million.

21. ADVANCE SHARE SUBSCRIPTION MONEY RECEIVED AGAINST PROPOSED ISSUE OF RIGHT SHARES

This represents advance share subscription money received from Samba Financial Group (the holding company of the bank) against proposed issue of right shares at discount. The SBP through its letter No BSD /BAI-2/201/05/2010 dated January 05, 2010 has permitted the bank to treat this advance share subscription money of Rs 2.189 billion as Tier 1 capital of the bank for the purpose of meeting the minimum capital requirements of the bank as at December 31, 2009. Accordingly, the management has included this amount in the statements of changes in equity and classifed this amount as Tier 1 capital of the bank (as disclosed in note 42) while computing the capital adequacy ratio of the bank.

22. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX

	Note	(Rupees in '000) 2009	2008
Federal government securities		(7,469)	(23,575)
Quoted			
Ordinary shares and certificates		8,807	(59,429)
Preference shares	9.7	(1,010)	200
Mutual Fund Units	10	-	948
		7,797	(58,281)
		328	(81,856)
Amount of impairment losses on investments classified as available for sale - transferred to profit and loss account		-	59,429
Related deferred tax	12	2,615	8,251
		2,943	(14,176)

23. CONTINGENCIES AND COMMITMENTS

(Rupees in '000)

	2009	2008
23.1 Direct credit substitutes		
Favouring government	-	800,000
Favouring others	421,003	5,034,998
	421,003	5,834,998
23.2 Transaction-related contingent liabilities / commitments		
Guarantees in favour of		
Government	955,835	375,139
Others	196,792	144
	1,152,627	375,283
23.3 Trade-related contingent liabilities		
Favouring others	607,890	-
	607,890	-

23.4 Contingencies in respect of taxation

The Income tax department had raised an aggregate demand of Rs 426.787 million for the assessment years 1995-96, 1996-97, 1999-00, 2001-02, 2002-03 on account of non-deduction of tax on profit paid under portfolio management scheme, interest paid on foreign currency deposits and certificates of investment. The department had also raised further demand of Rs 782.63 million for assessment years 1995-96, 1998-99 to assessment year 2002-03 on account of taxability of investment bank as banking companies, taxation of dividend income, add back relating to extra shift allowance, lease rentals received or receivable, lease key money and certain other items. The aforementioned demands and add backs include pending assessments of amalgamated entities namely Crescent Investment Bank Limited, Trust Investment Bank Limited, Fidelity Investment Bank Limited and Pakistan Industrial Leasing Corporation.

Presently, the bank is contesting these add backs / demands at various appellate forums. The disallowances in respect of a number of assessment years have been decided / set aside by various appellate authorities for re-assessment while the bank's appeal in respect of the remaining assessment years are currently pending. Based on the professional advice received from tax advisors, the management is confident that the eventual outcome of the aforementioned matters will be in favour of the bank. Accordingly, no provision has been made in these financial statements in respect of the above mentioned demands of Rs 1,209.417 million raised by the income tax authorities.

23.5 Commitments in respect of forward exchange contracts

(Rupees in '000)

	2009	2008
Purchase	3,751,883	804,200
Sale	3,724,147	804,215

23.6 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.

23.7 Capital commitments

Commitments for capital expenditure as at December 31, 2009 amounted to Rs 7.442 million (2008: Rs 18.76 million).

(Rupees in '000)

	Note	2009	2008
24. MARK-UP / RETURN / INTEREST EARNED			
On loans and advances to:			
- Customers		925,620	849,288
On investments:			
- Held for trading securities		155,828	41,067
- Available for sale securities		420,770	228,527
- Held to maturity securities		19,783	18,634
		596,381	288,228
On deposits with financial institutions		253	2,199
On securities purchased under resale agreements		210,079	336,310
On call lendings		146,293	281,979
		1,878,626	1,758,004
25. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		862,453	886,189
Securities sold under repurchase agreements		263,622	171,638
Other short-term borrowings		31,607	1,593
SBP export refinance		51,175	10,417
Others		-	1,470
		1,208,857	1,071,307
26. GAIN ON SALE OF SECURITIES - NET			
Government securities		1,490	382
Fully paid-up shares - listed		-	4,977
Others		1,695	-
		3,185	5,359
27. OTHER INCOME			
Net profit on disposal of property and equipment		10,177	1,590
Others		14,332	44,673
		24,509	46,263
28. ADMINISTRATIVE EXPENSES			
Salaries, allowances and benefits		609,474	689,837
Contribution to provident fund plan	35	18,729	21,045
Non-executive directors' fees, allowances and other expenses		6,157	4,712
Rent, taxes, insurance, electricity, etc		216,071	206,827
Legal and professional charges		24,184	30,821
Communications		186,289	102,679
Repairs and maintenance		52,450	62,657
Finance charges on leased assets		-	893
Stationery and printing		22,903	24,416
Advertisement and publicity		9,854	70,443
Auditors' remuneration	28.1	5,440	3,993
Depreciation	11.2	160,920	111,220
Amortisation of intangible assets	11.3	5,499	6,131
Travelling and conveyance		15,839	54,997
Charges paid to Central Depository Company of Pakistan Limited		360	359
Security services		29,918	23,445
Others		51,148	46,602
		1,415,235	1,461,077

	Note	2009 (Rupees in '000)	2008 (Rupees in '000)
28.1 Auditors' remuneration			
Statutory audit fee		1,100	1,000
Fee for quarterly and annual group reporting		1,500	1,500
Fee for the review of the half yearly financial statements		300	250
Fee for the review of certificate relating to financial reporting on internal control framework		1,500	-
Special certifications and others		660	900
Out-of-pocket expenses		380	343
		5,440	3,993
29. OTHER PROVISIONS / WRITE OFFS - NET			
Provision against bad and doubtful other assets - net	13.2	13,148	(10,064)
Provision against off balance sheet obligations	19.1	121,270	11,000
		134,418	936
30. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		27,173	49,026
Others		14,080	-
		41,253	49,026
31. TAXATION			
For the year			
Current		-	-
Deferred		(475,371)	(269,130)
For prior years			
Current		-	-
		(475,371)	(269,130)

31.1 Relationship between tax expense and accounting loss

Numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as the bank has accumulated losses in prior periods and the bank has incurred taxable loss during the year ended December 31, 2009.

32. LOSS PER SHARE

	2009	2008
	(Rupees in '000)	
Loss after taxation	(593,053)	(742,311)
	Number of shares	
Weighted average number of ordinary shares	876,951,675	876,951,675
	Rupees	
Loss per share	(0.68)	(0.85)

32.1 Diluted earnings per share has not been presented as the bank does not have any convertible instruments in issue at December 31, 2008 and 2009 which would have any effect on the earnings per share if the option to convert is exercised.

33. CASH AND CASH EQUIVALENTS

	Note	2009 (Rupees in '000)	2008 (Rupees in '000)
Cash and balances with treasury banks	6	961,280	774,575
Balances with other banks	7	707,912	331,201
		1,669,192	1,105,776

34. STAFF STRENGTH

	Note	2009 (Number)	2008 (Number)
Permanent		420	568
Temporary / on contractual basis		1	3
Bank's own staff strength at the end of the year		421	571
Outsourced	34.1	366	455
Total number of employees at the end of the year		787	1,026

34.1 Outsourced staff includes those employees that are hired by an outside contractor / agency and are assigned to the bank to perform various tasks / activities of the bank.

35. DEFINED CONTRIBUTION PLAN

The bank operates a contributory provident fund scheme for 379 employees (2008: 504 employees). Both employer and employees contribute 8.33 percent of the basic salaries to the fund every month.

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

	2009 Rupees in '000			2008 Rupees in '000		
	President and Chief Executive Officer	Directors	Executives	President and Chief Executive Officer	Directors	Executives
Fees	-	6,156	-	-	4,712	-
Managerial remuneration	14,406	-	154,673	10,368	-	181,116
Contribution to defined contribution plan	1,149	-	11,387	694	-	12,993
Rent and house maintenance	6,483	-	69,603	3,786	-	75,450
Utilities	1,441	-	15,467	1,037	-	18,112
Medical	1,441	-	15,467	1,037	-	18,112
Cash reimbursement	-	-	10,103	-	-	14,644
Bonus	3,900	-	28,099	8,125	-	3,250
Conveyance	-	-	243	-	-	246
Other allowances	1,133	-	-	-	-	3,500
	29,953	6,156	305,042	25,047*	4,712	327,423
Number of persons	1	3	151	2	5	179

* Including Rs 2.483 million paid to former Chief Executive Officer of the bank who worked for part of the year.

36.1 The Chief Executive Officer and certain executives of the bank are provided with free use of the bank's maintained cars.

36.2 Executives mean employees, other than the Chief Executive Officer and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

37. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

i) classification and provisioning against investments (notes 5.3 and 9)
ii) income taxes (notes 5.7, 12 and 31)
iii) classification and provisioning against advances (notes 5.4 and 10)
iv) depreciation / amortisation of operating fixed assets (notes 5.5 and 11)

38. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVE INSTRUMENTS

38.1 On-balance sheet financial instruments

The fair value of traded investments is based on quoted market prices, except for tradable securities classified as 'held to maturity'. These securities are carried at amortised cost in order to comply with the requirements of BSD Circular No. 14 dated September 24, 2004. The fair value of these investments amounts to Rs 262.527 million (2008: Rs 227.067 million).

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

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 for impairment in respect of loans and advances has been calculated in accordance with the bank's accounting policy as stated in note 5.4 to these financial statements.

The repricing and maturity profile and effective rates are stated in notes 45 and 47 to these financial statements.

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

38.2 Off-balance sheet financial instruments

(Rupees in '000)

	2009		2008	
	Book value	Fair value	Book value	Fair value
Forward purchase of foreign exchange	3,751,883	3,752,063	804,200	799,095
Forward sale of foreign exchange	3,724,147	3,726,708	804,215	799,095

38.3 Derivative instruments

The bank at present does not offer structured derivative products such as Interest Rate Swaps, Forward Rate Agreements or FX Options. However, the bank's Treasury buys and sells derivative instruments such as forward foreign exchange contract.

39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

(Rupees in '000)

Particulars	2009				
	Corporate finance	Trading & sales	Retail banking	Commercial banking	Total
Total income (net of interest expense & provisions)	2,784	205,891	93,763	85,626	388,064
Total operating expenses	19,401	115,295	924,535	397,257	1,456,488
Net (loss) / income (before tax)	(16,617)	90,596	(830,772)	(311,631)	(1,068,424)
Segment assets	6,408	12,302,708	3,102,413	11,465,111	26,876,640
Segment non-performing loans	-	7,096	714,070	2,005,129	2,726,295
Segment provision held *	-	440,338	638,716	2,063,460	3,142,514
Segment liabilities	-	1,890,734	9,567,611	5,200,121	16,658,466
Segment return on gross assets (ROA) (%)	-259.32%	0.74%	-26.78%	-2.72%	-3.98%
Segment cost of funds (%)	10.86%	11.85%	9.29%	10.86%	9.40%

(Rupees in '000)

Particulars	2008				
	Corporate finance	Trading & sales	Retail banking	Commercial banking	Total
Total income (net of interest expense & provisions)	5,736	111,663	93,221	288,978	499,598
Total operating expenses	16,135	171,079	1,061,526	262,299	1,511,039
Net (loss) / income (before tax)	(10,399)	(59,416)	(968,305)	26,679	(1,011,441)
Segment assets	-	8,963,915	3,828,431	6,670,624	19,462,970
Segment non-performing loans	-	-	396,234	1,564,909	1,961,143
Segment provision held *	-	429,991	367,654	2,177,989	2,975,634
Segment liabilities	-	208,449	7,710,890	3,105,843	11,025,182
Segment return on gross assets (ROA) (%)	-	-0.66%	-25.29%	0.40%	-5.20%
Segment cost of funds (%)	-	9.15%	9.10%	10.68%	9.11%

* The provision against each segment represents provision held against advances, investments and other assets.

40. TRUST ACTIVITIES

The bank is currently not engaged in any trust activities.

41. RELATED PARTY TRANSACTIONS

The bank has related party relationship with its holding company, associates, employee contribution plan, its directors and key management personnel.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk. Transactions with the executives are undertaken at terms in accordance with employment agreements and services rules and includes provision of advances on terms softer than those offered to the customers of the bank.

Contributions to the contributory provident fund scheme are made in accordance with the terms of the contribution plan. Remuneration to the Chief Executive Officer and directors are disclosed in note 36 to these financial statements and are determined in accordance with the terms of their appointment.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the bank. The bank considers all members of their management team, including the Chief Executive Officer and Directors to be key management personnel.

Details of transactions with related parties are given below:

	(Rupees in '000) 2009			(Rupees in '000) 2008		
	Key management personnel	Associates	Others	Key management personnel	Associates	Others
BALANCES OUTSTANDING- GROSS						
Advances						
At January 1	62,961	45,500	-	45,701	45,500	-
Disbursed during the year	12,489	-	-	44,546	-	-
Repaid during the year	(20,814)	-	-	(14,363)	-	-
Adjustments	-	-	-	(12,923)	-	-
At December 31	54,636	45,500	-	62,961	45,500	-
Provision held against advances	-	45,500	-	-	45,500	-
Deposits						
At January 1	58,609	15,934	57,961	24,405	14,443	15,288
Received during the year	251,792	162,313	300,818	362,197	358,000	87,851
Withdrawn during the year	(205,633)	(175,025)	(266,129)	(311,724)	(355,146)	(45,178)
Adjustments	(1,842)	-	-	(16,269)	(1,363)	-
At December 31	102,926	3,222	92,650	58,609	15,934	57,961
Others						
Guarantees	-	42,196	-	-	42,196	-
Provision against guarantees	-	3,733	-	-	-	-
Balances in nostro accounts	-	4,237	-	-	1,053	-
Investment in shares	-	371,470	-	-	371,470	-
Sundry receivables	-	32,791	-	-	32,791	-
Sundry payable	-	113,989	-	-	25,000	-
Group services cost	-	70,000	-	-	-	-
Balances in vostro accounts	-	11,531	-	-	12,787	-
Provision against diminution in the value of investments	-	256,555	-	-	242,383	-
TRANSACTIONS DURING THE YEAR						
Remuneration and benefits	126,973	-	-	137,116	-	-
Directors fee	6,156	-	-	4,712	-	-
Commission income on guarantees	-	54	-	-	318	-
Commission expense on guarantees	-	-	-	-	389	-
Commission sharing on guarantees	-	-	-	-	2,328	-
Counter confirmation charges on guarantees	-	21,031	-	-	-	-
Letter of guarantees issued	-	-	-	-	38,463	-
Provision against guarantees	-	3,733	-	-	-	-
Mark-up / return / interest expensed	5,160	2,396	5,117	2,388	445	774
Mark-up / return / interest income	2,393	-	-	2,095	-	-
Disposal of fixed assets	-	-	-	459	-	-
Advance share subscription money received against proposed issue of right shares	-	2,189,440	-	-	-	-

41.1 All the above balances outstanding are unsecured, unless otherwise specified.

41.2 Details of loans and advances to the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members, are given in note 10.7 to these financial statements. There were no transactions with key management personnel other than those that are entered into with them under the terms of their employment. Details of remuneration to the executives, investment in associates are disclosed in note 36 and note 9.5.3 to these financial statements.

42. CAPITAL ADEQUACY

42.1 Capital management

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

42.2 Goals of managing capital

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

- To be an appropriately capitalised institution, as defined by regulatory authorities and comparable to the peers;
- 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.

42.3 Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 7 dated April 15, 2009 requires the minimum paid up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs 10 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs 6 billion paid up capital (net of losses) by the end of the financial year 2009. The paid up capital (net of losses and after receipt of advance share subscription from Samba Financial Group as more fully explained in note 21 to the financial statements) of the Bank for the year ended December 31, 2009 stood at Rs 7.073 billion which is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10 percent of the risk weighted exposure of the Bank. The bank's CAR as at December 31, 2009 was approximately 57.04 percent of its risk weighted exposure.

42.4 Bank's regulatory capital analysed into following tiers

Tier 1 capital, includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves as per the financial statements, advance share subscription money received against proposed issue of right shares (as more fully explained in note 21 to the financial statements) and net un-appropriated profits, etc after deductions for investments in the equity of subsidiaries engaged in banking and financial activities and deficit on revaluation of available for sale investments.

Tier 2 capital, includes general provisions for loan losses (up to a maximum of 1.25 percent risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 45 percent of the balance in the related revaluation reserves net of any deferred tax liability), foreign exchange translation reserves, etc.

Tier 3 supplementary capital, which consists of short term subordinated debt, is solely for the purpose of meeting a proportion of capital requirement for market risks. The bank currently does not have any Tier 3 capital.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 7 dated April 15, 2009. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

The required capital adequacy ratio (10 percent of the risk-weighted assets) 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 categorised 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.

The calculation of Capital Adequacy enables the bank to assess the long-term soundness. As the bank carries on the business on a wide area network basis, it is critical that the bank is able to continuously monitor the exposure across the entire organisation and aggregate the risks so as to take an integrated approach / view. The bank has complied with all externally imposed capital requirements throughout the period.

42.5 Capital adequacy ratio

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy using Basel II standardised approach for credit and market risk and basic indicator approach for operational risk is presented below:

Regulatory capital base	Note	2009 (Rupees in '000)	2008 (Rupees in '000)
Tier I capital			
Issued, subscribed and paid-up capital		8,769,517	8,769,517
Advance share subscription money received against proposed issue of right shares	21	2,189,440	-
Reserves		43,080	43,080
Accumulated loss		(3,929,320)	(3,336,267)
Other deductions:			
- Intangible assets		(15,838)	(15,364)
- 50% of significant minority interest in financial entities (i.e. bank's investment in closed-end mutual fund)	42.6	(54,959)	(62,045)
- Deficit on revaluation of assets - net of tax		-	(14,176)
Total Tier I Capital		7,001,920	5,384,745
Tier II Capital			
General provisions subject to 1.25% of total risk weighted assets		75,232	123,485
Surplus on revaluation of assets - net of tax (upto 45%)		1,324	-
Other deductions:			
- 50% of significant minority interest in financial entities (i.e. bank's investment in closed-end mutual fund)	42.6	(54,958)	(62,044)
Total Tier II capital		21,598	61,441
Eligible Tier III capital		-	-
Total regulatory capital	(a)	7,023,518	5,446,186

Risk-weighted exposures	Note	2009 Capital Requirement (Rupees in '000)	2009 Risk adjusted value (Rupees in '000)	2008 Capital Requirement (Rupees in '000)	2008 Risk adjusted value (Rupees in '000)
Credit risk					
Portfolios subject to standardized approach (Simple Approach for CRM)					
On-Balance Sheet Items:					
Public sector entities (PSEs)		79,844	798,443	23,614	295,180
Banks and securities firms		103,433	1,034,325	46,502	581,269
Corporate portfolio		294,181	2,941,806	122,524	1,531,548
Retail non mortgages		85,300	852,997	125,321	1,566,509
Mortgages – residential		8,438	84,381	6,828	85,356
Equities		5,704	57,042	4,832	60,394
Fixed assets		109,633	1,096,331	91,386	1,142,325
Other assets		229,797	2,297,968	153,455	1,918,186
Past due exposures		15,690	156,901	11,668	145,849
Off balance sheet items:					
Non-market related:-					
Direct credit substitutes		80,000	800,000	141,200	1,765,002
Performance-related contingencies		1,589	15,890	7,757	96,964
Trade-related contingencies		24,365	243,653	4,649	58,109
Market related:					
Outstanding foreign exchange contracts		747	7,466	339	4,241
Market risk					
Capital requirement for portfolios subject to standardized approach					
Interest rate risk		21,546	269,325	3,024	37,800
Foreign exchange risk		33,231	415,388	1,696	21,203
Operational risk					
Capital requirement for operational risks (basic indicator approach)		99,337	1,241,713	45,508	568,853
TOTAL	(b)	1,192,835	12,313,629	790,303	9,878,788
Capital adequacy ratio					
Total eligible regulatory capital held	(a)	7,023,518		5,446,186	
Total risk weighted assets	(b)	12,313,629		9,878,788	
Capital adequacy ratio	[(a / b) x 100]	57.04%		55.13%	

42.6 The CAR calculation includes the impact of deduction of significant minority investments in Asian Stock Funds (a closed end mutual fund in which the bank holds 29.79% certificates of the fund) . The bank has deducted this amount based on a clarification issued by the SBP through its letter BSD/BAI-1/220/452/2009 dated April 27, 2009 in accordance with the Section 1.1 of the SBP Basel II Guidelines.

42.7 Cash margin and government securities amounting to Rs 412.127 million (2008: Rs 138.093 million) have been deducted from gross advances using simple approach to credit risk mitigation under Basel II. Advances are not net off with general provision amounting to Rs 75.232 million (2008: Rs 123.547 million) which is reported separately in Tier II (supplementary) capital as per BSD circular letter number 03 dated May 20, 2006.

42.8 Cash margin and government securities amounting to Rs 9.340 million (2008: Rs 25.715 million) have been deducted from off-balance sheet items.

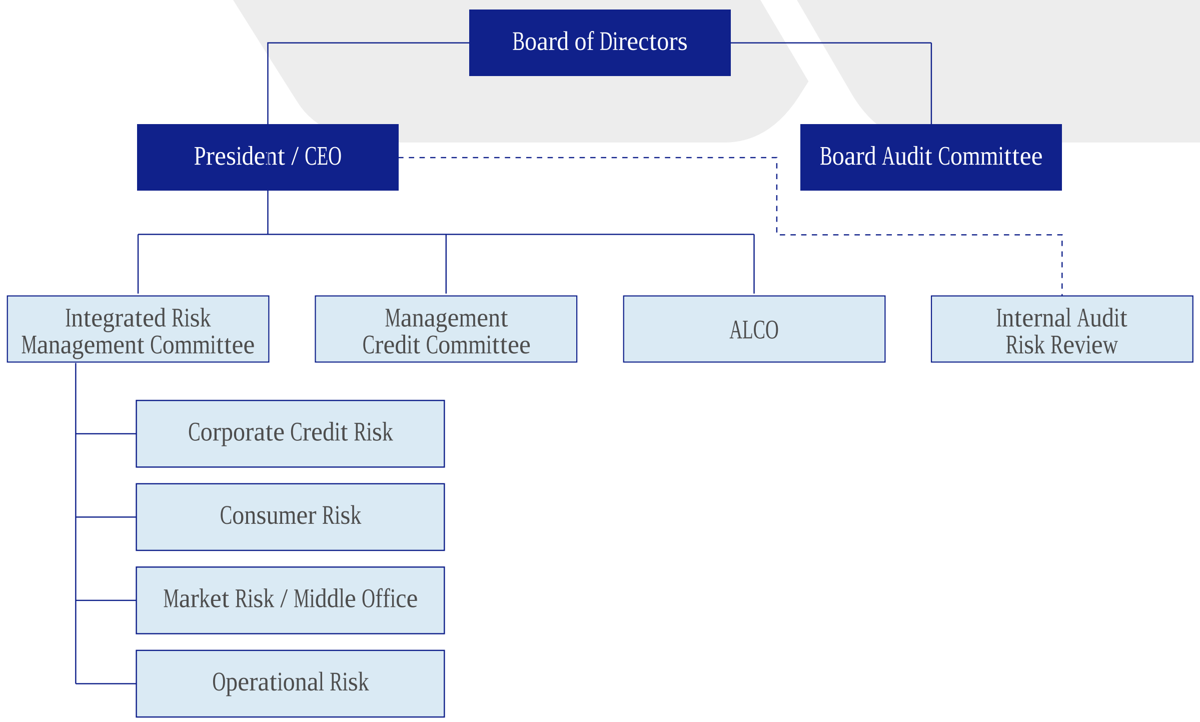
42.9 The capital charge for operational risk is a fixed percentage of average positive annual gross income of the bank over past three years (including year 2009).

43. RISK MANAGEMENT

Risk can be defined as the combination of the probability of an event and its consequences. In all types of undertakings, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside). Risk Management is increasingly recognized as being concerned with both positive and negative aspects of risk. However, as a matter of prudence it is generally recognized that consequences are only negative and therefore the management of safety risk is focused on prevention and mitigation of harm.

The types and degree of risk an organization may be exposed to depend upon its size, complexity in business activities, volume etc. Until and unless risks are not assessed and measured it will not be possible to control risks. Further, a true assessment of risk gives management a clear view of the bank's standing and helps in deciding future action plans. Management of risk by banks in Pakistan is governed by rules and regulations set by the State Bank of Pakistan in its capacity as a regulator of banks.

The Bank is exposed to a number of risks, such as credit, market, operational, liquidity, etc. The Board of Directors is ultimately responsible for effective risk management function. In order to find an appropriate balance between the level of risk and desired return, the Board has delegated its authority to some specialized committees such as Integrated Risk Management Committee (IRMC), Management Credit Committee (MCC) and Asset and Liability Committee (ALCO). These committees act within the bank's overall policies and delegated authorities by the Board with a clear mandate or terms of reference. Integrated Risk Management Committee reviews and monitors relevant risks associated with activities of the specific area and reports to the Board regularly.



43.1 Credit Risk

Credit Risk is the risk of loss as a result of failure by a client or counterparty to meet its contractual obligations. Credit Risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, borrower or obligor. The principal source of credit risk arises from loans and advances to Financial Institutions and Corporations.

(a) Credit Risk Management (CRM) Objectives & Policies:

Specific credit risk management objectives are:

- To gain a clear and accurate understanding and independent assessment of the level of credit risk being undertaken, from the level of individual facilities up to the total portfolio.
- To develop and implement uniform and acceptable credit standards across the bank.
- To ascertain that over all risk of the bank's corporate credit portfolio remains within manageable limits.
- To control and plan the taking of credit risk, ensuring it is appropriately diversified and avoiding undesirable concentrations.
- To ensure that an effective CRM framework is in place that enables a proactive approach to identifying potential risks.
- To ensure that the balance sheet correctly reflects the value of our assets.

(b) CRM Organization and Structure:

Taking credit risk is central to the business therefore it has been ensured that business managers in conjunction with risk managers are responsible for establishing and maintaining appropriate risk limits and risk management procedures.

(c) Credit Approval Authorities and Standardized Procedures:

A system of checks and balances has been established around the extension of credit which is based on an independent risk management function and multiple credit approvers. Every extension of credit is required to be approved by at-least three authorized Credit Officers including the Sponsoring Officer and one from CRM.

Corporate Credit Approval Process Guidelines (CAPG) and the Credit Policy and Procedures Manual (CPPM) both approved by the Board of Directors (BoD) include:

- Setting maximum exposure limits for a single obligor and for a single group of related obligors based upon the obligor risk rating of the customer and the group.
- Defining maximum exposure limit to an individual sector in terms of portfolio composition to avoid excessive concentration.
- Requirement to risk rate every obligor on the basis of a standard and approved internal credit risk rating policy.
- Setting consistent standards to be followed across the Corporate, Financial Institution Group for the origination, documentation and maintenance of extensions of credit. These standards include problem recognition, the classification process of problem credits and remedial action.

Quarterly reporting is made to the BoD on all credit exposures approved during the quarter, all changes in classification, provisions and write-offs taken during the quarter.

(d) Credit Risk Portfolio Management:

The bank seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards as defined in the approved CPPM. It also seeks diversification of lending activities by ensuring that there is no undue concentration of risks within groups of customers, industry segments and tenor buckets.

The corporate portfolio is monitored through the Credit Risk Management Committee (CRMC) which includes senior business and risk managers. The major functions of the CRMC include:

- To establish and review the lending policies and standards that conforms to the regulations and the corporate policies.
- Manage and ensure that the overall credit risk exposure of the bank does not breach the pre-defined limits.

- Develop and implement standards of credit quality.
- Regularly review, monitor and evaluate the quality of credit portfolio in the light of the approved limits.
- Approve and review the overall provisioning of the corporate portfolio.

(e) Risk Rating

The BoD has approved the Internal Credit Risk Rating Policy for the Corporate and Investment Banking Group. Through this policy, an appropriate rating mechanism has been devised for the purpose of identifying and measuring the credit risk against each obligor / transaction. The mechanism considers factors such as management, financial health, overall past performance at industry / country level, etc. and subsequently, the facility structuring /collateral and/or support (if any).

For the purpose of evaluating credit risk and assigning grades that illustrate the credit risk associated with the obligor, an Obligor Risk Rating model named "FARAS" Financial Analysis and Risk Assessment System (copyright of Samba Financial Group and licensed to the bank for its use) Pakistan Version (modified to suit Pakistani economic environment) has been implemented. The model determines the Obligor Risk Rating (ORR) based on certain quantitative and qualitative information / assessment. It assigns grades from "2" to "7" (under the performing category), with sub-grades to denote a better or worse position than the full grade to a degree that is sufficient to be noted, but not material enough to require a full grade change (upgrade or downgrade). FARAS has been introduced, implemented and in use by the Corporate & Investment Banking Groups and forms an integral part of the CA Approval process that materially helps in decision making.

The bank has implemented a maker and checker control process for assigning the Final ORR to an obligor. The business managers are the makers and Independent Risk is the checker and also approves the final assigned risk rating to an obligor.

ORRs ranging between "8" to "10" are assigned to classified obligors based upon an internal classification and remedial management process.

The Credit limits delegations under the CAPG are based on a grid that is driven by the assigned risk rating.

(f) Mitigants

A range of initiatives are used to mitigate credit risk.

Credit Principles and Policy:

To ensure consistency and standardization across the Corporate, Financial Institution and Investment Banking Groups, standard credit procedures and policy are implemented through the BoD approved CPPM and the CAPG. This ensures clear definition of responsibilities of the business, risk, credit administration and remedial departments and provides a basis for a disciplined environment.

Counter Party Limits and Risk Rating:

The maximum permitted per party limits under the credit delegations are derived as a function of the ORR of that obligor or group of obligors and therefore, acts as a check and balance on building up excessive obligor concentrations.

Concentration Risk:

The Credit Policy provides limits for industry sector concentrations. Through the regular CRMC meetings on the portfolio composition, exposures are monitored to highlight any concentrations that may occur and future strategy is devised to prevent excessive concentration of risk.

Collateral:

One of the mitigants is the collateral held against the credit exposures. The Credit Policy requires that collateral should always be realistically valued, providing margins, duly insured in favour of the bank and giving the bank a pari passu status with other lenders for similar transactions / nature of exposure. In case of a weak credit, facility specific support / guarantees are recommended as risk mitigation. To minimize the credit loss, seeking additional collateral from the obligor is recommended, as soon as impairment indicators are noticed in individual loans and advances.

Early Warning Mechanism:

The Credit Policy has prescribed an early warning mechanism which the business managers are required to follow. Due to early problem recognition the business may seek additional collateral and exercise other such measures to stop further deterioration.

Target Market Screens (TM) and Risk Acceptance Criteria (RAC):

Generic TM Screens & RACs have been approved and put in place as basic guiding rules.

(g) Remedial management and allowances for impairment

The CPPM defines the Classified Credit process to be followed in order to establish a consistent approach to problem recognition, problem labelling, remedial action, loan loss provisioning and the initiation of credit write-offs. It defines clear responsibilities pertaining to all processes that are required to be followed, in order to have an effective remedial management set-up in place.

A Remedial Asset Committee comprising senior remedial, business and risk managers under the initiative of the Remedial Management Group, conducts regular reviews of the corporate credit classified portfolio and also recommends recovery / work-out plans, waivers and write-offs.

The bank follows a very stringent loan loss reserve policy and as a result the impaired portfolio of the bank is almost fully provisioned.

44. SEGMENTAL INFORMATION

44.1 Segment by class of business

	2009					
	Gross advances		Deposits		Contingencies & commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	705,187	5.71	30,759	0.25	306,776	14.06
Agriculture, forestry, hunting & fishing	1,850	0.01	15,971	0.13	-	-
Textile spinning	2,764,706	22.40	71,244	0.57	320,938	14.71
Cement	-	-	32	-	-	-
Sugar	21,236	0.17	5,799	0.05	-	-
Footwear and leather garments	218,601	1.77	3,202	0.03	-	-
Automobile and transportation services	1,328	0.01	715,182	5.71	211,007	9.67
Financial	58	-	924,626	7.38	-	-
Insurance	829	0.01	212,901	1.70	-	-
Electronics and electrical appliances	39,168	0.32	16,523	0.13	-	-
Construction	-	-	-	-	-	-
Power (electricity), gas, water and sanitary	2,583,597	20.93	217,108	1.73	800,000	36.67
Individuals	2,282,024	18.49	6,823,644	54.50	-	-
Manufacturing	4,302	0.03	-	-	-	-
Wholesale and retail Trade	458,783	3.72	-	-	-	-
Exports/Imports	-	-	-	-	-	-
Transport, storage and communication	-	-	-	-	1,000	0.05
Services	-	-	-	-	8,548	0.39
Paper and allied	-	-	-	-	300	0.01
Oil refinery	1,000,000	8.10	-	-	-	-
Others	2,261,691	18.33	3,483,642	27.82	532,951	24.44
	12,343,360	100.00	12,520,633	100.00	2,181,520	100.00

2008

	Gross advances		Deposits		Contingencies & commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and pharmaceuticals	8,340	0.10	20,565	0.21	8,860	0.14
Agriculture, forestry, hunting and fishing	-	-	111,160	1.13	-	0.00
Textile spinning	1,271,212	14.76	89,378	0.91	36,577	0.59
Cement	-	-	29	0.00	-	0.00
Sugar	21,236	0.25	1,533	0.02	-	0.00
Footwear and leather garments	66,756	0.78	365	0.00	-	0.00
Automobile and transportation services	1,328	0.02	244,161	2.48	452	0.01
Financial	58	0.00	425,692	4.32	50,727	0.82
Insurance	829	0.01	121,574	1.23	-	0.00
Electronics and electrical appliances	39,168	0.46	6,672	0.07	-	0.00
Construction	13,409	0.16	23,569	0.24	85,168	1.37
Power (electricity), gas, water and sanitary	1,591,383	18.48	193,284	1.96	-	0.00
Individuals	2,871,461	33.37	4,102,662	41.61	-	0.00
Manufacturing	8,574	0.10	13,081	0.13	4,060,450	65.38
Wholesale and retail Trade	478,286	5.56	109,830	1.11	-	0.00
Exports/Imports	-	-	17,572	0.18	-	0.00
Transport, storage and communication	360,067	4.18	333,747	3.39	87,008	1.40
Services	9,226	0.11	79,870	0.81	1,682,864	27.10
Paper and allied	-	-	55	0.00	-	0.00
Oil refinery	-	-	2,150,001	21.81	-	0.00
Others	1,864,556	21.66	1,814,737	18.39	198,175	3.19
	8,605,889	100.00	9,859,537	100.00	6,210,281	100.00

44.2 Segment by sector

2009

	Gross advances		Deposits		Contingencies & commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	3,992,214	32.34	573,203	4.58	-	-
Private	8,351,146	67.66	11,947,430	95.42	2,181,520	100.00
	12,343,360	100.00	12,520,633	100.00	2,181,520	100.00

2008

	Gross advances		Deposits		Contingencies & commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public / Government	1,475,898	17.15	2,773,283	28.13	1,175,139	18.92
Private	7,129,991	82.85	7,086,254	71.87	5,035,142	81.08
	8,605,889	100.00	9,859,537	100.00	6,210,281	100.00

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

	2009 (Rupees in '000)		2008 (Rupees in '000)	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
Chemical and pharmaceuticals	7,608	3,142	8,233	3,135
Agriculture, forestry, hunting and fishing	1,071	706	-	-
Textile	755,348	744,484	647,317	644,109
Cement	-	-	-	-
Sugar	21,236	21,236	21,236	21,236
Footwear and leather garments	17,334	16,142	66,756	65,766
Automobile and transportation services	1,328	1,128	1,328	-
Financial	58	58	58	58
Insurance	829	789	829	-
Electronics and electrical appliances	39,168	38,668	39,168	36,690
Construction	-	-	4,914	4,914
Power (electricity), gas, water, sanitary	591,383	591,383	58,222	58,222
Individuals	723,128	573,401	372,211	242,610
Transport, storage and communication	-	-	10,067	8,670
Services	-	-	9,226	9,226
Others	567,804	553,580	721,578	691,537
	2,726,295	2,544,717	1,961,143	1,786,173

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

	2009 Classified advances	2009 Specific provisions held	2008 Classified advances	2008 Specific provisions held
Public / Government	-	-	-	-
Private	2,726,295	2,544,717	1,961,143	1,786,173
	2,726,295	2,544,717	1,961,143	1,786,173

44.5 Geographical segment analysis

(Rupees in '000)

2009

	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	(1,068,424)	23,734,126	7,075,660	2,181,520

(Rupees in '000)

2008

	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
Pakistan	(1,011,441)	16,487,336	5,462,154	6,210,281

The bank does not have any overseas operations, therefore its entire geographical dispersion arises inside Pakistan.

44.6 Credit Risk - General Disclosures, Basel II Specific

The bank has adopted Standardized Approach, under Basel II. According to the regulatory statement submitted under the Standardized Approach, the portfolio has been divided into Claims on Public Sector Entities in Pakistan (PSEs), claims on corporate (excluding equity exposure) and claims categorized as retail portfolio. Claims on corporate constitute 44% of the total exposure, 41% represents claims on PSEs, 12% represents retail non-mortgages and the remaining 3% exposure pertains to claims categorized as mortgage residential portfolio.

44.7 Credit Risk: standardized approach

Currently the bank does not have any policy whereby customers have to be rated by a rating agency. Therefore, the bank uses unsolicited / solicited ratings of JCR-VIS, PACRA and other foreign agencies wherever applicable.

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

Exposure	JCR-VIS	PACRA	Fitch & Moody's
Corporate	✓	✓	-
Banks	✓	✓	✓
Sovereigns	-	-	-
SME's	-	-	-
Securitizations	-	-	-

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

For exposure amounts after risk mitigation subject to the standardized approach, amount of bank's/DFI's outstanding (rated & unrated) in each risk bucket as well as those that are deducted are as follows:

Exposure	Rating category No.	Amount outstanding	Deduction CRM*	Net Amount
Corporate	1-4	5,743,770	-	5,743,770
Banks	1-5	3,831,489	-	3,831,489
Sovereigns (local govt. securities)	N/A	320,071	-	320,071
Unrated		3,507,315	345,154	3,162,161
Total		13,402,645	345,154	13,057,491

* CRM= Credit Risk Mitigation

Eligible financial collateral and other eligible collateral after the application of haircuts

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

Main types of collateral taken by the bank are:-
- Cash margin
- Lien on deposits / government securities
- Hypothecation on stocks / assets
- Mortgage on properties

44.8 Market risk

The bank is exposed to market risk which is the risk that the value of on and off-balance sheet exposures of the bank will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

44.8.1 Principal sources of Market Risks in both Trading Book and Banking Book

Price Risk

Price risk is the risk that there may be financial loss as a result of a change in the level or volatility of interest rates, foreign exchange rates, and commodity or equity prices.

Liquidity Risk

Liquidity risk is the risk that any bank, business and its entities, will be unable to meet a financial commitment when due.

Differentiation between trading and banking book

Trading Book

- Positions that are assumed to be held for short term
- Securities are to be sold within 90 days from the date of their classification as held for trading under normal circumstances.
- They are marked-to-market (MTM) daily
- Any MTM difference affects the profit and loss (P&L) account

Banking Book

- Securities holding intention is for long term
- Sale before maturity is permitted
- Positions are MTM periodically
- MTM differences affect the equity
- Interest income / expense affecting profit and loss account

44.9 Market Risk Management

44.9.1 Objectives

Market risk is the risk to a bank's financial condition resulting from adverse movements in market prices. Accurately measuring a bank's market risk requires timely information about the current market values of its assets, liabilities, and off-balance sheet positions. Market risks; arise from factors such as changing interest rates and currency exchange rates, the liquidity of markets for specific commodities or financial instruments, and local or world political and economic events. All of these sources of potential market risk can affect the value of the institution and should be considered in the market risk measurement process.

Management of market risk aims to control related risk exposure while ensuring that earnings commensurate with levels of risk.

The bank has approved market risk policy encompassing market risk limit framework where all relevant market factors have been identified and taken into consideration in the establishment of the independent market risk limit frameworks. The policy also articulates standards for defining, measuring and communicating market risk.

The bank has established quantitative limits related to market risk and has also set limits for the maximum amount of losses arising from market activities as under:

44.9.2 Price Risk Management

Trading book is controlled through:
- Factor Sensitivity and associated limits
- Value at Risk (VaR) limits
- Trading - Action Triggers

Banking book is controlled through:

- Factor Sensitivity and associated limits
- DV01 limits
- Triggers - Simplified Action triggers

44.9.3 Structure and Organization of the market risk management

44.9.4 Market Risk Management Function

- Monitoring compliance with all the market risk management policies and procedures of the treasury function as approved by the Board of Directors.
- Identify and specify all relevant market factors for each risk-taking unit.
- Monitoring the day-to-day dealings of the front office against the pre-determined tolerable limits.
- Ensuring that the following are reflected in the periodic (at least quarterly) profit and loss account:
  - All transactions executed; and
  - Current independent market data used with respect to revaluation.
- Dealer limits monitoring and excess reporting.
- Review the factor sensitivity, VaR and stress testing methodologies and results for reasonableness, consistency and completeness.
- Preparing forecasts (simulations) showing the effect of various possible changes in market conditions relating to risk exposures and ensure their integrity.
- Jointly develop, with business, standard stress test scenarios and review the standard stress test library at least annually.
- Review the bank's capital adequacy.

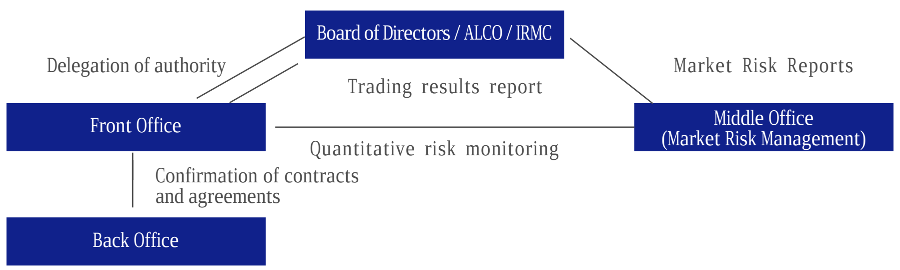
44.9.5 Scope and nature of Risk Reporting

- It is the policy of the bank that a comprehensive set of market risk data, generated through the businesses' risk-taking activities, is identified and communicated throughout the applicable business, IRMC and Senior Management.
- It is the responsibility of Market Risk Management to define, construct and maintain an independent market risk reporting framework that effectively, consistently and meaningfully communicates risks, risk appetite and the quality of earnings.
- At a minimum, market risk reports are produced for each risk-taking unit, consistent with the level at which the independent market risk limit frameworks are established. However, additional market risk reports may be produced if Market Risk Management determine that the level and/or nature of the risk within a business warrant inclusion in the market risk reporting packages.
- The market risk data and other data used to populate the independent market risk reports should be from independent risk systems or other independent support systems (e.g., general ledger). If the information available in the independent systems is not sufficiently comprehensive, any other data used to populate the reports must be subject to a reconcilement process to ensure its integrity.
- It is the responsibility of Market Risk Management and the business to assist in the quality control process by reviewing the reports for reasonableness, consistency and completeness.

44.9.6 Market Risk Management System

The bank has acquired market risk software to manage the market risks from its trading and non-trading activities.

At each level, checks and balances are maintained through a system in which back and middle offices operate independently from front offices. In addition, ALCO and IRMC meetings are held respectively every month to deliberate important matters related to market risk and control.



44.10 Market Risk Measurement Model

Since the daily variation in market risk is significantly greater than with other types of risk, the bank measures and manages market risk using VaR on a daily basis.

Market risk for trading and non-trading activities is measured using a uniformed market risk measurement model. The principle model used for these activities is historical simulation (HS) model (holding period, 10 days; confidence interval, 99%; and observation period, 365 business days). The HS model calculates VaR amount by estimating the profit and loss on the current portfolio by applying actual fluctuations in the market rates and prices over a fixed period in the past. This method is capable of capturing certain statistically infrequent movements, e.g., a fat tail, and accounts for the characteristics of financial instruments with non-linear behaviour. However, the bank is not using this model to calculate Basel II regulatory capital adequacy ratios.

The bank is using the following components for measuring market risk factors:

- Factor Sensitivities
- Volatility and Correlation Calculations
- Value-at-Risk (VaR)
- Stress Testing
- Back Testing

44.11 Foreign exchange risk

The foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The risk is managed through State Bank of Pakistan's forward covers and other hedging instruments. Overall foreign exchange risk is managed by dealing in authorized currencies, devising separate authority matrices for different types of foreign currency transactions and assigning the ceilings of exposures to parties. Foreign exchange open and mismatch positions controlled through internal limits and are marked to market on a daily basis to contain forward exposures.

(Rupees in '000)

	2009			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistan Rupee	22,700,028	15,627,813	(23,949)	7,048,266
United States Dollar	974,190	734,916	(623,577)	(384,303)
Great Britain Pound	31,409	217,721	597,583	411,271
Japanese Yen	188	-	-	188
Euro	24,378	78,016	49,943	(3,695)
Other currencies	3,933	-	-	3,933
	23,734,126	16,658,466	-	7,075,660

(Rupees in '000)

	2008			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistan Rupee	16,042,769	10,597,550	15	5,445,234
United States Dollar	313,622	297,267	(15)	16,340
Great Britain Pound	60,769	59,078	-	1,691
Japanese Yen	9	-	-	9
Euro	67,021	71,287	-	(4,266)
Other currencies	3,146	-	-	3,146
	16,487,336	11,025,182	-	5,462,154

44.12 Equity position risk

Equity position risk in trading book arises due to changes in prices of individual stocks or levels of equity indices. Currently, the bank's equity investments comprises of Available for Sale (AFS) portfolio only. The AFS portfolio is maintained with a medium-term view of capital gains and dividend income.

45. MISMATCH OF INTEREST RATE SENSITIVE ASSETS AND LIABILITIES

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 market interest rates. The bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The bank monitors this risk and manages it by repricing of assets and liabilities with the objective of limiting the potential adverse effects on the profitability of the bank.

The bank's interest rate sensitivity position based on the earlier of contractual re-pricing or maturity date is as follows:

2009

	Effective yield/ interest rate	Total	Exposed to yield / interest rate risk									Non-interest bearing financial instruments
			Upto one months	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	-	961,280	-	-	-	-	-	-	-	-	-	961,280
Balances with other banks	-	707,912	-	-	-	-	-	-	-	-	-	707,912
Lendings to financial institutions	12.33%	3,123,377	2,373,377	350,000	400,000	-	-	-	-	-	-	-
Investments - net	11.50%	5,692,912	-	2,541,971	1,657,028	1,020,144	-	-	426,724	-	-	47,045
Advances - net	13.68%	9,723,411	1,618,921	3,376,114	2,767,182	504,247	88,740	650,243	351,327	60,147	124,912	181,578
Other assets	-	229,356	-	-	-	-	-	-	-	-	-	229,356
		20,438,248	3,992,298	6,268,085	4,824,210	1,524,391	88,740	650,243	778,051	60,147	124,912	2,127,171
Liabilities												
Bills payable	-	78,127	-	-	-	-	-	-	-	-	-	78,127
Borrowings	9.71%	3,141,284	1,532,232	1,148,000	438,716	-	-	-	-	-	-	22,336
Deposits and other accounts	9.05%	12,520,633	4,972,714	2,182,509	419,689	1,565,456	503,966	2,850	41,280	-	-	2,832,169
Liabilities against assets subject to finance lease	-	279	-	-	-	-	-	-	-	-	-	279
Other liabilities	-	588,876	-	-	-	-	-	-	-	-	-	588,876
		16,329,199	6,504,946	3,330,509	858,405	1,565,456	503,966	2,850	41,280	-	-	3,521,787
On-balance sheet gap		4,109,049	(2,512,648)	2,937,576	3,965,805	(41,065)	(415,226)	647,393	736,771	60,147	124,912	(1,394,616)
Cumulative Yield / Interest Risk Sensitivity Gap			(2,512,648)	424,928	4,390,733	4,349,668	3,934,442	4,581,835	5,318,606	5,378,753	5,503,665	

2008

	Effective yield/ interest rate	Total	Exposed to yield / interest rate risk									Non-interest bearing financial instruments
			Upto one months	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	2.25%	774,575	66,051	-	-	-	-	-	-	-	-	708,524
Balances with other banks	-	331,201	-	-	-	-	-	-	-	-	-	331,201
Lendings to financial institutions	14.14%	2,313,308	2,063,308	250,000	-	-	-	-	-	-	-	-
Investments - net	9.29%	3,700,265	995,103	2,228,934	10,000	-	-	-	324,786	91,049	-	50,393
Advances - net	17.03%	6,163,008	1,188,961	1,836,917	554,038	349,125	260,857	175,471	1,411,875	126,611	84,183	174,970
Other assets	-	186,751	-	-	-	-	-	-	-	-	-	186,751
		13,469,108	4,313,423	4,315,851	564,038	349,125	260,857	175,471	1,736,661	217,660	84,183	1,451,839
Liabilities												
Bills payable	-	55,349	-	-	-	-	-	-	-	-	-	55,349
Borrowings	9.27%	437,949	191,613	-	224,000		-	-	-	-	-	22,336
Deposits and other accounts	10.20%	9,859,537	3,027,213	3,123,557	667,001	1,197,413	296,481	316,366	18,980	-	-	1,212,526
Liabilities against assets subject to finance lease	-	420	-	-	-	-	-	-	-	-	-	420
Other liabilities	-	671,927	-	-	-	-	-	-	-	-	-	671,927
		11,025,182	3,218,826	3,123,557	891,001	1,197,413	296,481	316,366	18,980	-	-	1,962,558
On-balance sheet gap		2,443,926	1,094,597	1,192,294	(326,963)	(848,288)	(35,624)	(140,895)	1,717,681	217,660	84,183	(510,719)
Cumulative Yield / Interest Risk Sensitivity Gap			1,094,597	2,286,891	1,959,928	1,111,640	1,076,016	935,121	2,652,802	2,870,462	2,954,645	

46. LIQUIDITY RISK

Liquidity risk management

The objective is to establish standards for defining, measuring and reporting liquidity risk in order to ensure the transparency and comparability of liquidity risk-taking activities.

Liquidity risk is being monitored through the following:

(a) Gap Analysis: Market Access Report (MAR)

Market Access Report is a key tool in monitoring the current liquidity position of the bank and it measures the 'gaps' over various time horizons, based on a business as usual assumption that asset levels remain constant. MAR quantifies the daily and cumulative gap in a business-as-usual environment. The gap for any given tenor bucket represents the borrowings from, or placements to, the markets (internal or external), required to replace maturing liabilities or assets. MAR Limits establish a boundary for how much incremental funding is appropriate, relative to the balance sheet size and market capacity.

(b) Stress Scenario

Stress test is intended to quantify the likely impact of an event on the balance sheet and the net potential cumulative gap over a 3-month period, and to ascertain what incremental funding may be required under the defined stress scenario. The scenario is proposed by the Market Risk Management at a minimum on an annual basis, endorsed by the treasurer, and are approved by the board of directors.

(c) Scope and nature of Risk Reporting

- It is the policy of the bank that the comprehensive set of liquidity risk data, generated through the businesses' risk- taking activities, is identified and communicated throughout the applicable business, treasury, and senior management.
- Market Risk is responsible to construct and maintain an independent liquidity risk-reporting framework that effectively, consistently and meaningfully communicates risks and risk appetite.
- Treasurer is responsible to ensure the completeness and integrity of the liquidity risk data, and that the data can be effectively reported into the independent risk systems.
- ALCO, the Treasurer and the market risk managers are responsible for assisting in the quality control process by reviewing the reports for reasonableness, consistency and completeness.

(d) Mitigating Liquidity risk and processes for continuous monitoring

The following tools are being used in order to monitor the liquidity risk:
- MAR
- Stress Scenario
- Liquidity Ratios
- Significant Funding Sources (large funds providers)
- Contingency Funding Plans

47. MATURITIES OF ASSETS AND LIABILITIES

2009

	Total	Upto one months	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	961,280	961,280	-	-	-	-	-	-	-	-
Balances with other banks	707,912	707,912	-	-	-	-	-	-	-	-
Lendings to financial institutions	3,123,377	2,373,377	350,000	400,000	-	-	-	-	-	-
Investments - net	5,807,829	-	2,541,972	1,647,028	1,020,142	-	-	436,726	-	161,961
Advances - net	9,723,411	1,058,366	1,703,420	1,024,844	2,549,493	444,835	1,702,687	1,015,591	190,872	33,303
Operating fixed assets	1,112,169	19,754	28,168	41,608	80,557	121,974	79,913	111,462	171,833	456,900
Deferred tax assets	1,550,008	-	-	-	-	-	-	-	1,550,008	-
Other assets	748,140	179,281	46,161	40,880	57,399	26,688	11,927	14,930	370,874	-
	23,734,126	5,299,970	4,669,721	3,154,360	3,707,591	593,497	1,794,527	1,578,709	2,283,587	652,164
Liabilities										
Bills payable	78,127	78,127	-	-	-	-	-	-	-	-
Borrowings	3,141,284	1,532,232	1,148,000	438,716	-	-	-	-	22,336	-
Deposits and other accounts	12,520,633	7,788,276	2,182,509	419,689	1,565,456	503,966	2,850	57,887	-	-
Liabilities against assets subject to finance lease	279	-	279	-	-	-	-	-	-	-
Other liabilities	918,143	133,882	100,151	17,622	421,852	7,161	40	237,435	-	-
	16,658,466	9,532,517	3,430,939	876,027	1,987,308	511,127	2,890	295,322	22,336	-
Net assets	7,075,660	(4,232,547)	1,238,782	2,278,333	1,720,283	82,370	1,791,637	1,283,387	2,261,251	652,164
Represented by:										
Share capital	8,769,517									
Reserves	43,080									
Advance share subscription money received against proposed issue of right shares	2,189,440									
Accumulated loss	(3,929,320)									
	7,072,717									
Surplus on revaluation of assets	2,943									
	7,075,660									

2008

	Total	Upto one months	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	774,575	774,575	-	-	-	-	-	-	-	-
Balances with other banks	331,201	331,201	-	-	-	-	-	-	-	-
Lendings to financial institutions	2,313,308	2,063,308	250,000	-	-	-	-	-	-	-
Investments - net	3,829,354	995,103	2,228,934	-	-	-	-	334,786	91,049	179,482
Advances - net	6,163,008	838,116	34,145	213,042	1,181,838	263,960	535,235	2,846,882	142,464	107,326
Operating fixed assets	1,157,689	13,011	25,692	38,111	113,462	137,275	92,759	108,969	139,267	489,143
Deferred tax assets	1,080,273	-	-	-	-	-	-	-	1,080,273	-
Other assets	837,928	171,735	32,956	45,368	69,230	109,969	26,310	20,705	361,655	-
	16,487,336	5,187,049	2,571,727	296,521	1,364,530	511,204	654,304	3,311,342	1,814,708	775,951
Liabilities										
Bills payable	55,349	55,349	-	-	-	-	-	-	-	-
Borrowings	437,949	191,613	-	224,000	-	-	-	-	22,336	-
Deposits and other accounts	9,859,537	4,239,739	3,123,557	667,001	1,197,413	296,481	316,366	18,980	-	-
Liabilities against assets subject to finance lease	420	-	420	-	-	-	-	-	-	-
Other liabilities	671,927	75,874	189,898	157,968	32,004	136,110	39,700	40,373	-	-
	11,025,182	4,562,575	3,313,875	1,048,969	1,229,417	432,591	356,066	59,353	22,336	-
Net assets	5,462,154	624,474	(742,148)	(752,448)	135,113	78,613	298,238	3,251,989	1,792,372	775,951
Represented by:										
Share capital	8,769,517									
Reserves	43,080									
Accumulated loss	(3,336,267)									
	5,476,330									
Deficit on revaluation of assets	(14,176)									
	5,462,154									

Maturities of assets and liabilities reflect their carrying values at which these are reported in the balance sheet. The maturities of assets and liabilities having contractual maturities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. Assets and liabilities not having a contractual maturity are assumed to mature on the expected date of realisation / settlement.

48. OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of technology, processes, infrastructure, personnel and other risks having an operational risk impact. The Bank seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

Following are the strategic initiatives that the bank has undertaken for the effective implementation of Operational Risk Management:

The bank has set up an Operational Risk & Controls Department (ORM & CCD), housed within the Operations & Technology Group, which is entrusted with managing the controls processes in an efficient and effective manner. In order to achieve this objective, the ORM & CCD domain includes the following activities:

- Operational Risk Management
- Quality Assurance Reviews
- Central Reconciliation
- GL Proofing and Verification
- Policies & Procedures Development and Review
- System Audit to ensure Product Versus GL reconciliations
- System Parameters and Users Access Maintenance Management
- Business Continuity Planning and;
- Fraud Prevention & Controls

The ORM & CCD unit's operational framework has been developed in light of the policies, procedures and best practices adopted by our parent Samba Financial Group (SFG). In order to ensure compliance with the established framework, the bank's Operations Manual and Standard Operating Procedures (SOPs) have been duly revamped. Adherence to the policies and procedures is ensured through regular Quality Assurance Reviews.

The bank successfully migrated to the new core banking platform in 2008, which has significantly enhanced and strengthened the IT capability, processing speed, support effectiveness and disaster recovery capability of the bank.

In order to ensure effective Business Continuity Planning (BCP), a Master Business Continuity Plan, incorporating both, the global best practices and those followed by Samba Financial Group has been developed and undergoing implementation. The bank is also in the process of development and testing Department wise Business Continuity Plans in a modular format.

As regards Basel-II-Operational Risk, the bank is currently using Basic Indicator Approach (BIA) for the purpose of calculating Operational Risk Charge. In the foreseeable future, the bank has no immediate intent to move towards Standardized Approach as migration to the same has been made discretionary by State Bank of Pakistan (SBP).

In order to institutionalize a robust control and self assessment culture, Key Risk Indicators (KRIs) for respective areas have been duly identified and agreed upon in conjunction with Samba Financial Group along with tolerable limits for each KRI. The KRI regime was implemented in May, 2009 and has since been reported on a monthly basis. Furthermore, KRI inventory is regularly updated based on the trends established and breaches reported.

The ICFR (Internal Controls over Financial Reporting), project, nearing its completion, would provide the impetus for Risk and Controls Self Assessment (RCSA) regime implementation in the form of Risk Controls Matrices (RCMs), which are one of the key deliverables of the afore-mentioned project. Subsequent to finalization, implementation of the same shall be ensured by Internal Audit Function as part of their annual audit plan along with Internal Controls Function.

Loss Data Collection is expected to commence in the near future. Appropriate templates for collection of the same have been duly designed and incorporated in revised Operational Risk Policy.

Fraud Risk Awareness and Prevention is a key initiative undertaken by the bank. Fraud Risk Management Unit (FRMU) within ORMD & CCD has developed a Master Fraud Control Program in line with both local regulatory requirements, global and Samba Financial Group's (parent entity) best practices. The afore-mentioned program has been developed to strengthen the bank's firewalls against actual and potential frauds and to mitigate fraud risk to lowest possible levels.

Institution wide awareness on Operational Risk, Business Continuity Planning and Fraud Risk Awareness, is promoted through regular communication and training workshops (both in-house and external).

49. DATE OF AUTHORISATION

These financial statements were approved and authorised for issue on March 1, 2010 by the Board of Directors of the bank.

50. GENERAL

- Corresponding figures have been re-arranged and reclassified, wherever necessary, to facilitate comparison. However, there are no material reclassifications to report in these financial statements.

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

President & Chief Executive Officer | Chairman | Director | Director

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF PROVIDED

DURING THE YEAR ENDED DECEMBER 31, 2009

ANNEXURE - 1

S.No.	Name and address of the borrower	Name of the individuals / partners / directors	CNIC No.	Father's / Husband's name	Outstanding liabilities at the beginning of the year				Principal written off	Interest / Mark-up written off	Other financial relief provided	Total
					Principal	Interest / Mark-up	Others	Total				
								(Rupees in '000)				
1	Engineering Associated Precast 60 - C -1 Gulberg III Lahore	Mrs. Samia Sikandar Khalid Hamid Khan Uzair Nawaz Sikandar Hamid Khan	277-55-339490 217-50-106041 231-58-089690 277-48-347640	Sikandar Hamid Khan Abdul Hamid Khan Muhammad Nawaz Abdul Hamid Khan	2,525	-	-	2,525	2,525	-	-	2,525
2	Nasir Mushtaq Vohra F - 26 -5 Phase 4, Gizri DHA Karach	Nasir Mushtaq Vohra	42301-0952155-9	S. Zafar Iqbal	646	8,895	-	9,541	646	8,895	-	9,541
3	Binback Industries Factory Area Faisalabad	Haji Abdul Aziz Abdul Haq ALRaee Nasir Abdul Aziz ALRaee	123-65-678901	Abdul Haq Raee Haji Abdul Aziz Abdul Haq ALRaee	2,089	2,684	-	4,773	2,089	2,684	-	4,773
4	Al Majeed Ghee Mills Ltd 55-N Gulberg II Lahore	Sheikh Sajjad Amjad Usman Amjad	35202-1194947-3 35201-7826448-5	Abdul Majeed Sheikh Sajjad Amjad	28,850	-	-	28,850	28,850	-	-	28,850
5	Mekran Fisheries Fish Harbour West Karachi	Azhar ul Haq Butt Tanvir ul Haq Butt Tassawar ul Haq Butt	512-93-097869 512-55-177952 512-93-097849	Muzafar Din Butt Muzafar Din Butt Muzafar Din Butt	6,461	8,079	-	14,540	6,461	8,079	-	14,540
					40,571	19,658	-	60,229	40,571	19,658	-	60,229

Pattern of Shareholding

As at December 31, 2009

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
1,081	1	100	51,286
2,044	101	500	598,694
1,062	501	1000	817,804
1,721	1001	5000	4,072,578
422	5001	10000	3,321,606
138	10001	15000	1,735,384
102	15001	20000	1,877,277
75	20001	25000	1,754,067
49	25001	30000	1,367,284
23	30001	35000	768,418
23	35001	40000	872,015
15	40001	45000	643,438
36	45001	50000	1,769,475
12	50001	55000	638,724
8	55001	60000	465,502
7	60001	65000	439,163
10	65001	70000	673,950
11	70001	75000	815,170
9	75001	80000	703,480
7	80001	85000	580,784
3	85001	90000	264,905
3	90001	95000	275,337
28	95001	100000	2,789,118
2	100001	105000	204,492
4	105001	110000	430,230
2	110001	115000	228,931
5	115001	120000	596,499
5	120001	125000	616,049
3	125001	130000	386,503
1	130001	135000	133,147
3	135001	140000	414,000
2	140001	145000	282,878
1	145001	150000	150,000
2	155001	160000	315,733
3	160001	165000	483,310
1	175001	180000	180,000
3	180001	185000	542,741
2	185001	190000	375,395

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
8	195001	200000	1,594,363
1	200001	205000	205,000
1	210001	215000	212,500
2	220001	225000	446,325
1	235001	240000	238,637
2	245001	250000	500,000
1	250001	255000	250,148
1	270001	275000	273,417
5	295001	300000	1,492,906
2	305001	310000	618,016
1	310001	315000	315,000
2	320001	325000	649,000
1	335001	340000	339,598
1	340001	345000	344,000
2	345001	350000	699,143
1	350001	355000	354,181
1	360001	365000	361,425
1	370001	375000	375,000
1	385001	390000	387,076
1	395001	400000	395,455
1	405001	410000	409,201
1	410001	415000	412,959
1	415001	420000	417,081
1	420001	425000	425,000
1	440001	445000	444,333
1	445001	450000	449,500
3	450001	455000	1,358,338
1	465001	470000	470,000
1	475001	480000	479,794
2	495001	500000	1,000,000
1	520001	525000	524,384
2	545001	550000	1,096,934
1	555001	560000	556,082
2	560001	565000	1,128,000
1	580001	585000	584,500
1	660001	665000	660,098
1	715001	720000	720,000
1	725001	730000	726,845
1	760001	765000	761,080
1	780001	785000	782,251
1	805001	810000	806,048

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
1	810001	815000	812,500
1	850001	855000	850,855
1	875001	880000	875,710
1	995001	1000000	1,000,000
1	1105001	1110000	1,106,774
1	1490001	1495000	1,494,000
1	1595001	1600000	1,600,000
1	1680001	1685000	1,680,475
1	1695001	1700000	1,700,000
1	1795001	1800000	1,800,000
1	1835001	1840000	1,840,000
1	1990001	1995000	1,993,108
1	2005001	2010000	2,008,500
1	2020001	2025000	2,024,000
1	2245001	2250000	2,245,222
2	2270001	2275000	4,540,790
1	2630001	2635000	2,631,973
1	2855001	2860000	2,858,599
1	2995001	3000000	2,998,445
2	3400001	3405000	6,803,737
1	3895001	3900000	3,900,000
1	4525001	4530000	4,529,333
1	4530001	4535000	4,533,500
1	4670001	4675000	4,674,971
1	5425001	5430000	5,425,808
1	5995001	6000000	6,000,000
1	6695001	6700000	6,700,000
1	12230001	12235000	12,230,240
1	12440001	12445000	12,440,099
1	21170001	21175000	21,170,161
1	27745001	27750000	27,750,000
1	30960001	30965000	30,963,000
1	36870001	36875000	36,870,890
1	599995001	600000000	600,000,000
		7,026	876,951,675

Category of Shareholding

As at December 31, 2009

S.No.	Shareholders category	No. of Shareholders	No. of Shares held	%
1	Directors, CEO and Their Spouses	4	131,000	0.01
2	Spouse / Relatives	2	-	-
3	Executives	3	1,577	0.00
4	Associated Companies, Undertakings and Related Parties	4	607,419,093	69.26
5	NIT and ICP	6	24,725,254	2.82
6	Public Sector Companies and Corporations	1	4,674,971	0.53
7	Banks, Development Finance Institutions, Non-Banking Finance Institutions,	38	107,383,753	12.25
8	Insurance Companies	7	17,910	0.00
9	Modarabas and Mutual Funds	20	2,633,294	0.30
10	Other Companies	173	71,990,205	8.21
11	Non Resident	16	223,733	0.03
12	Individuals	6,754	57,750,885	6.59
	TOTALS	7,026	876,951,675	100.00

Information as required under Code of Corporate Governance
As at December 31, 2009

Shareholders category	Number of Shares held	%
DIRECTORS, THEIR SPOUSE AND MINOR CHILDREN		
DIRECTORS		
Mr. Mubashar Manif Khokhar	500	0.00
Mr. Farhat Abbas Mirza	125,000	0.01
Mr. Javed Iqbal	5,000	0.00
Mr. Zahid Zaheer	500	0.00
SPOUSE AND MINOR CHILDREN		
Mrs. Najma Mirza W/o Mr. Farhat Abbas Mirza*	-	-
Mrs. Nishat Iqbal W/o Mr. Javed Iqbal*	-	-
	131,000	0.01
*Joint Account		
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		
M/s. Asian Stocks Fund Limited	1,993,285	0.23
Crescent Steel and Allied Products Ltd.	5,425,808	0.62
Samba Financial Group	600,000,000	68.42
	607,419,093	69.26
NIT AND ICP (NAME WISE DETAIL)		
M/s. National Bank Of Pakistan Trustee Deptt.	24,715,190	2.82
M/s. Investment Corporation Of Pakistan	10,064	0.00
	24,725,254	2.82
BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS	107,383,753	12.25
PUBLIC SECTOR COMPANIES	4,674,971	0.53
INSURANCE COMPANIES	17,910	0.00
MODARABAS AND MUTUAL FUNDS	2,633,294	0.30
OTHER COMPANIES	71,990,205	8.21
NON-RESIDENT	223,733	0.03
GENERAL PUBLIC	57,752,462	6.59
	876,951,675	100.00
SHAREHOLDERS HOLDING 10% OR MORE VOTING INTEREST		
Samba Financial Group	600,000,000	68.42

Samba Bank Limited

Form of Proxy
7th Annual General Meeting

I / We, ______________________ of ______________ being member(s) of Samba Bank Limited holding __________ ordinary shares hereby appoint __________ of ______________ or failing him / her ______________ of ______________ who is / are also member(s) of Samba Bank Limited as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the Annual General Meeting of the Bank to be held on March 29, 2010 and at any adjournment thereof.

As witness my / our hand / seal this ________ day of ________ 2010.

Signed by the said ______________________

in the presence of 1. ______________________

____

2. ______________________

____

Folio / CDC Account No.

Please affix here Revenue Stamp of Rs.5/-

This signature should agree with the specimen registered with the Bank. Important:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Bank, 6th Floor, Sidco Avenue Centre, Maulana Deen Muhammad Wafai Road, Karachi, not less than 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he himself is a member of the Company, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.

For CDC Account Holders / Corporate Entities:

In addition to the above the following requirements have to be met:

i) The proxy form shall be witnessed by the persons whose names, addresses and CNIC numbers shall be mentioned on the form.
ii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
iii) The proxy shall produce his original CNIC or original passport at the time of the meeting.
iv) In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the company.

AFFIX CORRECT POSTAGE

The Company Secretary

Samba Bank Limited

6th Floor, Sidco Avenue Centre,
Maulana Deen Muhammad Wafai Road,
Karachi.

Samba Bank Limited

Admission Slip

The Seventh General Meeting of Samba Bank Limited will be held on March 29, 2010 at 10:00 a.m. at Hotel Beach Luxury, Karachi.

Kindly bring this slip duly signed by you for attending the Meeting.

Company Secretary

Name ____________________

Folio No. / CDC I.D ____________________ Signature ____________________

No. of Shares held ____________________

Note:

i) The signature of the shareholder must tally with the specimen signature on the Company's record.

ii) Shareholders are requested to hand over duly completed admission slips at the counter before entering the Meeting premises.

CDC Account Holders / Proxies / Corporate Entities:

a) The CDC Account Holder / Proxy shall authenticate his identity by showing his original Computerized National Identity Card (CNIC) or original passport at the time of attending the Meeting.

b) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting (unless it has been provided earlier).

This Admission Slip is Not Transferable