FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2009

BALANCE SHEET
AS AT DECEMBER 31, 2009

	Note	2009	2008
			Rupees in '000'
ASSETS			
Cash and balances with treasury banks	7	1,923,526	1,349,649
Balances with other banks	8	724,802	65,580
Lendings to financial institutions	9	1,433,817	200,000
Investments	10	12,446,033	5,094,613
Advances	11	18,503,815	15,758,678
Operating fixed assets	12	1,570,754	927,882
Deferred tax assets	13	381,016	360,893
Other assets	14	1,189,612	1,045,522
		38,173,375	24,802,817
LIABILITIES			
Bills payable	15	213,209	75,963
Borrowings	16	1,554,801	1,869,940
Deposits and other accounts	17	31,307,488	16,616,466
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	1,043,477	420,328
		34,118,975	18,982,697
NET ASSETS		4,054,400	5,820,120
REPRESENTED BY			
Share capital	19	5,000,000	5,000,000
Reserves		1,064,828	1,314,828
Accumulated loss		(1,998,887)	(182,097)
		4,065,941	6,132,731
Deficit on revaluation of assets - net of tax	20	(11,541)	(312,611)
		4,054,400	5,820,120
CONTINGENCIES AND COMMITMENTS	21		

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

PRESIDENT AND CHIEF EXECUTIVE	DIRECTOR	DIRECTOR	DIRECTOR

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
		Rupees in '000'	
Mark-up / return / interest earned	22	3,514,363	2,471,982
Mark-up / return / interest expensed	23	(2,877,797)	(1,585,875)
Net mark-up / interest income		636,566	886,107
Provision against non-performing loans and advances	11.3.1	(1,816,580)	(623,202)
Provision for diminution in the value of investments	10.11	(224,207)	-
Bad debts written off directly		-	-
		(2,040,787)	(623,202)
Net mark-up / interest (loss) / income after provisions		(1,404,221)	262,905
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		141,594	79,135
Dividend income		33,120	107,615
Loss from dealing in foreign currencies		(52,752)	(29,706)
Gain on sale of securities - net	24	65,534	5,311
Unrealised loss on revaluation of investments classified as held for trading	10.13	(4,423)	-
Other income	25	12,616	4,425
Total non-markup / interest income		195,689	166,780
		(1,208,532)	429,685
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	26	1,064,723	774,742
Other provisions / write-offs		-	-
Other charges	27	12,331	2,217
Total non-markup / interest expenses		1,077,054	776,959
		(2,285,586)	(347,274)
Extra ordinary / unusual items		-	-
LOSS BEFORE TAXATION		(2,285,586)	(347,274)
Taxation	28		
Current		(35,799)	(84,254)
Prior years		72,359	4,105
Deferred		182,236	236,015
		218,796	155,866
LOSS AFTER TAXATION		(2,066,790)	(191,408)
Basic Earnings per share (Rupees)	29	(4.13)	(0.38)
Diluted Earnings per share (Rupees)	29	(4.13)	(0.38)

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

PRESIDENT AND CHIEF EXECUTIVE DIRECTOR DIRECTOR DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009

	December 31, 2009	December 31, 2008
	Rupees in '000	
Loss after taxation for the year	(2,066,790)	(191,408)
Other comprehensive income	-	-
Total comprehensive income for the year	(2,066,790)	(191,408)

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

PRESIDENT AND CHIEF EXECUTIVE DIRECTOR DIRECTOR DIRECTOR

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
		Rupees in '000'	
A. CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(2,285,586)	(347,274)
Dividend income		(33,120)	(107,615)
		(2,318,706)	(454,889)
Adjustments:			
Depreciation		104,385	46,793
Amortization		27,918	26,072
Impairment of goodwill		-	60,794
Provision against non-performing advances		1,816,580	623,202
Provision for diminution in value of investments		224,207	-
Unrealized loss on revaluation of investment in held for trading securities		4,423	-
Loss / (gain) on sale of fixed assets		30	(845)
Provision for compensated absences		4,729	8,492
Provision for gratuity		10,714	9,625
		2,192,986	774,133
		(125,720)	319,244
(Increase) / decrease in operating assets			
Lendings to financial institutions		(1,233,817)	2,655,582
Held for trading securities		(108,298)	61,952
Advances		(4,561,717)	(8,352,632)
Other assets		(110,214)	(590,678)
		(6,014,046)	(6,225,776)
Increase / (decrease) in operating liabilities			
Bills payable		137,246	(308,216)
Borrowings from financial institutions		(315,139)	121,337
Deposits and other accounts		14,691,022	7,151,681
Other liabilities		607,706	221,175
		15,120,835	7,185,977
		8,981,070	1,279,445
Income tax paid		(5,301)	(123,291)
Net cash generated from operating activities		8,975,769	1,156,154
B. CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(7,008,567)	(90,159)
Investment in associate		-	(112,773)
Dividend received		32,732	111,163
Investments in operating fixed assets		(767,012)	(494,906)
Sale proceeds from disposal of property and equipment		177	39,354
Net cash used in investing activities		(7,742,670)	(547,321)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of share capital		-	-
Share premium on issue of share capital		-	-
Net cash generated from financing activities		-	-
Increase in cash and cash equivalents		1,233,099	608,833
Cash and cash equivalents at beginning of the year		1,415,229	806,396
Cash and cash equivalents at end of the year	30	2,648,328	1,415,229

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

PRESIDENT AND CHIEF EXECUTIVE DIRECTOR DIRECTOR DIRECTOR

STATEMENT OF CHANGE IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009

		Capital Reserves		Revenue Reserves		
	Share capital	Share premium	Statutory reserve	General reserve	Unappropriated profit/ accumulated loss)	Total
	Rupees in '000'					
Balance as at January 01, 2008	4,500,000	1,500,000	64,828	66,567	192,744	6.324.139
Total comprehensive income for the year ended December 31, 2008						
Loss for the year	-	-	-	-	(191,408)	(191,408)
Transfer to general reserve	-	-	-	183,433	(183,433)	-
Transactions with owners						
Issue of bonus shares	500,000	(500,000)	-	-	-	-
Balance as at December 31, 2008	5,000,000	1,000,000	64,828	250,000	(182,097)	(6,132,731)
Total comprehensive income for the year ended December 31, 2009						
Loss for the year	-	-	-	-	(2,066,790)	(2,066,790)
Transfer from general reserve	-	-	-	(250,000)	250,000	-
Balance as at December 31, 2009	5,000,000	1,000,000	64,828	-	(1,998,887)	(4,065,941)

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

PRESIDENT AND CHIEF EXECUTIVE	DIRECTOR	DIRECTOR	DIRECTOR

1. STATUS AND NATURE OF BUSINESS

1.1 Arif Habib Bank Limited (the Bank) was incorporated in Pakistan as public company limited by shares on December 09, 2005 under the Companies Ordinance, 1984. It is listed on all the stock exchanges of Pakistan. Registered office is situated at 2/1 R.Y. 16, Old Queens Road, Karachi in the province of Sindh.

1.2 The Bank is principally engaged in the business of banking, through its 40 branches (2008: 33 branches), as defined in the Banking Companies Ordinance, 1962. The medium to long term rating of the Bank rated by JCR-VIS, credit rating company, is 'A' with a positive outlook. Short term rating of the Bank is 'A-2'.

1.3 Suroor Investment Limited (SIL), a company incorporated in Mauritius, has entered into a Share Purchase Agreement (SPA) with Arif Habib Securities Limited (AHSL) - the holding company on June 30, 2009 for acquisition of 297,034,854 ordinary shares of the Bank beneficially owned by AHSL. Full payment was made to AHSL before the year ended December 31, 2009 as required under the SPA. Transfer of shares will be done after necessary regulatory requirements.

1.4 In accordance with BSD Circular No. 7 dated April 15, 2009, the minimum paid up capital requirement (free of losses) of the bank at December 31, 2009 is Rs 6 billion. The paid up capital of the Bank as at December 31, 2009 is Rs. 5 billion and the Bank has reserves and accumulated losses of Rs. 1.1 billion and Rs. 2 billion respectively as of the said date. The management approached SBP to grant extension of the said minimum capital requirement on the basis that SIL, the holding company has also entered into Share Purchase Agreements (SPAs) with majority shareholders of Mybank Limited and Atlas Bank Limited and as directed by the State Bank of Pakistan intend to merge these banks with and into Arif Habib Bank Limited. SBP vide its letter No. BSD/BAI-3/608/008/2010 dated January 6, 2010 has granted extension to the Bank till March 31, 2010 or completion of merger process whichever occurs earlier to meet the shortfall.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade-related 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 purchase and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

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

3.3.1 IAS 1 (revised), 'Presentation of Financial Statements' (effective from January 1, 2009). 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. Further, as surplus on revaluation of assets does not form part of the equity under the local laws and is presented below the equity in the balance sheet, accordingly changes in equity arising from surplus on revaluation of assets have not been considered as part of comprehensive income and accordingly these are not included in the statement of comprehensive income presented in these financial statements.

3.3.2 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 rate method. 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.

3.3.3 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 increase in 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 cost are deducted in the calculation of the 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 recognized. 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 dose not have any impact on the Bank’s financial statements.

3.3.4 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.

3.3.5 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.

3.3.6 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 Standards, interpretations and amendments to published approved accounting standards that are not applied

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, the 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 the SBP has defined the segment categorization through the BSD Circular. Accordingly, the requirements specified by the IFRS 8 as above are presently not applicable on the Bank's financial statements.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 1, 2010: -

3.5.1 IFRIC – 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 01, 2009) states that when a Bank disributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Bank does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Bank's financial statements.

3.5.2 Amendment to IFRS 5 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. 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.

3.5.3 Amendment to IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

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

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

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

3.5.7 The International Accounting Standards Board made certain amendments to existing standards as part of its Second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2010 financial statements.

3.5.8 There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 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.

3.6 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 financial instruments are carried at fair value and staff retirement benefits are stated at present value.

4.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires to make certain judgments, accounting estimates and assumptions. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. These estimates and associated assumptions are continually evaluated and are based on historical experience, statutory requirements and other factors considered reasonable in the circumstances. Revision to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The estimates and assumptions that are expected to have a significant effect on the assets and liabilities, income and expenses have been disclosed in note 6 to these financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are the same as those applied in the preparation of the financial statements of the Bank for the year ended December 31, 2008 (except for the change mentioned in note 5.1 below) and are enumerated as follows:

5.1 Change in accounting policy

Starting January 01, 2009, the Bank has changed its accounting policy in respect of 'Presentation of financial statements'.

IAS 1 (Revised) ‘Presentation of Financial Statements’ (effective for annual periods beginning on or after January 1, 2009)- 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, requiring ‘non-owner changes in equity’ to be presented, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. The Bank has opted to resent the components of profit or loss in a separate statement while a statement of comprehensive income is presented separately as permitted under revised IAS 1. As surplus on revaluation of assets does not form part of the equity under the local laws and is presented below the equity in the balance sheet, accordingly changes in equity arising form surplus on revaluation of assets have not been considered part of comprehensive income and accordingly these are not included in the statement of comprehensive income presented in these financial statement.

Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

5.2 Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents include cash and balances with treasury banks and balances with other banks (net of overdrawn nostro balances) in current and deposit accounts.

5.3 Lending to / borrowings from financial and other institutions

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

Repurchase agreement borrowings

Securities sold subject to an agreement to repurchase at a specified future date (repos) are continued to be recognised in the balance sheet and are measured in accordance with accounting policies for investment securities. The counterparty liability for amounts received under these agreements is included in borrowings. The difference between sale and repurchase price is treated as mark-up expense and is accrued over the period of the repo agreement.

Repurchase agreement lendings

Securities purchased under agreement to resell at a specified future date (reverse repos) are not recognised in the balance sheet. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up earned and is accrued over the period of the reverse repo agreement.

Securities purchased are not recognised in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability under borrowings from financial institutions

5.4 Investments

The management determines the appropriate classification of its investments at the time of purchase and classifies these investments as held for trading, available for sale or held to maturity. These are initially recognised at cost, being the fair value of the consideration given including the acquisition cost.

Held-for-trading

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

Held-to-maturity

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

Available-for-sale

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

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

In accordance with the requirements of SBP, quoted securities, other than those classified as held to maturity and investments in associates, are stated at market value. Investments classified as held to maturity are carried at amortized cost whereas investments in associates (which qualify for accounting under International Accounting Standard -28 ' Investment in Associates') are carried at cost in accordance with the directive of SBP.

The unrealized surplus / (deficit) arising as a result of revaluation of the Bank's held for trading investment portfolio is taken to profit and loss account.

The surplus / (deficit) arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in the balance sheet below equity. The surplus / (deficit) arising on these securities is taken to profit and loss account when actually realized on disposal.

Quoted securities are revalued as per directives of SBP. Unquoted equity securities are valued at lower of cost and break-up value. Subsequent increases and decreases in the carrying value are credited/charged to profit and loss account. 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. Investments in other unquoted securities are valued at cost less impairment losses, if any.

Gain and losses arising on sale of investments during the year are taken to the profit and loss account.

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

5.5 Advances

Advances are stated net of general and specific provisions. The specific and general provisions for advances are made in accordance with the requirements of Prudential Regulations and other directives issued by the State Bank of Pakistan and are charged to the profit and loss account. Non-performing loans and advances in respect of which the bank does not expect any recoveries in future years are written off.

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

5.6 Operating fixed assets and depreciation

Owned

Property and equipment, other than leasehold land which is not depreciated, are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated using the straight line method to write down the cost of assets to their residual values over the estimated useful lives. The rates at which the assets are depreciated are disclosed in Note 12.2 to the financial statements. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the assets is recognised in the profit and loss account in the year when asset is derecognised.

Capital work in progress

Capital work-in-progress are stated at cost.

Intangible assets

Intangible assets, other than goodwill, having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets are amortized over their estimated useful lives, using the straight line method. Amortization is charged from the month the assets are available for use at the rate stated in note 12.3.

5.7 Non current assets held for sale

Non current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. The assets (or disposal groups) are measured at lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss.

5.8 Assets acquired in satisfaction of claims

The Bank occasionally acquires assets in settlement of certain advances. These are stated at lower of the net realizable value of the related advances and the current market value of such assets.

5.9 Impairment

The carrying amounts of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts 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 recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The resulting impairment loss is taken to the profit and loss account.

5.10 Deferred costs

Pre-operating / preliminary expenses are included in the deferred costs and are amortized over five years on straight line basis from the date of commencement of business.

5.11 Staff retirement and other benefits

Defined contribution plan

The Bank operates defined contribution provident fund for all employees. Equal monthly contributions are made both by the Bank and the employees to the fund at the rate of 8.33 percent of basic salary.

Defined benefit scheme

The Bank operates an unfunded gratuity scheme for all its permanent employees who have completed the minimum qualifying period of five years. Provision is made to meet the cost of such gratuity benefits on the basis of actuarial recommendations and are charged to income currently. The actuarial valuations are periodically carried out using the 'Projected Unit Credit Method'.

Annual contributions towards the defined benefit schemes are made on the basis of actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gains/losses arising from experience adjustments and changes in actuarial assumptions are amortized over the future expected remaining working lives of the employees, to the extent of the greater of ten percent of the present value of the defined benefit obligation at that date (before deducting plan assets) and ten percent of the fair value of any plan assets at that date.

Employees' compensated absences

The Bank provides its liability towards compensated absences accumulated by its employees on the basis of actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gain/loss are amortized over the future expected average remaining lives of the employees, to the extent of ten percent of the present value of the defined benefit obligations at that date.

5.12 Taxation

Current

Provision for current taxation is based on taxable income at the current rate of tax after taking with applicable tax credits, rebates and exemptions available; if any. The charge for current tax also include adjustments where considered necessary, relating to prior years which arise from assessments finalized during the year.

Deferred

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Bank also recognizes deferred tax asset / liability on deficit / surplus on revaluation of securities which is adjusted against related deficit / surplus in accordance with the requirements of the International Accounting Standard (IAS) 12 "Income Taxes".

5.13 Provisions

Provisions are recognized when the Bank has a legal or constructive obligation as a result of past events and 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.

5.14 Foreign currencies

Foreign currency transactions and translations

Transactions in foreign currencies are translated into rupees at the exchange rates prevailing on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupees terms at the rates of exchange ruling on the balance sheet date. Forward foreign exchange contracts are valued at forward rates determined with reference to their respective maturities.

Translation gains and losses

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

5.15 Functional and presentation currency

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

5.16 Proposed dividend and appropriation to reserves

Dividends and appropriations to reserves, except appropriations which are required by the law, after the balance sheet date are recognised as liability in the bank's financial statements in the year in which these are approved.

5.17 Revenue recognition

Revenue is recognized to the extent that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following recognition criteria are used for revenue recognition:

Advances and investments

Markup / return on regular loans / advances and investments is recognized on time proportion basis. Where debt securities are purchased at premium or discount, the same is amortized through the profit and loss account over the remaining period using effective interest method.

Interest or markup recoverable on classified loans and advances and investments is recognized on receipt basis. Interest / return / mark-up on rescheduled / restructured loans and advances and investments is recognized as permitted by the regulations of the SBP.

Dividend income is recognized when the bank's right to receive the dividend is established.

Gain and loss on sale of investments are recognized in the profit and loss account.

Lease financing

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 leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease. Unrealized income on classified leases if any, is recognized on receipt basis.

Gains/losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized as income on receipts basis.

Fees, brokerage and commission

Fees, brokerage and commission on letters of credit/guarantees and others are generally recognized on an accrual basis.

5.18 Off setting

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

5.19 Financial instruments

Financial assets and liabilities

Financial instruments carried on the balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain other receivables, borrowings from financial institutions, deposits and certain other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them. Financial assets are de-recognised when the contractual right to future cash flows from the asset expire or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognised in the profit and loss account of the current period.

Derivative financial instruments

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

5.20 Segment reporting

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

Business segments

- Corporate finance
  This includes investment banking activities such as mergers and acquisitions, underwriting, privatization, securitization, Initial Public Offers (IPOs) and secondary private placements.

- Trading and sales
  This segment undertakes the Bank's treasury, money market and capital market activities.

- Retail banking
  Retail banking provides services to small borrowers i.e. consumers, small and medium enterprises (SMEs) and borrowers' agriculture sector. It includes loans, deposits and other transactions with retail customers.

- Commercial banking
  This includes loans, deposits and other transactions with corporate customers.

- Payment and settlement
  This includes payments and collections, funds transfer, clearing and settlement with the customers.

Geographical segments

The Bank conducts all its operations in Pakistan.

6. CRITICAL ACCOUNTING JUDGMENTS AND KEY

SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Bank's accounting policies, as described in note 5, the management has made the following estimates and judgments which are significant to financial statements: -

- classification of investments (Note 5.4);

- determining the residual values and useful lives of property and equipment (Note 5.6);

- impairment (Note 5.9);

- accounting for post employment benefits (Note 5.11);

- recognition of taxation and deferred tax (Note 5.12);

- provisions (Note 5.4, 5.5 and 5.13).

7. CASH AND BALANCES WITH TREASURY BANKS

	Note	2009	2008
		Rupees in '000'	
In hand			
Local currency		296,474	152,032
Foreign currencies		45,798	20,802
With State Bank of Pakistan in			
Local currency current account	7.1	1,108,944	853,912
Foreign currency current account	7.2	15,393	4,768
Foreign currency deposit account			
- Non remunerative	7.3	101,090	77,517
- Remunerative	7.4	303,270	233,463
With National Bank of Pakistan in			
Local currency current account		52,557	7,155
		1,923,526	1,349,649

7.1 Deposits with the SBP are maintained to comply with the statutory requirements issued from time to time.

7.2 This represents US Dollar Settlement account maintained with SBP.

7.3 This represents foreign currency special cash reserve maintained with SBP equivalent to at least 5% of the Bank's foreign currency deposits.

7.4 This represents foreign currency special cash reserves maintained with SBP equivalent to at least 15% of the Bank's foreign currency deposits. Profit rates on this deposit are fixed on a monthly basis by SBP. Profit rate remained Nil in 2009 (2008: 0.90% to 3.60%).

8. BALANCES WITH OTHER BANKS

	2009	2008
In Pakistan		
On current accounts	8,283	15,542
Outside Pakistan		
On current accounts	716,519	50,038
	724,802	65,580

9. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2009	2008
Repurchase agreement lendings (Reverse Repo)	9.1	1,433,817	-
Call money lendings		-	200,000
		1,433,817	200,000

9.1 These are short-term lendings to various financial institutions against the government securities shown in note 9.1.2 below. These carry mark-up at rates ranging between 12.15 % and 12.40 % (2008: nil) per annum and will mature on various dates, latest by January 07, 2010.

9.1.1 Particulars of lendings

	2009	2008
In local currency	1,433,817	200,000
In foreign currencies	-	-
	1,433,817	200,000

9.1.2 Securities held as collateral against lendings to Financial Institutions

	December 31, 2009			December 31, 2008		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees in '000'					
Market Treasury Bills	1,433,817	-	1,433,817	-	-	-
	1,433,817	-	1,433,817	-	-	-

10. INVESTMENTS

	Note	December 31, 2009 Held by bank	December 31, 2009 Given as collateral	December 31, 2009 Total	December 31, 2008 Held by bank	December 31, 2008 Given as collateral	December 31, 2008 Total
		Rupees in '000					
10.1 Investments by types:							
Held-for-trading securities							
Listed ordinary shares		108,298	-	108,298	-	-	-
Available - for - sale securities							
Market Treasury Bills	10.3	8,210,515	487,831	8,698,346	733,602	1,574,702	2,308,304
Pakistan Investment Bonds	10.3	451,748	-	451,748	364,608	-	364,608
Listed ordinary shares	10.4	700,120	-	700,120	422,738	211,021	633,759
Mutual funds unit open end	10.1.1 & 10.5	115,000	-	115,000	145,000	-	145,000
Mutual funds unit closed end	10.1.1 & 10.5	53,244	-	53,244	11,229	-	11,229
Term Finance Certificates - listed	10.6	300,084	44,973	345,057	99,980	-	99,980
Term Finance Certificates - unlisted	10.7	1,499,700	-	1,499,700	1,499,900	-	1,499,900
Sukuk Bonds	10.8	605,304	-	605,304	400,000	-	400,000
		11,935,715	532,804	12,468,519	3,677,057	1,785,723	5,462,780
Associates							
Listed ordinary shares	10.9	112,773	-	112,773	112,773	-	112,773
Investment at cost		12,156,786	532,804	12,689,590	3,789,830	1,785,723	5,575,553
Less: Provision for diminution in value of investments	10.11	(221,379)	-	(221,379)	-	-	-
Investments - net of provisions		11,935,407	532,804	12,468,211	3,789,830	1,785,723	5,575,553
Unrealized loss on held for trading securities	10.13	(4,423)	-	(4,423)	-	-	-
Deficit on revaluation of available for sale securities	20	(14,038)	(3,717)	(17,755)	(317,427)	(163,513)	(480,940)
Total investments at market value		11,916,946	529,087	12,446,033	3,472,403	1,622,210	5,094,613

10.1.1 These includes mutual funds units / certificates of Pakistan Income Enhancement Fund, Pakistan Premier Fund Limited, Pakistan Capital Protected Fund and Pakistan Strategic Allocation Fund which are associated undertakings as per the Companies Ordinance, 1984 on the basis of common directorship in the management company operating these funds. However, for the purpose of measurement, they have been classified as available for sale as the Bank does not exercise any significant influence over them.

	Note	2009	2008
		Rupees in '000'	
10.2 Investments by segments:			
Federal Government Securities:			
- Market Treasury Bills	10.3	8,698,346	2,308,304
- Pakistan Investment Bonds	10.3	451,748	364,608
Fully Paid up Ordinary Shares / Units / Certificate:			
- Listed companies	10.4	808,418	633,759
- Mutual funds - open end	10.1.1 & 10.5	115,000	145,000
- Mutual funds - closed end	10.1.1 & 10.5	53,244	11,229
Term Finance Certificates and Bonds			
- Listed Term Finance Certificate	10.6	345,057	99,980
- Unlisted Term Finance Certificates	10.7	1,499,700	1,499,900
- Sukuk Bonds	10.8	605,304	400,000
Investment in associates	10.9	112,773	112,773
Total investment at cost		12,689,590	5,575,553
Less: Provision for diminution in value of investments	10.11	(221,379)	-
Investments - net of provisions		12,468,211	5,575,553
Deficit on revaluation of securities - held for trading	10.13	(4,423)	-
Deficit on revaluation of securities - available for sale	20	(17,755)	(480,940)
Total investments at market value		12,446,033	5,094,613

10.3 Market Treasury Bills and Pakistan Investment Bonds are held with SBP and are eligible for rediscounting. Market Treasury Bills embody effective yield ranging from 11.79% to 12.60% (2008 : 9.84% to 13.85%) per annum and are maturing within 12 months. Pakistan Investment Bonds carry markup ranging from 8 % to 12 % (2008 : 7% to 11%) per annum on semi-annual basis and are maturing within 3 to 10 years. Certain government securities are kept with SBP to meet statutory liquidity requirement calculated on the basis of demand and time liabilities.

10.4 Particulars of investment in ordinary shares - listed

Name of companies	Number of shares held		Paid-up value per share	Total nominal value	
	2009	2008		2009	2008
				Rupees in '000'	
Al-Abbas Cement Company Limited	-	1,478,026	10	-	14,780
Arif Habib Limited	-	2	10	-	-
Askari Commercial Bank Limited	5,000,000	4,000,011	10	50,000	40,000
Allied Bank Limited	-	29,000	10	-	290
Attock Petroleum Limited	60,131	-	10	601	-
Attock Refinery Limited	53,000	6	10	530	-
Bank Al Falah Limited	200,000	10	10	2,000	-
Bank Islami Pakistan Limited	-	7	10	-	-
Bosicor Pakistan Limited	-	150	10	-	2
Crescent Steel and Allied Products Ltd.	-	15	10	-	-
Dawood Lawrancepur Limited	-	28	10	-	-
Dewan Salman Fibre Limited	-	4	10	-	-
D.S. Industries Limited	-	60	10	-	1
D.G. Khan Cement Limited	957,000	500,000	10	9,570	5,000
Dost Steels Limited	-	100	10	-	1
Eye Television Network Limited	-	65	10	-	1

Name of companies	Number of shares held 2009	Number of shares held 2008	Paid-up value per share	Total nominal value 2009	Total nominal value 2008
				Rupees in '000'	
Fauji Fertilizer Bin Qasim Limited	290,000	21	10	2,900	-
Fauji Fertilizer Company Limited	25,000	54,600	10	250	546
Fauji Cement Company Limited	-	22	10	-	-
Faysal Bank Limited	-	1	10	-	-
First National Equities Limited	-	8	10	-	-
Habib Bank Limited	-	8,401	10	-	84
Hub Power Company Limited	100,000	-	10	1,000	-
Ibrahim Fibres Limited	466,500	430,500	10	4,665	4,305
Invest and Finance Securities Limited	-	21	10	-	-
Javed Omer Vohra and Company Ltd.	-	33	10	-	-
Jahangir Siddiqui and Company Limited	-	7	10	-	-
Lucky Cement Company Limited	-	300,000	10	-	3,000
MCB Bank Limited	-	5	10	-	-
Maple Leaf Cement Factory Limited	-	4	10	-	-
National Bank of Pakistan	230,000	25,003	10	2,300	250
Nishat Chunian Limited	-	2	10	-	-
Nishat Chunian Power Limited	5,377,600	-	10	53,776	-
Nishat Power Limited	13,884,174	-	10	138,842	-
Netsol Technologies Limited	-	4	10	-	-
NIB Bank Limited	-	15	10	-	-
Oil & Gas Development Company Ltd.	-	50,000	10	-	500
Pakistan Oilfields Limited	480,000	480,001	10	4,800	4,800
Pakistan Petroleum Limited	-	6	10	-	-
Pakistan State Oil Limited	100,000	100,000	10	1,000	1,000
Pak Suzuki Motors Limited	200,000	200,000	10	2,000	2,000
Pervaiz Ahmed Securities Limited	-	50	10	-	1
Pakistan Cement Company Limited	-	64	10	-	1
Pakistan PTA Limited	-	54	10	-	1
Silk Bank Limited	-	19	10	-	-
Sui Northern Gas Pipelines Limited	-	5	10	-	-
Sui Southern Gas Company Limited	-	1	10	-	-
Telecard Pakistan Limited	-	74	10	-	1
TRG Pakistan Limited (Class A)	-	8	10	-	-
The Bank of Punjab	-	2	10	-	-
United Bank Limited	969,000	400,306	10	9,690	4,003
World Call Telecom Limited	-	4	10	-	-

10.5 Particulars of investment in mutual funds

	Number of shares held 2009	Number of shares held 2008	Paid-up value per share	Total nominal value 2009	Total nominal value 2008
Mutual fund open end					
Namco Income Fund	-	153,975	100	-	15,398
Pakistan Income Enhancement Fund (Note 10.1.1)	1,986,777	2,000,000	50	99,339	100,000
Mutual fund close end					
JS Value Fund Limited	-	278	100	-	28
PICIC Growth Fund	-	1	10	-	-
Pakistan Premier Fund (Note 10.1.1)	2,338,500	500,012	10	23,385	5,000

Name of companies	Number of shares held 2009	Number of shares held 2008	Paid-up value per share	Total nominal value 2009	Total nominal value 2008
				Rupees in '000'	
Pakistan Capital Protected Fund - 1 (Note 10.1.1)	3,198,000	3,198,000	10	31,980	31,980
Pakistan Strategic Allocation Fund (Note 10.1.1)	2,500,000	500,000	10	25,000	5,000

10.6 Particulars of investment in listed Term Finance Certificates - Face value of Rs.5,000/- each

Name of companies	Rating	Markup rate	Repayment	Total nominal value 2009	2008
				Rupees in '000'	
Allied Bank Limited 20,000 (2008: Nil) certificates Name of Chief Executive: Mr.Mohammad Aftab Manzoor	'AA-'	6 months KIBOR plus 1.15%	Semi-annually	100,000	-
United Bank Limited 10,000 (2008: Nil) certificates Name of Chief Executive: Mr. Atif R. Bukhari	'AA'	6 months KIBOR plus 1.15%	Semi-annually	50,000	-
Engro Corporation Limited 20,000 (2008: Nil) certificates Name of Chief Executive: Mr. Asad Umar	AA'	6 months KIBOR plus 1.55%	Semi-annually	100,000	-
NIB Bank Limited 20,000 (2008: 20,000) certificates Name of Chief Executive: Mr. Khawaja Iqbal Hassan	'A+'	6 months KIBOR plus 1.15%	Semi-annually	100,000	100,000

10.7 Particulars of investment in unlisted Term Finance Certificates - Face value of Rs.5,000/- each

Name of companies	Rating	Markup rate	Repayment	2009	2008
Pak American Fertilizer Limited 100,000 (2008: 100,000) certificates Maturity date: December 14, 2015 Name of Chief Executive: Mr. Ahmed Jauded Bilal	AA-	6 months KIBOR plus 1.75%	Semi-annually	500,000	500,000
Gujranwala Electric Power Company Limited 66,666 (2008: 66,666) certificates Maturity date: August 16, 2011 Name of Chief Executive Mr. Rana Muhammad Ashraf Zahid	Unrated	6 months KIBOR plus 0.23%	Semi-annually	333,330	333,330
Islamabad Electric Power Company Limited 66,667 (2008: 66,667) certificates Maturity date: August 16, 2011 Name of Chief Executive Mr. Raja Abdul Ghafoor	Unrated	6 months KIBOR plus 0.23%	Semi-annually	333,335	333,335

Name of companies	Rating	Markup rate	Repayment	Total nominal value 2009	Total nominal value 2008
				Rupees in '000'	
Faisalabad Electric Power Company Limited 66,667 (2008: 66,667) certificates Maturity date: August 16, 2011 Name of Chief Executive Mr. Ahmed Saeed Akhtar	Unrated	6 months KIBOR plus 0.23%	Semi-annually	333,335	333,335

10.8 Particulars of investment in Sukuk Bonds - Face value of Rs.5,000/- each

Name of companies	Rating	Markup rate	Repayment	2009	2008
Arzoo Textile Mills Limited 40,000 (2008: 40,000) certificates Maturity date: April 15, 2014 Name of Chief Executive Mr. Naseem Saigol	Unrated	6 months KIBOR plus 2% for first 2 year and 1.75% for year 3 onwards.	Semi-annually	200,000	200,000
Pak Electron Limited 40,000 (2008: 40,000) certificates Maturity date: March 15, 2015 Name of Chief Executive Mr.Azhar Majeed Sheikh	A+	3 months Kibor plus 1%	Quarterly	200,000	200,000
Liberty Power Tech Limited 40,000 (2008: Nil) certificates Maturity date: March 15, 2015 Name of Chief Executive Mr. Ashraf Mukati	Unrated	3 months Kibor plus 3%	Quarterly	205,304	-

10.9 Investment in associate

	2009	2008
Thatta Cement Company Limited	112,773	112,773

10.9.1 Summarized financial information in respect of associate is set out below:-

	2009	2008
Total assets	1,378,260	820,513
Total liabilities	(589,335)	(165,274)
Net assets	788,925	655,239
Revenue	350,911	501,452
Profit for the period	14,304	85,448

These figures are based the latest available unaudited condensed interim financial statements as at September 30, 2009.

10.10 Quality of Available for Sale Securities

Securities	2009 Short Term Rating	2009 Long Term Rating	2009 Rating by
Market Treasury Bills	Unrated	Unrated	-
Pakistan Investment Bonds	Unrated	Unrated	-
Pak American Fertilizer (Pvt) Limited - (TFCs)	A1	A+	PACRA
Arzoo Textile Mills Limited (SUKUK)	Unrated	Unrated	-
Askari Bank Limited	A1+	AA	PACRA
Al Abbas Cement Company Limited	-	-	-
Allied Bank Limited	-	-	-
Allied Bank Limited - (TFCs)	-	AA-	JCR-VIS
Bosicor Pakistan Limited	-	-	-
Dawood Lawrancepur Limited	-	-	-
D.S. Industries Limited	-	-	-
Dost Steel Limited	-	-	-
D.G. Khan Cement Limited	Unrated	Unrated	-
Eye Television Network Limited	-	-	-
Engro Chemical Pakistan Limited (TFCs)	Unrated	AA	PACRA
Fauji Fertilizer Company Limited	-	-	-
Faisalabad Electric Supply Co Limited (TFCs)	Unrated	Unrated	-
Gujranwala Electric Power Co Limited (TFCs)	Unrated	Unrated	-
Habib Bank Limited	A1+	AA+	JCR-VIS
Islamabad Electric Supply Co Limited (TFCs)	Unrated	Unrated	-
Ibrahim Fibres Limited	Unrated	Unrated	-
JS Value Fund Limited	-	-	-
Liberty Power Tech Limited	Unrated	Unrated	-
Lucky Cement Company Limited	-	-	-
MCB Bank Limited	-	-	-
National Bank of Pakistan	-	-	-
Nishat Chunian Power Limited	A1+	AA	PACRA
Nishat Power Limited	A1+	AA	PACRA
NIB Bank Limited (TFCs)	Unrated	A+	PACRA
Namco Income Fund	Unrated	Unrated	-
Oil & Gas Development Company Limited	-	-	-
Pak Electron Limited - (SUKUK)	Unrated	Unrated	-
Pakistan Oilfields Limited	Unrated	Unrated	-
Pakistan Petroleum Limited	-	-	-
Pakistan Premier Fund	Unrated	Unrated	-
Pakistan State Oil Limited	A1+	AA+	PACRA
Pakistan Strategic Allocation Fund	Unrated	Unrated	-
Pakistan Capital Protected Fund-1	Unrated	Unrated	-
Pakistan Income Enhancement Fund	Unrated	Unrated	-
Pak Suzuki Motors Limited	Unrated	Unrated	-
United Bank Limited	A1+	AA+	JCR-VIS
United Bank Limited - (TFCs)	Unrated	AA+	JCR-VIS

2008				
Short Term Rating	Long Term Rating	Rating by	2009	2008
			Rupees in '000'	
Unrated	Unrated	-	8,695,609	2,300,146
Unrated	Unrated	-	419,448	290,134
A+	A1	PACRA	486,770	500,049
Unrated	Unrated	-	150,000	200,000
A1+	AA	PACRA	136,500	58,280
Unrated	Unrated	-	-	56,903
A1+	AA	PACRA	-	908
Unrated	Unrated	-	96,641	-
Unrated	Unrated	-	-	1
Unrated	Unrated	-	-	1
Unrated	Unrated	-	-	1
Unrated	Unrated	-	-	1
Unrated	Unrated	-	19,536	10,635
Unrated	Unrated	-	-	3
A1+	AA	PACRA	92,926	-
Unrated	Unrated	-	-	3,207
Unrated	Unrated	-	333,335	333,335
Unrated	Unrated	-	333,330	333,330
A1+	AA+	JCR-VIS	6	629
Unrated	Unrated	-	333,335	333,335
Unrated	Unrated	-	17,083	15,705
Unrated	5 - Star	PACRA	-	1
Unrated	Unrated	-	205,304	-
Unrated	Unrated	-	-	9,381
A1+	AA+	PACRA	-	1
A1+	AAA	JCR-VIS	-	1,258
Unrated	Unrated	-	55,389	-
Unrated	Unrated	-	176,746	-
Unrated	A	PACRA	91,723	92,182
Unrated	Unrated	-	18,346	15,772
A1+	AAA	JCR-VIS	-	2,500
Unrated	Unrated	-	184,248	200,000
Unrated	Unrated	-	110,770	49,196
Unrated	Unrated	-	-	1
Unrated	Unrated	-	14,031	1,010
A1+	AAA	PACRA	29,744	14,458
Unrated	Unrated	-	11,000	1,140
Unrated	Unrated	-	29,326	27,439
Unrated	Unrated	-	100,670	100,200
Unrated	Unrated	-	17,792	15,922
A1+	AA+	JCR-VIS	25,718	14,776
Unrated	Unrated	-	44,061	-
			12,229,385	4,981,840

10.11 Particulars of provision

	Note	2009	2008
		Rupees in '000'	
Opening balance		-	-
Charge for the year	10.11.1	224,207	-
Write off during the year		(2,828)	-
Closing balance		221,379	-

10.11.1 It includes impairment loss of Rs 171 million recorded by the Bank during the year in accordance with the requirements of SBP BSD Circular No. 4 dated February 13, 2009 and Securities and Exchange Commission of Pakistan (SECP) SRO 150 (1)/2009 dated February 13, 2009.

10.12 Particulars of Provision in respect of Type and Segment

	2009	2008
By Type		
Available-for-sale securities		
Ordinary Shares of listed companies	(171,379)	-
Sukuk Bond	(50,000)	-
	(221,379)	-
By Segment		
Fully Paid up Ordinary Shares - Listed companies	(171,379)	-
Sukuk Bond	(50,000)	-
	(221,379)	-

10.13 Unrealized loss on investments classified as held for trading

	2009 Unrealized gain /(loss)	2008 Unrealized gain /(loss)
	Rupees in '000'	
Attock Petroleum Limited	(780)	-
Attock Refinery Limited	(966)	-
Bank Al-Falah Limited	60	-
D G Khan Cement Company Limited	(823)	-
Hub Power Company Limited	(141)	-
Fauji Fertilizer Company Limited	(6)	-
Fauji Fertilizer Bin Qasim Limited	351	-
National Bank of Pakistan	(390)	-
United Bank Limited	(1,728)	-
	(4,423)	-

10.14 Shares pledged with National Clearing Company of Pakistan Limited against Continuous Funding System (CFS) margin

	2009		2008	
	Number of shares	Amount Rupees in '000'	Number of shares	Amount Rupees in '000'
Askari Bank Limited	-	-	3,840,000	55,949

11. ADVANCES

	Note	2009	2008
		Rupees in '000'	
Loans, cash credits, running finances, etc.			
In Pakistan		20,719,557	16,346,866
Outside Pakistan		-	-
		20,719,557	16,346,866
Financing in respect of Continuous Funding System (CFS)		-	2,516
Net investment in finance lease			
In Pakistan	11.2	142,388	116,466
Outside Pakistan		-	-
		142,388	116,466
Bills discounted and purchased (excluding Treasury Bills)			
Payable in Pakistan		97,064	-
Payable outside Pakistan		113,049	44,493
		210,113	44,493
Advances - Gross		21,072,058	16,510,341
Provision against non-performing advances	11.3	(2,568,243)	(751,663)
Advances - net of provision		18,503,815	15,758,678

11.1 Particulars of advances

	2009	2008
11.1.1 In local currency	20,803,583	16,465,848
In foreign currencies	268,475	44,493
	21,072,058	16,510,341
11.1.2 Short Term	16,235,600	12,870,595
Long Term	4,836,458	3,639,746
	21,072,058	16,510,341

11.2 Net Investment in Finance Lease

	2009				2008			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Lease rentals receivable	39,386	86,687	-	126,073	26,636	92,856	-	119,492
Residual value	-	45,922	-	45,922	-	33,676	-	33,676
Minimum lease payments	39,386	132,609	-	171,995	26,636	126,532	-	153,168
Financial charges for future periods	(18,312)	(11,295)	-	(29,607)	(13,306)	(23,396)	-	(36,702)
Present value of minimum lease payments	21,074	121,314	-	142,388	13,330	103,136	-	116,466

11.3 Advances include Rs.5,016.836 million (2008 : Rs.2,693.654 million) which have been placed under non-performing status as detailed below:-

Category of Classification	2009 Classified Advances	2009 Provision Required	2009 Provision Held	2008 Classified Advances	2008 Provision Required	2008 Provision Held
	Rupees in '000					
Substandard	383,045	25,913	25,913	1,314,612	123,677	123,677
Doubtful	1,693,502	528,822	528,822	745,993	173,633	173,633
Loss	2,940,289	2,013,508	2,013,508	633,049	454,353	454,353
	5,016,836	2,568,243	2,568,243	2,693,654	751,663	751,663

11.3.1 Particulars of provision against non-performing advances

	2009			2008		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	751,663	-	751,663	128,461	-	128,461
Charge for the year	2,018,268	-	2,018,268	623,202	-	623,202
Amount written off	-	-	-	-	-	-
Reversals	(201,688)	-	(201,688)	-	-	-
Closing balance	2,568,243	-	2,568,243	751,663	-	751,663

11.3.2 Particulars of provisions against non-performing advances

	Specific	General	Total	Specific	General	Total
In local currency	2,568,243	-	2,568,243	751,663	-	751,663
In foreign currencies	-	-	-	-	-	-
	2,568,243	-	2,568,243	751,663	-	751,663

11.4 Particulars of loans and advances to Directors, Associated Companies, etc.

	Note	2009	2008
		Rupees in '000'	
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons			
Balance at beginning of the year		224,477	83,252
Loans granted during the year		144,583	207,968
Repayments during the year		(57,333)	(66,743)
Balance at end of the year		311,727	224,477
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		930,458	809,646
Loans granted during the year		1,371,260	5,350,873
Repayments during the year		(955,540)	(5,230,061)
Balance at end of the year		1,346,178	930,458
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		-	481,275
Loans granted during the year		414,355	903,083
Repayments during the year		(413,494)	(1,384,358)
Balance at end of the year		861	-
		1,658,766	1,154,935

12. OPERATING FIXED ASSETS

	Note	2009	2008
Capital work-in-progress	12.1	90,624	132,214
Property and equipment	12.2	1,417,849	485,812
Advances for purchase of property		-	85,000
Advances for renovation and refurbishment	38	-	152,479
Intangible assets			
-Computer software	12.3	62,281	72,377
		1,570,754	927,882

12.1 Capital work-in-progress

	2009	2008
Civil works	84,691	123,319
Advances to suppliers and contractors	5,933	8,895
	90,624	132,214

12.2 Property and equipment

2009

Category of Classification	COST At January 01, 2009	Additions / (Deletions)*	At December 31 2009	ACCUMULATED DEPRECIATION At January 01, 2009	For the year / period (on deletion)	At December 31 2009	Net Book value at December 31, 2009	Rate of depreciation %
	Rupees in '000							
Leasehold Land	88,030	173,100	261,130	-	-	-	261,130	-
Building	188,107	309,431	497,538	21,725	16,814	38,539	458,999	5%
Building improvements	68,777	193,021	261,798	6,706	13,616	20,322	241,476	10%
Furniture and fixtures	28,642	47,174	75,816	3,187	4,298	7,485	68,331	10%
Electrical, office and computer equipment	174,475	122,776 (180)	297,071	44,044	52,485 (63)	96,466	200,605	20% - 25%
Vehicles	19,114	5,271 (167)	24,218	5,671	4,782 (78)	10,375	13,843	20%
Others (note 12.2.1)	-	185,856	185,856	-	12,390	12,390	173,466	10%
2009	567,145	1,036,629 (347)* -	1,827,634 -	81,334 -	104,385 (141) -	185,577 -	1,417,849	

12.2.1 "During the year, the Bank has transferred an amount of Rs. 185.856 million incurred on refurbishment of rental premises obtained by the Bank in Arif Habib Center (AHC) from capital work in progress to property and equipment being used by the Bank. Finalization of the actual cost allocation attributable to the Bank is in process. An amount of Rs.12.390 million has been charged as depreciation against such assets. The actual cost is subject to change once the cost allocation is agreed. Further, once the cost is finalized, it would be transferred to proper categories of assets, however such change would not have a material impact on depreciation charge for the current year.

* It represents assets written off during the year.

2008

Category of Classification	COST At January 01, 2008	Additions / (Deletions)/ Adjustment*	At December 31 2008	ACCUMULATED DEPRECIATION At January 01, 2008	For the year / period (on deletion)	At December 31 2008	Net Book value at December 31, 2008	Rate of depreciation %
	Rupees in '000							
Leasehold Land	-	88,030	88,030	-	-	-	88,030	-
Building	224,339	- (36,232)	188,107	13,425	8,300	21,725	166,382	5%
Building improvements (rented premises)	-	33,328 (783) 36,232	68,777	-	6,747 (41)	6,706	62,071	10%
Furniture and fixtures	13,936	14,706	28,642	970	2,217	3,187	25,455	10%
Electrical, office and computer equipment	126,979	86,281 (38,785)	174,475	18,143	26,747 (845)	44,045	130,431	20% - 25%
Vehicles	13,719	6,461 (1,066)	19,114	3,386	2,782 (497)	5,671	13,443	20%
2008	378,973	228,806 (39,851) (783)	567,145	35,924	46,793 (1,342) (41)	81,334	485,812	

12.3 Computer Software

2009

Category of Classification	COST At January 01, 2009	Additions / (Deletions)*	At December 31 2009	ACCUMULATED DEPRECIATION At January 01, 2009	For the year / period (on deletion)	At December 31 2009	Net Book value at December 31, 2009	Rate of depreciation %
	Rupees in '000							
Computer software	92,918	9,452	102,370	20,541	19,548	40,089	62,281	20%
	92,918	9,452	102,370	20,541	19,548	40,089	62,281	

2008

Category of Classification	COST At January 01, 2008	Additions / (Deletions)/ Adjustment*	At December 31 2008	ACCUMULATED DEPRECIATION At January 01, 2008	For the year / period (on deletion)	At December 31 2008	Net Book value at December 31, 2008	Rate of depreciation %
	Rupees in '000							
Computer software	85,160	7,758	92,918	2,839	17,702	20,541	72,377	20%
	85,160	7,758	92,918	2,839	17,702	20,541	72,377	

13. DEFERRED TAX ASSETS / LIABILITIES

	Note	2009	2008
		Rupees in '000'	
Deferred debits arising in respect of			
Deficit on revaluation of assets		6,214	168,329
Provision against non performing loans		298,183	259,040
Provision for gratuity		8,792	5,042
Provision for compensated absences		4,627	3,205
Unused tax losses		158,577	-
Provision for impairment losses		78,533	-
Amortisation of goodwill		-	16,154
Minimum turn over tax		18,836	-
		573,762	451,770
Deferred credits arising due to			
Difference between accounting and tax written down values		(191,117)	(89,248)
Deferred cost		(1,629)	(1,629)
		(192,746)	(90,877)
		381,016	360,893

The Bank has an aggregate amount of deferred tax asset of Rs.838 million in respect of unabsorbed tax losses and other timing differences as at December 31, 2009 out of which deferred tax asset of Rs 381 million has been recognized which represents management best estimate of the probable benefits expected to be realized in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in these years against losses carried forward and other timing differences relating to prior years.

14. OTHER ASSETS

	Note	2009	2008
Income / Mark-up accrued in local currency		695,659	715,697
Income / Mark-up accrued in foreign currency		783	145
Advances, deposits, advance rent and other prepayments		166,001	218,283
Non banking assets acquired in satisfaction of claims	14.1	214,762	-
Advance taxation - net of provision		85,000	43,142
Dividend receivable		488	100
Receivable from brokers		12,267	696
Receivable from group companies		-	898
Receivable from National Clearing Company of Pakistan Limited		-	67,467
Deferred costs	14.2	13,344	21,714
Others		1,308	1,752
		1,189,612	1,069,894
Provision held against other assets	14.3	-	(24,372)
Other assets - net of provisions		1,189,612	1,045,522

14.1 Market value of non banking assets acquired in satisfaction of claims	214,762	-

14.2 Deferred costs - net

Opening balance	21,714	30,084
Incurred during the year	-	-
Amortized during the year	(8,370)	(8,370)
Closing balance	13,344	21,714

	Note	2009	2008
		Rupees in '000'	
14.3 Provision held against other assets			
Opening balance		24,372	24,372
Charge for the year		-	-
Reversals		-	-
Amount written off		(24,372)	-
Closing balance		-	24,372

15. BILLS PAYABLE

	2009	2008
In Pakistan	213,209	75,963
Outside Pakistan	-	-
	213,209	75,963

16. BORROWINGS

	2009	2008
In Pakistan	1,554,801	1,869,940
Outside Pakistan	-	-
	1,554,801	1,869,940

16.1 Particulars of borrowings with respect to currencies

	2009	2008
In local currency	1,554,801	1,869,940
In foreign currencies	-	-
	1,554,801	1,869,940

16.2 Details of borrowings secured / unsecured

	Note	2009	2008
Secured			
Borrowings from State Bank of Pakistan	16.3	1,066,970	304,079
Repurchase agreement borrowings	16.4	487,831	1,565,861
Borrowings from subsidiary companies, managed modarabas and associated undertakings		-	-
Borrowings from directors (including chief executive) of the bank		-	-
Others		-	-
		1,554,801	1,869,940
Unsecured			
Call borrowings		-	-
Overdrawn nostro accounts		-	-
Others		-	-
		-	-
		1,554,801	1,869,940

16.3 These are secured against promisory notes, export documents and undertakings by the Bank granting the right to SBP to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current accounts maintained with the SBP. These borrowings are subject to markup rate of 6.5% to 7% (2008: 6.5%) per annum.

16.4 These represent borrowings from various financial institutions at markup rate 12.14% (2008 : 14.9% to 15%) per annum maturing within one week. Market Treasury Bills amounting to Rs.487.831 million (2008 : Rs.1,574.70 million) have been given as collateral against these borrowings.

	2009	2008
	Rupees in '000'	

17. DEPOSITS AND OTHER ACCOUNTS

	2009	2008
Customers		
Fixed deposits	16,927,613	11,809,387
Savings deposits	10,475,845	3,630,055
Current accounts - Remunerative	-	-
Current accounts - Non-remunerative	3,271,909	751,320
Margin accounts	616,006	398,347
	31,291,373	16,589,109
Financial institutions		
Remunerative deposits	-	-
Non-remunerative deposits	16,115	27,357
	16,115	27,357
	31,307,488	16,616,466

17.1 Particulars of deposits

	2009	2008
In local currency	29,393,994	15,188,748
In foreign currencies	1,913,494	1,427,718
	31,307,488	16,616,466

18. OTHER LIABILITIES

	2009	2008
Mark-up / return / interest payable in local currency	774,931	262,669
Payable to Bangladesh Bank	41,389	41,389
Payable to Rupali Bank - Bangladesh	16,292	16,292
Payable to brokers against purchase of shares	5,246	2,719
Payable to vendors	10,841	6,156
Provision for compensated absences	13,221	8,492
Payable to Group Companies	1,097	-
Accrued expenses	55,101	16,706
Unrealised loss on forward foreign exchange contracts	1,499	1,444
Payable to defined benefit plan	25,121	14,407
Security deposit against lease finance	45,922	33,676
Withholding tax payable	375	4,376
Others	52,442	12,002
	1,043,477	420,328

19. SHARE CAPITAL

19.1 Authorized

2009 (Number of Shares)	2008 (Number of Shares)		2009	2008
1,100,000,000	600,000,000	Ordinary shares of Rs.10/- each	11,000,000	6,000,000

19.2 Issued, subscribed and paid-up

2009 (Number of Shares)	2008 (Number of Shares)		2009	2008
428,500,000	428,500,000	Ordinary shares of Rs.10/- each fully paid in cash	4,285,000	4,285,000
21,500,000	21,500,000	Issued for consideration other than cash	215,000	215,000
50,000,000	50,000,000	Issued as bonus shares	500,000	500,000
500,000,000	500,000,000		5,000,000	5,000,000

	2009	2008
	Rupees in '000'	
19.3 Reconciliation of number of ordinary shares of Rs.10/- each		
At beginning of the year	500,000,000	450,000,000
Add: Issued during the year as bonus shares	-	50,000,000
At end of the year	500,000,000	500,000,000

19.4 Authorized capital of the Bank has been increased from Rs.6 billion to Rs.11 billion during the year.

19.5 Holding company Arif Habib Securities Limited (AHSL) and associated undertaking Rupali Bank Limited, Bangladesh held 297,034,854 (59.41%) and 32,777,450 (6.56%) [2008 : 297,034,854 (59.41%) and 32,777,450 (6.56%)] ordinary shares respectively.

As mentioned in note 1.3 to these financial statements, transfer of 297,304,854 shares owned by AHSL to Suroor Investment Limited will be effected after the necessary regulatory requirements.

20. DEFICIT ON REVALUATION OF ASSETS - NET OF TAX

	2009	2008
Federal Government Securities		
Market Treasury Bills	(2,735)	(8,158)
Pakistan Investment Bonds	(32,301)	(74,473)
Fully paid-up shares / units / certificates:		
Term finance certificates and sukuk bonds	(45,423)	(7,648)
Listed companies shares	57,576	(379,992)
Open end mutual funds units	4,015	(1,591)
Closed end mutual funds units	1,113	(9,078)
Total deficit on revaluation of securities	(17,755)	(480,940)
Related deferred tax asset	6,214	168,329
	(11,541)	(312,611)

21. CONTINGENCIES AND COMMITMENTS

21.1 Direct credit substitutes

	2009	2008
Including guarantees and standby letters of credit serving as financial guarantees for loans and securities		
Government	-	-
Financial institutions	-	-
Others	-	-
	-	-

21.2 Transaction-related contingent liabilities / commitments guarantees issued favouring

	2009	2008
Government	8,676,394	475,059
Banking companies and other financial institutions	1,010,067	6,550
Others	1,631,136	1,628,147
	11,317,597	2,109,756

	Note	2009	2008
		Rupees in '000'	
21.3 Trade-related contingent liabilities			
Letter of credits		2,024,123	176,876
Acceptances		244,984	224,265
		2,269,107	401,141
21.4 Other contingencies - claims against bank not acknowledge as debt		83,903	83,903

21.5 Contingent asset

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

		2009	2008
21.6 Commitments in respect of forward lending			
Forward call lending		-	-
Forward repurchase agreement lending		1,533,560	933,317
Commitments to extend credit		13,304,338	21,272,326
		14,837,898	22,205,643
21.7 Commitments in respect of forward foreign exchange contracts			
Purchase		688,650	993,085
Sale		42,195	-
		730,845	993,085
21.8 Commitments for the acquisition of operating fixed assets			
Civil works (for branches)		67,266	64,102
Acquisition of computer software		-	-
		67,266	64,102
21.9 Commitments in respect of underwriting agreements		28,000	-
21.10 Commitments in respect of purchase of TFCs		100,000	-

22. MARK-UP / RETURN / INTEREST EARNED

	2009	2008
On loans and advances to:		
Customers	2,248,971	1,836,752
Financial Institutions	4,650	4,550
On Investments in:		
Available for sale securities	1,183,077	492,316
On lending to financial institutions	77,665	138,364
	3,514,363	2,471,982

23. MARK-UP / RETURN / INTEREST EXPENSED

	2009	2008
Deposits and other accounts	2,715,142	1,307,536
Securities sold under repurchase agreements	125,519	90,661
Other short term borrowings	37,136	187,678
	2,877,797	1,585,875

	Note	2009	2008
		Rupees in '000'	

24. GAIN ON SALE OF SECURITIES - Net

		2009	2008
Federal Government Securities			
- Market Treasury Bills		13,118	-
- Pakistan Investment Bonds		1,256	(19,503)
Listed shares		36,542	104,397
Mutual Funds Units / Certificates		12,630	(72,126)
Term Finance Certificates		1,988	(7,457)
		65,534	5,311

25. OTHER INCOME

		2009	2008
Bad debts recovered		303	-
Gain on disposal of operating fixed assets		(30)	845
Others		12,343	3,580
		12,616	4,425

26. ADMINISTRATIVE EXPENSES

	Note	2009	2008
Salaries, allowances, etc.		476,307	317,609
Charge for defined benefit plan - gratuity	32.4	10,714	9,625
Contribution to defined contribution scheme		13,664	8,884
Non-executive directors' fees, allowances and other expenses		314	210
Brokerage and commission		5,665	10,950
Rent, taxes, insurance and electricity, etc.		213,190	112,961
Legal and professional charges		11,174	8,867
Fees and subscription		29,615	34,587
Repairs and maintenance		25,183	14,422
Communications		29,564	19,130
Stationery and printing		14,296	9,296
Advertisement and publicity		22,814	45,224
Traveling and conveyance		31,299	23,755
Education and training		1,491	638
Entertainment		8,479	5,914
Security services and charges		22,668	10,584
Auditors' remuneration	26.1	2,567	1,028
Depreciation	12.2	104,385	46,793
Amortization	12.3 & 14.2	27,918	26,072
Impairment of goodwill		-	60,794
Others		13,416	7,399
		1,064,723	774,742

26.1 Auditors' remuneration

		2009	2008
Audit fee		700	550
Tax services		1,000	130
Certifications, half yearly review and sundry advisory services		720	225
Out of pocket expenses		147	123
		2,567	1,028

27. OTHER CHARGES

	Note	2009	2008
		Rupees in '000'	
Penalties imposed by State Bank of Pakistan		9,057	222
Bank charges		3,238	1,995
Decline in market value of non banking assets		36	-
		12,331	2,217

28. TAXATION

	2009	2008
	Rupees in '000'	
28.1 For the year		
-Current	35,799	84,254
-Deferred	(182,236)	(236,015)
	(146,437)	(151,761)
For prior year		
-Current	(72,359)	(4,105)
	(218,796)	(155,866)

28.2 The numerical reconciliation between the average tax rate and applicable tax rate has not been presented in these financial statements as income of the Bank is subject to minimum taxation of 0.5% under the provisions of section 113 of the Income Tax Ordinance, 2001.

29. EARNINGS PER SHARE - BASIC AND DILUTED

	Note	2009	2008
		Rupees in '000'	
Loss for the year		(2,066,790)	(191,408)
Weighted average number of ordinary shares outstanding during the year		500,000,000	500,000,000
Earnings per share - Basic and diluted - (negative)	Rs.	(4.13)	(0.38)

30. CASH AND CASH EQUIVALENTS

	Note	2009	2008
Cash and balance with treasury banks	7	1,923,526	1,349,649
Balance with other banks	8	724,802	65,580
		2,648,328	1,415,229

31. STAFF STRENGTH

	2009	2008
Permanent	433	375
Contractual basis	182	166
Bank's own staff strength at the end of the year	615	541
Outsourced	-	-
Total staff strength	615	541

32. DEFINED BENEFIT SCHEME

32.1 The benefits under the unfunded gratuity scheme are payable to permanent and contractual basis employees on retirement at the age of 60 years or earlier cessation of services in lump sum. The benefit is equal to one month's last drawn basic salary of each year of confirmed services, subject to a minimum of five years of service. The actuarial valuation of the funded scheme is carried out periodically. Latest actuarial valuation was carried out as at December 31, 2009 using "Projected Unit Credit Method".

32.2 Principal actuarial assumptions

The following significant assumptions were used for actuarial valuation of the scheme:-

	2009	2008
Discount rate	13%	15%
Expected rate of salary increase	13%	15%

	Note	2009	2008
		Rupees in '000'	
32.3 Reconciliation of liability recognised by the Bank			
Present value of defined benefit obligations		23,665	15,003
Net actuarial gains or losses not recognized		1,456	(596)
		25,121	14,407
32.4 Movement in liability recognised by the Bank			
Opening balance		14,407	4,782
Charge for the year		10,714	9,625
Closing balance		25,121	14,407
32.5 Charge for the year			
Current service cost		8,464	8,894
Interest cost		2,250	556
Actuarial gains and losses		-	4
Past service cost		-	171
		10,714	9,625

The expected future charge for defined benefit plan is Rs.14.913 million (2008 : Rs.12.275 million) according to actuarial recommendation.

33. DEFINED CONTRIBUTION PLAN

The Bank operates a provident fund scheme administered by the Board of Trustees for all its permanent employees. Equal monthly contributions are made both by the Bank and employees to the fund @ 8.33% of basic salary. During the year employees made a contribution of Rs.13.664 million (2008 : Rs.8.884 million) to the fund. The Bank has also made a contribution of equal amount of the fund.

34. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President / Chief Executive		Directors		Executives	
	2009	2008	2009	2008	2009	2008
	----------------------------------'Rupees in '000'----------------------------------					
Fees	-	-	314	210	-	-
Managerial remuneration	10,909	6,469	-	-	130,981	72,511
Charge for defined benefit plan	-	-	-	-	-	-
Charge for defined contribution plan	-	219	-	-	9,368	5,889
Rent and house maintenance	4,909	1,171	-	-	58,942	32,630
Utilities	1,091	260	-	-	13,098	7,251
Dearness Allowance	909	-	-	-	11,217	-
Medical	1,091	260	-	-	13,098	7,251
Conveyance	-	388	-	-	16,031	11,924
Car allowance	-	500	-	-	27,210	17,225
Bonus	909	440	-	-	10,225	11,500
Payment to Ex-president for past services	-	29,120	-	-	-	-
	19,818	38,827	314	210	290,170	166,181
Number of person(s)	1	2	2	2	116	71

34.1 Executive means employee, other than the Chief Executive and directors, whose basic salary exceeds five hundred thousand rupees in a financial year. The Chief Executive and certain executives are provided with free use of Bank company maintained cars in accordance with their entitlements.

34.2 Number of persons include the outgoing President, Director(s) and executives.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently differences can arise between carrying values and the fair values or fair value estimates.

The fair value of investments in Term Finance Certificates and Federal Government securities are based on quoted market prices and PKRV rates respectively. Fair value of unquoted equity investments is determined on the basis of lower of cost and breakup value of these investments as per the latest available financial statements.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for non-performing advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.5.

The maturity and repricing profile and effective rates are stated in notes 40.4.4 and 40.5.1 respectively.

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

36. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

2009	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Total
	Rupees in '000					
Total income	23,120	1,306,860	206,406	2,171,577	2,089	3,710,052
Total expenses	13,157	568,628	1,532,463	3,881,140	250	5,995,638
Net income / (loss) before tax	9,963	738,232	(1,326,057)	(1,709,563)	1,839	(2,285,586)
Segment assets (Gross)	9,812	17,230,556	3,854,766	19,645,596	887	40,741,618
Segment non performing loans	-	-	1,780,655	3,236,181	-	5,016,836
Segment provision	-	-	760,795	1,807,448	-	2,568,243
Segment assets (Net)	9,812	17,230,556	3,093,971	17,838,148	887	38,173,375
Segment liabilities	1,372	565,872	5,723,562	27,614,835	213,334	34,118,975
Segment return on assets (ROA) (%)	101.54%	4.28%	(42.86)%	(9.58)%	207.33%	
Segment cost of funds (%)	134.09%	3.30%	49.53%	21.76%	28.18%	

2008	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Total
	Rupees in '000					
Total income	47,108	717,811	1,423,230	449,493	1,120	2,638,762
Total expenses	19,735	362,221	2,486,237	117,606	237	2,986,036
Net income / (loss) before tax	27,373	355,590	(1,063,007)	331,887	883	(347,274)
Segment assets (Gross)	910,742	7,139,971	17,055,891	471,888	360	25,578,852
Segment non performing loans	13	7,658	2,578,136	444	-	2,586,251
Segment provision	13	7,658	767,920	444	-	776,035
Segment assets (Net)	910,729	7,132,313	16,287,971	471,444	360	24,802,817
Segment liabilities	2,020	1,600,636	16,545,678	758,351	76,012	18,982,697
Segment return on assets (ROA) (%)	3.01%	4.99%	(6.53)%	70.40%	245.28%	
Segment cost of funds (%)	2.17%	5.08%	15.26%	24.95%	65.83%	

37. TRUST ACTIVITIES

The Bank is not engaged in any trust activities.

38. RELATED PARTY TRANSACTIONS

Related parties comprise associated undertakings, majority shareholders, retirement benefit plans, directors and key management personnel of the Bank. Transactions with related parties are executed substantially on the same commercial terms as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

Details of transaction with the related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows: -

	2009		2008	
	Key management personnel	Associates/ related parties	Key management personnel	Associates/ related parties
	Rupees in '000			
Advances				
Balance at beginning of the year	103,694	930,458	14,237	1,290,921
Sanctioned / granted during the year	3,885	1,785,615	117,141	6,253,956
Payment received during the year	(8,762)	(1,369,034)	(27,684)	(6,614,419)
Balance at end of the year	98,817	1,347,039	103,694	930,458
Deposits				
Balance at beginning of the year	3,934	1,489,978	404,049	207,098
Deposits during the year	3,563,588	76,936,419	37,327,191	313,227,211
Withdrawal during the year	(3,559,921)	(77,984,084)	(37,727,306)	(311,944,331)
Balance at end of the year	7,601	442,313	3,934	1,489,978
Investment in shares				
Thatta Cement Company Limited	-	112,773	-	112,773
Advance for renovation and refurbishment	-	-	-	152,479
Advance rent	-	6,125	-	-
Purchase of assets (note 12.2.1)	-	185,856	-	-
Bills payable	-	-	-	5,625
Guarantees, letters of credits and acceptances	-	161,383	-	164,775
Contribution paid to the provident fund	-	13,664	-	8,884
Other payable	-	1,097	-	898
Mark up payable	3,565	4,285	22	8,209
Mark up receivable	-	65,435	-	38,202
Profit / expense for the year				
Brokerage expenses paid - CFS	-	-	-	1,283
Brokerage expenses paid - equity securities	-	1,693	-	7,799
Rent Expense	-	15,816	-	7,800
Mark up earned	8,228	157,561	3,674	139,386
Capital gain/(Loss)	-	5,592	-	(66,562)
Dividend income	-	17,900	-	65,064
Mark up expensed	6,523	97,084	36,490	221,848
Mark up paid	2,981	100,982	36,652	219,366
Common expenses	-	-	-	1,268
Proceed from disposal of operating fixed assets	-	-	569	38,785

39. CAPITAL ADEQUACY

39.1 Scope of applications

The Basel-II framework is applicable to the Bank in assessment of its capital adequacy requirement.

39.2 Capital structure

Banks regulatory capital is analyzed into two tiers:

Tier 1 capital, which includes fully issued, subscribed and paid up capital, balance in share premium account, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for deficit on revaluation of available for sale investments and intangible assets.

Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 % of risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 45% of the balance in the related revaluation reserves) and subordinated debt (up to a maximum of 50% of total tier 1).

Tier 3 Capital has also been prescribed by the SBP for managing market risk; however the Bank does not have any Tier 3 capital.

The required capital is achieved by the Bank through: -

(a) enhancement in the risk profile of asset mix at the existing volume level;
(b) ensuring better recovery management; and
(c) maintain acceptable profit margins.

Detail of the Bank's eligible capital is as follows: -

	2009	2008
	Rupees in '000'	
Tier I Capital		
Shareholders equity /Assigned capital	5,000,000	5,000,000
Share premium	1,000,000	1,000,000
Reserves	64,828	314,828
Unappropriated / unremitted profits (Net of losses)	(1,998,887)	(191,408)
Less: Intangible assets	(62,281)	(72,377)
Deficit on revaluation of investments in available for sale securities	(17,755)	(480,940)
Total Tier I Capital	3,985,905	5,570,103
Tier II Capital		
Subordinated debt (upto 50% of total Tier 1 Capital)	-	-
General provisions subject to 1.25% of Total Risk Weighted Assets	-	-
Revaluation Reserve (upto 45%)	-	-
Total Tier II Capital	-	-
Eligible Tier III Capital	-	-
Total Regulatory Capital Base	3,985,905	5,570,103

39.3 Capital Adequacy

Objectives of managing capital

Capital Management aims to ensure that there is sufficient capital to meet the capital requirements of the Bank as determined by the underlying business strategy and the minimum requirements of the SBP. The Capital Management process is governed by the Bank's Asset & Liability Committee (ALCO). ALCO is responsible for managing Bank's capital position vis-à-vis internal as well as regulatory requirements. ALCO also reviews the volume and mix of the Bank's assets, liabilities and funding sources in light of liquidity, capital, risk and profitability considerations.

Bank's capital management seeks: -

- to comply with the capital requirements set by the regulators and comparable to the peers;
- to actively manage the supply of capital cost and increase capital velocity;
- to increase strategic and tactical flexibility in the deployment of capital to allow for the timely reallocation of capital.
- to improve the liquidity of the Bank's assets to allow for an optimal deployment of the Bank's resources;
- to protect the Bank against unexpected events and maintain strong ratings;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide adequate return to shareholders;
- availability of adequate capital(including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- to achieve low overall cost of capital with appropriate mix of capital elements.

Externally imposed capital requirements

In order to strengthen the solvency of Banks / Development Financial Institutions (DFI), SBP through its BSD Circular No. 7 dated April 15, 2009 has advised the Banks to raise their minimum paid up capital to Rs. 6 billion by the end of financial year 2009. Further, banks are required to increase their paid up capital to Rs. 10 billion (free of losses) in a phased manner by the end of financial year 2013. The Bank has at present paid up capital (free of losses) of Rs. 4.066 billion (2008: 6.13 billion) which needs to be raised to above mentioned level in a phased manner till 2013. Further, SBP through the said circular has asked the banks to achieve minimum capital adequacy ratio (CAR) of 10%. The CAR of the Bank as at December 31, 2009 is 12.39% (2008: 20.85%) of its risk weighted exposures.

	2009		2008	
Credit risk	Capital requirements	Risk weighted assets	Capital requirements	Risk weighted assets
Portfolios subject to standardized approach	Rupees in '000'		Rupees in '000'	
(Simple or Comprehensive)				
Corporate portfolio etc.	2,284,449	22,844,488	1,822,716	20,252,401
Sovereign	-	-	-	-
Retail	33,192	331,924	57,225	635,831
Financial Institutions	27,611	276,112	4,797	53,296
Others	242,638	2,426,381	143,628	1,595,863
Portfolios subject to Internal Rating Based (IRB) approach				
Corporate	-	-	-	-
Sovereign	-	-	-	-
Retail	-	-	-	-
Securitization etc.	-	-	-	-

	2009 Capital requirements	2009 Risk weighted assets	2008 Capital requirements	2008 Risk weighted assets
	Rupees in '000'		Rupees in '000'	
Equity exposure risk in the banking book				
Equity portfolio subject to market-based approaches				
Under simple risk weight method	-	-	-	-
Under Internal models approach	-	-	-	-
Equity portfolio subject to PD / LGD				
Market risk				
Capital requirement for portfolios subject to				
Standardized approach				
Interest rate risk	187,905	2,348,812	143,649	1,795,613
Equity position risk etc.	156,685	1,958,560	81,937	1,024,213
Foreign exchange risk etc.	28,559	356,987	-	-
Capital requirement for portfolios subject to Internal models approach				
Interest rate risk	-	-	-	-
Foreign exchange risk etc.	-	-	-	-
Operational risk	129,828	1,622,851	108,345	1,354,318
Capital requirement for operational risks	3,090,867	32,166,115	2,362,297	26,711,535
Capital Adequacy Ratio				
Total eligible regulatory capital held		3,985,905		5,570,103
Total risk weighted assets		32,166,115		26,711,535
Capital Adequacy Ratio (a) / (b)		12.39%		20.85%

40. RISK MANAGEMENT

The acceptance and management of financial risk is inherent to banking business activities. The Bank is exposed to numerous risks in pursuit of its business objectives. The core risks are Credit, Market and Liquidity risks. These risks arise directly through the Bank's commercial activities whilst Operational and Compliance / Legal / Regulatory risks are normal consequences of any business undertaking. We believe a sound Risk Management Framework provides principles for identifying, assessing and monitoring risk within the Bank. The Framework specifies the key elements of the risk management process in order to maximize opportunities, to minimize adversity and to achieve improved outcomes and outputs based on informed decision making.

Clearly defined risk management policies and procedures covering all activities of the Bank including general banking, trade finance, credit evaluation, credit management, treasury operations, administration and human resources management, compliance functions, risk management, accounting, audit and control are in place. The basic principles employed in formulation of the above policies and procedures involves identification, measurement, monitoring and controlling risks to ensure that:-

- The Bank's risk exposure is within the limits established by Board of Directors.
- Risk taking decisions are in line with the business strategy and objectives of the Bank.
- The expected payoffs compensate the risks taken by the Bank.
- Risk taking decisions are explicit and clear.
- Sufficient capital as buffer is available to mitigate risk.

Risk responsibilities

The Board of Directors is accountable for overall supervision of the risk management process. This is discharged by distributing responsibilities at the senior management level and determining the manner in which risk authorities are set. The Board is also responsible for approval of all risk policies and ensuring that these are properly implemented. Further, the Board shall also seek appointment of senior management personnel capable of managing the risk activities conducted by the Bank.

The Board of Directors approves the policies proposed by risk management committee of the Bank which discharge various responsibilities assigned to it by the Board.

The Risk Management is headed by a Chief Risk Officer responsible to set-up and implement the Framework of the Bank.

Risk management group organization

A clear management structure has been put in place in the Bank, which clustered around three distinct groups namely, the Business Group, the Support Group and the Risk Management Group. The Business Group is responsible for generation and management of the business and act as the front office of the Bank. The Support Group provides various services necessary for maintaining operations of the Bank on a sustainable basis. The Risk Management Group is responsible for management of the risk inherent in the Bank's operations. The Risk Management Group comprises of (i) Credit Division, (ii) Compliance Division and the (iii) Risk Management Division. Whilst the activities of the Credit Division are focused on independent risk management of the Bank's credit activities, the Compliance Division is dedicated to ensure compliance of all internal and external policies and regulations. The Risk Management Division is responsible for managing all other risks emanating from various activities of the Bank. In addition to this, the management has established various committees for periodic risk review.

The Bank has acquired and installed a state of the art, hPLUS™, core banking software. hPLUS™ is a fully functional, well proven, single integrated banking application and is also capable of generating numerous standard and customized MIS reports.

40.1 Credit risk management

Credit risk is the risk that one party to financial instrument fails to discharge an obligation and cause other party to incur a financial loss. The Bank is exposed to credit risk through its lending and investment activities as well as in cases where it acts as an intermediary of behalf of customers or other third parties or issues guarantees. The following objectives govern the credit policy of the Bank: -

- The bank compiles with the requirement of Prudential Regulations prescribed by SBP.
- Facilities provided by the Bank will be well diversified into different sectors as well as financing in different consumer products to achieve a strong market position and adequate return on capital.
- Return commensurate with the risk.
- Lending decision is based on a full appreciation for the risks inherent in the transaction and within the approved limits by the Board of Directors.
- Risk is related correctly and risk changes are identified promptly and remedial action are taken.

The Bank creates loan loss provisions against non-performing commercial advances in accordance with Prudential Regulations issued by SBP. Please refer note 11.4.1 for reconciliation in loan loss provision.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be affected in a similar way by changes in economic or other conditions. As part of managing concentration risk, sector risk is managed on a portfolio basis. Please refer to note 40.1.1.1 for segment reporting.

As a matter of paramount importance the affairs of the customers enjoying credit facilities are carefully reviewed and reconsidered periodically. The facility review provides a timely signal of unfavourable developments in clients' affairs and warns of dangers before the bank is faced with undesirable positions. For this reason, all facilities of a continuing character are only approved after the next review date, unless otherwise agreed.

Credit administration tasks include the following:

- Maintain Credit, Custody and Security documentation files,
- Register Security and Collateral documents,
- Tracking of covenants,
- Administer facility fees/receipts/payments,
- Load limits into credit system, and
- Satisfy internal and external risk reporting requirements.

It is the Bank's policy to reduce or mitigate credit risk on credit facilities or exposure, as much as possible, in a given commercial environment by securing credit facilities or exposure with collateral. To correctly asses the extent to which the collateral mitigates the credit risk the collateral must be valued according to a specified valuation method and documented and monitored. The legal mechanism by which collateral is pledged and the Bank's procedures ensures that the Bank has clear rights over the collateral and may liquidate, retain or take legal possession of it in a timely manner in the event of the default, insolvency or bankruptcy or otherwise defined credit event set out in the transaction documentation, of the counterparty and, where applicable, of the custodian holding the collateral.

40.1.1 Segmental information

Segmental Information is presented in respect of the class of business and geographical distribution of Advances, Deposits, Contingencies and Commitments.

40.1.1.1 Segments by class of business

	Advances (Gross)		Deposits		Contingencies and commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
2009						
Agriculture, Forestry, Hunting and Fishing	-	0.00%	307	0.00%	10,000	0.03%
Mining and Quarrying	-	0.00%	59,326	0.19%	285,000	0.97%
Textile	2,056,919	9.76%	229,575	0.73%	1,303,325	4.43%
Chemical and Pharmaceuticals	1,261,500	5.99%	72,526	0.23%	583,701	1.98%
Cement	650,791	3.09%	1,531	0.00%	287,758	0.98%
Sugar	354,955	1.68%	32,215	0.10%	710,045	2.41%
Footwear and Leather garments	77,196	0.37%	3,869	0.01%	34,770	0.12%
Automobile and transportation equipment	54,686	0.26%	6,848	0.02%	28,214	0.10%
Electronic and electrical appliances	136,985	0.65%	3,295	0.01%	144,425	0.49%
Construction	1,565,126	7.43%	403,191	1.29%	3,076,283	10.45%
Power (electricity), Gas, Water, Sanitary	3,002,252	14.25%	5,513,892	17.61%	10,771,638	36.60%
Wholesale and Retail Trade	2,290,846	10.87%	37,978	0.12%	275,584	0.94%
Exports/Imports	765,384	3.63%	89,882	0.29%	418,710	1.42%
Transport, Storage and Communication	923,986	4.38%	1,735,146	5.54%	1,574,024	5.35%
Financial	3,062,132	14.53%	927,156	2.96%	5,523,560	18.77%
Services	447,140	2.12%	665,977	2.13%	1,365,862	4.64%
Individuals	3,424,654	16.25%	6,884,657	21.99%	1,265,220	4.30%
Others	997,506	4.73%	14,640,117	46.76%	1,776,497	6.04%
	21,072,058	100.00%	31,307,488	100.00%	29,434,616	100.00%
2008						
Agriculture, Forestry, Hunting and Fishing	-	-	154	-	21,000	0.08%
Mining and Quarrying	350,000	2.12%	924,333	5.56%	-	-
Textile	1,170,170	7.09%	28,162	0.17%	700,756	2.71%
Chemical and Pharmaceuticals	654,868	3.97%	45,979	0.28%	968,706	3.75%
Cement	716,094	4.34%	2,194	0.01%	236,906	0.92%
Sugar	134,845	0.82%	436	-	155	-
Footwear and Leather garments	4,990	0.03%	4,817	0.03%	91,448	0.35%
Automobile and transportation equipment	51,179	0.31%	9	-	66,099	0.26%
Electronic and electrical appliances	187,140	1.13%	1,670	0.01%	304	-
Construction	1,284,452	7.78%	232,097	1.40%	3,783,170	14.63%
Power (electricity), Gas, Water, Sanitary	1,968,855	11.92%	115,428	0.69%	3,815,368	14.76%
Wholesale and Retail Trade	1,420,832	8.61%	2,783	0.02%	-	-
Exports/Imports	58,460	0.35%	17,622	0.11%	-	-
Transport, Storage and Communication	500,000	3.03%	1,440,707	8.67%	319,985	1.24%
Financial	4,577,598	27.73%	1,682,737	10.13%	12,528,635	48.45%
Services	466,928	2.83%	250,609	1.51%	29,813	0.12%
Individuals	1,868,767	11.32%	3,343,484	20.12%	1,045,033	4.04%
Others	1,095,163	6.63%	8,523,244	51.29%	2,249,844	8.70%
	16,510,341	100.00%	16,616,465	100.00%	25,857,222	100.00%

40.1.1.2

	2009					
Public/ Government	1,019,936	4.84%	11,299,128	36.09%	1,683,817	5.72%
Private	20,052,122	95.16%	20,008,360	63.91%	27,750,799	94.28%
	21,072,058	100.00%	31,307,488	100.00%	29,434,616	100.00%

	2008					
Public/ Government	895,881	5.43%	3,571,425	21.49%	895,881	3.46%
Private	15,614,460	94.57%	13,045,041	78.51%	24,961,341	96.54%
	16,510,341	100.00%	16,616,466	100.00%	25,857,222	100.00%

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

	2009		2008	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	Rupees in '000			
Textile	202,322	185,156	207,615	158,075
Chemical and Pharmaceuticals	-	-	19,030	19,030
Automobile and transportation equipment	-	-	278	278
Electronic and electrical appliances	115,334	61,929	-	-
Construction	431,914	57,364	225,000	26,546
Power (electricity), Gas, Water, Sanitary	199,007	99,504	-	-
Wholesale and retail trade	54,452	6,686	241,255	58,842
Exports/Imports	19,248	19,248	-	-
Financial	2,046,394	1,212,956	1,318,744	357,185
Services	164,021	164,021	-	-
Individuals	1,780,655	759,167	681,113	131,088
Others	3,489	2,209	619	619
	5,016,836	2,568,240	2,693,654	751,663

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

Public/ Government	-	-	-	-
Private	5,016,836	2,568,240	2,693,654	751,663
	5,016,836	2,568,240	2,693,654	751,663

40.1.1.5 Geographical Segment Analysis

	Loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees in '000			
2009				
Pakistan	(2,285,586)	38,173,375	4,054,400	29,434,616
2008				
Pakistan	(347,274)	24,802,817	5,820,120	25,857,630

Total assets employed include intra group items of Rs. 1,654.37 million (2008: Rs. 1,490.92 million).

40.2 Credit Risk - General disclosure Basel II specific

40.2.1 Credit Risk - General disclosures

The Bank is following standardized approach for all its Credit Risk Exposures.

40.2.1.1 Credit Risk: Disclosures for portfolio subject to Standardized Approach and supervisory risk weights in IRB approach Basel II specific

Under standardized approach, the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. In this connection, the Bank utilizes the credit ratings assigned by ECAIs and has recognized agencies such as PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company – Vital Information Systems), Fitch, Moody's and Standard & Poors which are also recognized by the SBP. The Bank also utilizes rating scores of Export Credit Agencies (ECA) participating in the "Arrangement on Officially Supported Export Credits".

The Standardized Approach to credit risk sets out fixed risk weights corresponding, where appropriate, to external credit assessment levels or for unrated claims.

Selection of ECAIs

The Bank selects particular ECAI(s) for each type of claim. Amongst the ECAIs that have been recognised as eligible by SBP, the following are being used against each respective claim type.

Sovereigns Exposures: For foreign currency claims on sovereigns, the Bank uses country risk scores of Export Credit Agencies (ECA) participating in the "Arrangement on Officially Supported Export Credits" available on OECD's website.

Exposures to Multilateral Development Banks (MDBs): For exposures on MDBs not eligible for a 0% risk weight, ratings of Moody's, S&P and Fitch are being used to calculate risk-weighted assets.

Exposures to Public Sector Entities (PSEs): For PSE exposures, ratings of PACRA and JCR-VIS are used to arrive at risk weights.

Bank Exposures: For foreign banks (i.e., incorporated outside Pakistan), ratings of Moody's, S&P and Fitch is being used to arrive at risk weights. However, for local banks (i.e., incorporated in Pakistan) ratings of PACRA and JCR-VIS are used.

Corporate Exposures: Ratings assigned by PACRA and JCR-VIS are used for claims on Corporate (excluding equity exposures).

Use of ECAI ratings

The Bank prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

Mapping to SBP rating grades

The selected final ratings (after application of the principles stated above) for all exposures need to be translated to the standard rating grades given by the SBP. In this regard, the mapping tables to be used for converting ECAI ratings to SBP rating grades are given below:

Long – Term Rating Grades Mapping

SBP Rating grade	Fitch	Moody's	S & P	PACRA	JCR-VIS	ECA Scores
1	AAA AA+ AA AA-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	AAA AA+ AA AA-	AAA AA+ AA AA-	0 1
2	A+ A A-	A1 A2 A3	A+ A A-	A+ A A-	A+ A A-	2
3	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-	BBB+ BBB BBB-	3
4	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	BB+ BB BB-	BB+ BB BB-	4
5	B+ B B-	B1 B2 B3	B+ B B-	B+ B B-	B+ B B-	5 6
6	CCC+ and below	Caa1 and below	CCC+ and below	CCC CC C	CCC CC C D	7

Short – Term Rating Grades Mapping

SBP Rating grade	Fitch	Moody's	S & P	PACRA	JCR-VIS
S1	F1	P-1	A-1+ A-1	A-1+ A-1	A-1+ A-1
S2	F2	P-2	A-2	A-2	A-2
S3	F3	P-3	A-3	A-3	A-3
S4	Others	Others	Others	Others	Others

Types of exposures and ECAI's used
December 31, 2009

Exposures	Fitch	Moody's	S & P	PACRA	JCR-VIS
Corporate	-	-	-	Yes	Yes
Banks	Yes	Yes	Yes	Yes	Yes
Sovereigns	-	-	-	-	-
SME's	-	-	-	-	-
Securitizations	-	-	-	-	-
Others	-	-	-	Yes	Yes

		----------------------2009----------------------			----------------------2008----------------------		
	Rating category	Amount outstanding	Deduction CRM	Net Amount	Amount outstanding	Deduction CRM	Net Amount
		< - - - - - - - - - - - - - - - -	- - - - - - - -	- - - - - Rupees in '000 - - -	- - - - - - - - - - -	- - - - - - - -	- - - - - - - - - - >
Corporate	20%	1,352,292	-	270,458	671,434	-	671,434
	50%	788,950	-	394,475	803,141	-	803,141
	100%	-	-	-	332,193	-	332,193
	unrated	13,886,092	(1,459,660)	12,426,432	10,837,114	(1,026,727)	9,810,387
							-
Retail	75%	347,338	(14,961)	249,283	803,242	(34,129)	769,113
							-
Past due Loan	150%	674,002	(291,957)	573,068	467,412		467,412
	100%	1,197,021	291,957	1,488,978	1,593,195	-	1,593,195
	50%	577,570	-	288,785	633,049	-	633,049
							-
Bank	20%	2,122,621	(1,147,054)	195,113	216,442		216,442
	50%	19,415	-	9,708	-	-	-
	unrated	69,689	-	13,938	50,038	-	50,038
							-
Sovereign etc.	0%	1,528,697	-	-	2,072,696		2,072,696
							-
Others	0%	342,272	-	-	341,278	-	341,278
	35%	236,121	-	82,642	-	-	-
	100%	2,382,660	-	2,382,660	1,550,989	-	1,550,989
		25,524,740	(2,621,675)	18,375,540	20,372,223	(1,060,856)	19,311,367

40.2.1.2 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank has adopted the Simple Approach of Credit Risk Mitigation for the Banking Book. Since, the trading book of the Bank only comprises equity investments; therefore no Credit Risk Mitigation benefit is taken in the trading book. In instances where the Bank's exposure on an obligor is secured by collateral that conforms with the eligibility criteria under the Simple Approach of CRM, then the Bank reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement i.e. risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counter party

The Bank accepts cash, lien on deposits, government securities and eligible guarantees etc. under the simple approach of Credit Risk Mitigation. The Bank has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the credit risk mitigation benefit, the Bank uses realizable value of eligible collaterals to the extent of outstanding exposure.

Since no specific asset is available by way of security in the context of unfunded credit protection, the creditworthiness and reliability of the provider and the validity and enforceability of that party's obligations is of paramount importance. Therefore, unfunded credit protection is only "eligible" if it is provided by an appropriate counterparty which may include National Government, Central Bank etc.

40.3 Equity position risk In The banking book

The Bank makes investment for variety of purposes. Some of the investment positions of equity holding are made for revenue generation as part of strategic initiatives, while other equity holdings are held to earn capital gain to support the Bank's business activities.

Classification of investments

Under SBP's directives, equity investment may be classified as “Held For Trading (HFT)”, “Available for Sale (AFS)” or “Investment in Subsidiaries and Associates”. Some of the equity investments are listed and traded in public through stock exchanges, while other investments are unlisted and therefore illiquid.

Policies, valuation and accounting of equity investments

In accordance with the requirements of the SBP, quoted securities are carried at market value whereas investments in associates are accounted for in accordance with the directive of SBP

The unrealized surplus / (deficit) arising on revaluation of the bank’s held for trading investment portfolio is taken to the profit and loss account. The surplus / (deficit) arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in the balance sheet below equity. The surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realized upon disposal.

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying value are credited / charged to profit and loss account. 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. Investments in other unquoted securities are valued at cost less impairment losses, if any. Provision for diminution in the value of securities is made after considering impairment, if any, in their value.

Profit and loss on sale of investments is included in income currently.

Composition of equity investments - market values

	December 31, 2009			December 31, 2008		
	Held for trading	Available for sale	Investment in associates	Held for trading	Available for sale	Investment in associates
	< - Rupees in '000 - >					
Equity Investments						
- Publicly Traded	103,875	757,696	112,773	-	253,767	112,773
Mutual Funds	-	173,372	-	-	145,560	-
Total Value	103,875	931,068	112,773	-	399,327	112,773

The cumulative realized gain / (loss) arose of Rs. 49.172 million (2008: 32.271 million) from sale of equity securities; however unrealized loss of Rs. 17.755 million (2008: 480.940 million) was recognized in the balance sheet in respect of “AFS” securities.

40.4 Market risk

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

The Bank is primarily exposed to interest rate risk which is reflected in the level of future income and expense produced by these positions versus levels that would be generated by current levels of interest rates. Other risks include exposures to foreign exchange rates, as well as mortgage, equity market and issuer credit risk factors. The Bank is in the process of developing Value at Risk (VAR) and stress testing models for management of such risks.

40.4.1 Interest rate risk

Interest Rate risk is the potential impact on a bank's earnings and asset values with variation in interest rates. Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. These positions include loans, debt securities, certain trading-related assets and liabilities, deposits and borrowings. The Bank's overall goal is to manage interest rate sensitivity so that movements in interest rates do not adversely affect net interest income. Interest rate risk is measured as the potential volatility in our net interest income caused by changes in market interest rates. The Bank seeks to mitigate interest rate risk in a variety of ways including taking offsetting positions and other asset and liability management process. Whilst the Treasury and the Risk Management Division of the Bank monitor and manage the interest rate risk on a daily basis, the overall interest rate risk position and strategies are reviewed on an ongoing basis with Asset and Liability Committee (ALCO).

40.4.2 Foreign exchange risk

The Bank has set the following objectives for managing the inherent risk on foreign currency exposures:

- Maximize profitability with minimum risk by keeping the exposure at desirable levels in view of strict compliance of regulatory/ international standards and the Bank's internal guidelines.
- Manage appropriate maturity mismatch gaps
- Identify warning and stress zones for mismatch gaps.
- Usage of different tools to manage the inherent risk of product and market, such as compliance of credit limit, monitoring of foreign exchange exposure limit, review of mark to market portfolio and safe settlement, etc.

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in foreign currencies. The potential for loss arises from the process of revaluing foreign currency positions in rupee terms. The Bank's foreign exchange risk is presently limited to future cash flows in foreign currencies arising from foreign exchange transactions and translation of net open position in foreign currencies. The Bank is carefully monitoring the net foreign currency exposure as well as utilizing the currency swap and forward contract to hedge the related exposure.

	2009			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	<-------------------	Rupees in '000'	------------------->	
Pakistan rupee	36,749,261	32,230,622	634,374	5,153,013
United States dollar	1,383,145	1,834,433	(622,292)	(1,073,580)
Great Britain pound	37,813	38,603	-	(790)
Japanese yen	299	-	-	299
Euro	28,859	40,664	(12,082)	(23,887)
Other currencies	1,213	-	-	1,213
	38,200,590	34,144,322	-	4,056,268

	2008			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	<-------------------	Rupees in '000'	------------------->	
Pakistan rupee	24,371,591	17,554,764	990,985	7,807,812
United States dollar	419,018	1,420,652	(993,085)	(1,994,719)
Great Britain pound	2,466	1,226	-	1,241
Japanese yen	648	-	-	648
Euro	7,969	6,055	2,100	4,015
Other currencies	1,123	-	-	1,123
	24,802,817	18,982,697	-	5,820,120

40.4.3 Equity position risk

Equity market risk is risk to earnings on capital that results from adverse changes in the value of equity related portfolios. Equity market risk arises from exposure to securities that represent an ownership interest in a company. The Bank is exposed to the equity market risk on its equity trading portfolio only. Apart from on balance sheet exposure, some off balance sheet equity exposure also comes from the future contracts. Bank is in the process of instituting measures to mitigate the risk associated with the trading equity portfolio through future contract and active trading on stop loss basis. The strategic equity portfolio however remains exposed to market variations. The Board with the recommendations of ALCO approves exposure limits applicable to investments in trading book.

40.4.4 Mismatch of Interest Rate Sensitive Assets and Liabilities

	Effective Yield/ Interest rate	2009 Exposed to yield/ Interest risk Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months
		<--------------------------- Rupees in '000'			--------------------------->
On-balance sheet financial instruments					
Assets					
Cash and balances with treasury banks	-	1,923,526	303,270	-	-
Balances with other banks	-	724,802	-	-	-
Lending to financial institutions	12.15% to 12.40%	1,433,817	1,433,817	-	-
Investments	8% to 15.60%	12,446,033	79,475	3,465,165	2,180,661
Advances	7.50% to 20%	18,503,815	6,153,519	1,916,869	3,129,385
Other assets	-	1,189,612	-	-	-
		36,221,605	7,970,081	5,382,034	5,310,046
Liabilities					
Bills payable	-	213,209	213,209	-	-
Borrowings	6.5% to 12.14%	1,554,801	487,831	596,520	466,600
Deposits and other accounts	0.5% to 15%	31,307,488	11,611,698	4,503,817	726,196
Other liabilities	-	1,043,477	-	-	-
		34,118,975	12,312,738	5,100,337	1,192,796
On-balance sheet gap		2,102,630	(4,342,657)	281,697	4,117,250
Off-balance sheet financial instruments					
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)	12.15% to 12.40%	14,837,898	14,738,155	99,743	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)	12.14%	487,831	487,831	-	-
Off-balance sheet gap		14,350,067	14,250,324	99,743	-
Total Yield/Interest Risk Sensitivity Gap		16,452,697	9,907,667	381,440	4,117,250
Cumulative Yield/Interest Risk Sensitivity Gap		16,452,697	9,907,667	10,289,107	14,406,358

2009						
Exposed to yield/ Interest risk						
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	bearing financial instruments
<---------- Rupees in '000' ---------->						
-	-	-	-	-	-	1,620,256
-	-	-	-	-	-	724,802
-	-	-	-	-	-	-
3,111,258	1,446,237	267,744	639,663	276,533	-	979,297
2,352,675	3,453,753	532,620	468,421	455,872	-	40,701
-	-	-	-	-	-	1,189,612
5,463,933	4,899,990	800,364	1,108,084	732,405	-	4,554,668
-	-	-	-	-	-	-
3,850	-	-	-	-	-	-
10,345,170	58,865	110,354	47,356	-	-	3,904,032
-	-	-	-	-	-	1,043,477
10,349,020	58,865	110,354	47,356	-	-	4,947,509
(4,885,087)	4,841,125	690,010	1,060,728	732,405	-	(392,841)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	
(4,885,087)	4,841,125	690,010	1,060,728	732,405	-	
9,521,270	14,362,395	15,052,405	16,113,133	16,845,538	16,845,538	

	Effective Yield/ Interest rate	2008			
		Exposed to yield/ Interest risk			
		Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months
		< - - - - - - Rupees in '000 - - - - - - >			
On-balance sheet financial instruments					
Assets					
Cash and balances with treasury banks	0.9% to 3.60%	1,349,649	233,462	-	-
Balances with other banks	-	65,580	-	-	-
Lending to financial institutions	15%	200,000	200,000	-	-
Investments	8.0% to16.88%	5,094,613	-	2,107,342	202,813
Advances	5.84% to 20.7%	15,758,678	11,081,770	236,154	448,249
Other assets		800,063	-	-	-
		23,268,583	11,515,232	2,343,496	651,062
Liabilities					
Bills payable		75,963	-	-	-
Borrowings	6,5% to 15%	1,869,940	1,566,573	14,967	288,400
Deposits and other accounts	1.75% to 19.50%	16,616,466	8,198,474	1,795,198	1,724,829
Other liabilities		406,641	-	-	-
		18,969,010	9,765,047	1,810,165	2,013,229
On-balance sheet gap		4,299,573	1,750,185	533,332	(1,362,167)
Off-balance sheet financial instruments					
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)	14% to 17%	22,205,643	933,317	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)	14.9% to 15%	1,565,861	1,565,861	-	-
Off-balance sheet gap		20,639,782	(632,544)	-	-
Total Yield/Interest Risk Sensitivity Gap		24,939,355	1,117,641	533,332	(1,362,167)
Cumulative Yield/Interest Risk Sensitivity Gap		24,939,355	1,117,641	1,650,972	288,805

2008

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	bearing financial instruments
Exposed to yield/ Interest risk						
< - - - Rupees in '000 - - - >						
-	-	-	-	-	-	1,116,187
-	-	-	-	-	-	65,580
-	-	-	-	-	-	-
119	619,987	639,987	509,514	502,751	-	512,100
341,794	621,625	695,382	1,096,341	1,067,806	138,972	30,585
-	-	-	-	-	-	800,063
341,913	1,241,612	1,335,369	1,605,855	1,570,557	138,972	2,524,515
-	-	-	-	-	-	75,963
-	-	-	-	-	-	-
3,596,561	1,700	32,286	88,392	-	-	1,179,026
-	-	-	-	-	-	406,641
3,596,561	1,700	32,286	88,392	-	-	1,661,630
(3,254,648)	1,239,912	1,303,083	1,517,463	1,570,557	138,972	862,885
-	-	-	-	-	-	21,272,326
-	-	-	-	-	-	-
-	-	-	-	-	-	21,272,326
(3,254,648)	1,239,912	1,303,083	1,517,463	1,570,557	138,972	
(2,965,843)	(1,725,931)	(422,848)	1,094,615	2,665,172	2,804,144	

40.5 Liquidity risk

Liquidity risk is the risk caused, among others by the inability of the Bank to settle liabilities at due date. The Liquidity Risk Policy is formulated keeping in view State Bank's guidelines on risk management and best market practice.

Objectives of Bank's liquidity management is to ensure that the Bank is able to honour all its financial commitments on an ongoing basis without (i) effecting the Banks cost of funds (ii) adversely effecting ability to raise funds and (iii) resorting to sale of assets.

Asset and Liability Committee (ALCO), Risk Management Division, Treasury and the Finance Division each have a role in management of liquidity risk.

40.5.1 Maturities of Assets and Liabilities

	2009		
	Total	Upto 1 Month	Over 1 to 3 Months
	< - - - - - - - - - - - - - Rupees in '000 - - - - - - - - - - >		
Assets			
Cash and balances with treasury banks	1,923,526	1,923,526	-
Balances with other banks	724,802	724,802	-
Lending to financial institutions	1,433,817	1,433,817	-
Investments	12,446,033	79,474	3,569,040
Advances	18,503,815	6,153,520	1,919,293
Other assets	1,189,612	810,036	29,062
Operating fixed assets	1,570,754	13,796	27,592
Deferred tax assets	381,016	-	-
	38,173,375	224,207	5,544,987
Liabilities			
Bills payable	213,209	213,209	-
Borrowings	1,554,801	487,831	596,520
Deposits and other accounts	31,307,488	15,515,730	4,503,817
Sub-ordinated loans	-	-	-
Liabilities against assets subject to finance lease	-	-	-
Other liabilities	1,043,477	1,043,477	-
	34,118,975	17,260,247	5,100,337
Net assets	4,054,400	(17,036,040)	444,650
Share capital	5,000,000		
Reserves	1,064,828		
Accumulated loss	(1,998,887)		
Deficit on revaluation of assets - net	(11,541)		
	4,054,400		

2009						
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 - - - - - - - - >						
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,180,662	3,873,908	1,446,237	267,744	639,663	389,305	-
3,133,020	2,359,946	3,467,721	541,247	471,025	458,043	-
43,593	301,948	4,973	-	-	-	-
41,388	173,400	165,551	165,551	166,193	345,922	471,361
-	-	38,102	76,203	114,305	152,406	-
5,398,663	6,709,202	5,122,584	1,050,745	1,391,186	1,345,676	471,361
-	-	-	-	-	-	-
466,600	3,850	-	-	-	-	-
726,196	10,345,170	58,865	110,354	47,356	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,192,796	10,349,020	58,865	110,354	47,356	-	-
4,205,867	(3,639,818)	5,063,719	940,391	1,343,830	1,345,676	471,361

	2008		
	Total	Upto 1 Month	Over 1 to 3 Months
	< - - - - - - - - - - - - - Rupees in '000 - - - - - - - - - - >		
Assets			
Cash and balances with treasury banks	1,349,649	1,349,649	-
Balances with other banks	65,580	65,580	-
Lending to financial institutions	200,000	200,000	-
Investments	5,094,613	512,100	2,107,342
Advances	15,758,678	11,083,818	237,775
Other assets	1,045,522	861,416	20,088
Operating fixed assets	927,882	374,992	10,597
Deferred tax assets	360,893	360,893	-
	24,802,817	14,808,447	2,375,802
Liabilities			
Bills payable	75,963	75,963	-
Borrowings	1,869,940	1,566,573	14,967
Deposits and other accounts	16,616,466	9,377,500	1,795,198
Sub-ordinated loans	-	-	-
Liabilities against assets subject to finance lease	-	-	-
Other liabilities	420,328	420,328	-
Deferred tax liabilities	-	-	-
	18,982,697	11,440,364	1,810,165
Net assets	5,820,120	3,368,083	565,638
Share capital	5,000,000		
Reserves	1,314,828		
Unappropriated profit	(182,097)		
Deficit on revaluation of assets - net	(312,611)		
	5,820,120		

2008						
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			- >
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
202,813	119	619,987	639,987	509,514	502,751	-
450,681	346,658	631,109	704,101	1,097,758	1,067,806	138,972
26,335	40,083	63,165	34,436	-	-	-
15,896	31,791	52,256	43,209	71,923	178,170	149,049
-	-	-	-	-	-	-
695,724	418,651	1,366,517	1,421,733	1,679,195	1,748,727	288,021
-	-	-	-	-	-	-
288,400	-	-	-	-	-	-
1,724,829	3,596,561	1,700	32,286	88,392	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
2,013,229	3,596,561	1,700	32,286	88,392	-	-
(1,317,505)	(3,177,910)	1,364,817	1,389,447	1,590,803	1,748,727	288,021

40.6 Operational risk management

The Bank, like all financial institutions, is exposed to many types of operational risks, including the potential losses arising from internal activities or external events caused by breakdowns in information, communication, physical safeguards, business continuity, supervision, transaction processing, settlement systems and procedures and the execution of legal, fiduciary and agency responsibilities.

The Bank maintains a system of internal controls designed to keep operational risk at appropriate levels, in view of the Bank's financial strength and the characteristics of the activities and market in which it operates. These internal controls are periodically updated to conform to the industry best practices.

The Bank seeks to manage the operational risk from two perspectives, firstly by way of ensuring compliance of standard operating procedures including defined processes for prevention and detection of any fraud and forgery, and work place safety and security, secondly through contingency planning to ensure continuity of business. Policies and procedures covering all activities in Bank are in place.

The Bank is currently in the process of implementing internationally accepted Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Tread way Commission (COSO), with a view to consolidate and enhance the existing internal control processes.

41. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on March 03, 2010 by the Board of Directors of the Bank.

42. GENERAL

These financial statements have been prepared in accordance with the revised form of annual financial statements of the Bank issued by the State Bank of Pakistan through its BSD Circular No. 4 dated February 17, 2006.

PRESIDENT AND CHIEF EXECUTIVE DIRECTOR DIRECTOR DIRECTOR