



*Consolidated Financial  
Statements of NBP  
and its  
Subsidiary Companies  
2008*



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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed consolidated financial statements of National Bank of Pakistan (the holding company) and its subsidiary companies (together, the Group) which comprise consolidated balance sheet as of December 31, 2008 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. These consolidated financial statements include unaudited certified returns from the branches, except for eighty branches, which have been audited by us and fifteen branches audited by auditors abroad.

These consolidated financial statements are responsibility of the Group's management. Our responsibility is to express our opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2008 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

**FORD RHODES SIDAT HYDER & CO.**

Chartered Accountants  
Karachi

**M. YOUSUF ADIL SALEEM & CO.**

Chartered Accountants  
Karachi

Date: March 18, 2009

# Consolidated Balance Sheet

As at December 31, 2008



Excellence in Value

2007	2008			2008	2007
US Dollars in '000			Note	Rupees in '000	
<b>ASSETS</b>					
1,202,665	1,351,625	Cash and balances with treasury banks	6	106,778,346	95,010,514
483,750	499,883	Balances with other banks	7	39,490,729	38,216,263
274,129	216,950	Lendings to financial institutions - net	8	17,139,081	21,656,192
2,684,651	2,167,151	Investments - net	9	171,204,890	212,087,467
4,308,477	5,228,815	Advances - net	10	413,076,390	340,369,649
328,852	307,240	Operating fixed assets	11	24,271,964	25,979,302
-	40,551	Deferred tax assets - net	12	3,203,565	-
396,068	568,509	Other assets	13	44,912,236	31,289,403
9,678,592	10,380,724			820,077,201	764,608,790
<b>LIABILITIES</b>					
89,391	129,355	Bills payable	14	10,219,061	7,061,901
143,441	506,890	Borrowings	15	40,044,291	11,331,842
7,491,356	7,915,814	Deposits and other accounts	16	625,349,269	591,817,052
-	-	Sub-ordinated loans		-	-
427	320	Liabilities against assets subject to finance lease	17	25,274	33,739
64,545	-	Deferred tax liabilities - net	12	-	5,099,060
396,855	506,178	Other liabilities	18	39,988,101	31,351,550
8,186,015	9,058,557			715,625,996	646,695,144
1,492,577	1,322,167	<b>NET ASSETS</b>		104,451,205	117,913,646
<b>REPRESENTED BY</b>					
103,219	113,541	Share capital	19	8,969,751	8,154,319
207,321	259,201	Reserves		20,476,863	16,378,394
585,225	678,067	Unappropriated profit	(i)	53,567,323	46,232,813
895,765	1,050,809			83,013,937	70,765,526
1,389	1,427	Minority Interest		112,699	109,729
897,154	1,052,236			83,126,636	70,875,255
595,423	269,931	Surplus on revaluation of assets - net	20 & (i)	21,324,569	47,038,391
1,492,577	1,322,167			104,451,205	117,913,646
<b>CONTINGENCIES AND COMMITMENTS</b>					
			21		

(i) The above surplus on revaluation of assets include impairment loss (net of tax) of Rs.1,826 million in respect of listed equity securities / mutual funds held under 'Available-for-sale' category of investments as allowed under BSD Circular No. 4 of the SBP and SRO 150(2)/2009 of the SECP dated February 13, 2009. The said impairment loss has been determined on the basis of valuation of such listed equity securities / mutual funds using the market prices quoted on the stock exchange / net assets values as of December 31, 2008. Had the impairment loss been fully charged to profit and loss account, the 'Surplus on revaluation of assets' (net of tax) would have been higher by Rs.1,826 million and the unappropriated profit would have been lower by the same amount (See note 20.2).

(ii) The annexed notes I to 44 and Annexure I, II and III form an integral part of these financial statements.

Chairman & President

Director

Director

Director

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## Consolidated Profit and Loss Account

For the year ended December 31, 2008

2007	2008		2007	2008	
US Dollars in '000		Note	Rupees in '000		
643,573	774,074	Mark-up / return / interest earned	23	61,151,818	50,842,230
215,531	302,251	Mark-up / return / interest expensed	24	23,877,804	17,026,935
428,042	471,823	Net mark-up / interest income		37,274,014	33,815,295
59,786	134,612	Provision against non-performing advances	10.3	10,634,367	4,723,084
(509)	4,705	Provision for / (reversal of) diminution in the value of investments	9.11	371,729	(40,248)
-	51	Provision against off balance sheet obligations	18.1	4,000	-
505	-	Bad debts written off directly		-	39,899
59,782	139,368			11,010,096	4,722,735
368,260	332,455	Net mark-up / interest income after provisions		26,263,918	29,092,560
		<b>NON MARK-UP / INTEREST INCOME</b>			
87,053	101,083	Fee, commission and brokerage income		7,985,547	6,877,152
41,505	36,548	Dividend income		2,887,314	3,278,917
13,518	50,900	Income from dealing in foreign currencies		4,021,064	1,067,958
29,802	5,027	Gain on sale and redemption of securities - net	25	397,118	2,354,390
(405)	22	Unrealized gain / (loss) on revaluation of investments classified as held-for-trading	9.12	1,707	(31,964)
2,664	1,627	Share of profit from joint ventures - net of tax		128,533	210,445
392	80	Share of profit from associates - net of tax		6,290	30,988
1,938	15,898	Other income	26	1,255,903	153,110
176,467	211,185	Total non mark-up / interest income		16,683,476	13,940,996
544,727	543,640			42,947,394	43,033,556
		<b>NON MARK-UP / INTEREST EXPENSES</b>			
182,134	232,447	Administrative expenses	27	18,363,344	14,388,611
2,228	9,511	Other provisions / write offs		751,403	176,014
217	7,384	Other charges	28	583,361	17,141
184,579	249,342	Total non mark-up / interest expenses		19,698,108	14,581,766
360,148	294,298			23,249,286	28,451,790
-	-	Extra ordinary / unusual items		-	-
360,148	294,298	<b>PROFIT BEFORE TAXATION</b>		23,249,286	28,451,790
105,493	149,340	Taxation - Current		11,797,821	8,333,955
4,933	(23)	- Prior years		(1,813)	389,684
4,088	(53,554)	- Deferred		(4,230,776)	322,986
114,514	95,763		29	7,565,232	9,046,625
245,634	198,535	<b>PROFIT AFTER TAXATION</b>			
		[see note (i) & 20.2]			
(151)	(38)	Profit attributable to minority shareholders		15,684,054	19,405,165
245,483	198,497	Profit attributable to shareholders of the holding company		(2,970)	(11,902)
412,956	585,225	Unappropriated profit brought forward		15,681,084	19,393,263
		Transfer from surplus on revaluation of fixed assets		46,232,813	32,623,507
494	1,651	on account of incremental depreciation	20.3	130,456	39,007
658,933	785,373	Profit available for appropriation [see note 10.4.I & 20.2]		62,044,353	52,055,777
----- US Dollars -----				----- Rupees -----	
		Basic earnings per share for profit for the year attributable to shareholders of the holding company	30	17.48	21.62
0.27	0.22	Diluted earnings per share for profit for the year attributable to shareholders of the holding company	31	17.48	21.62
0.27	0.22				

(i) The profit for the year does not include impairment loss (net of tax) of Rs. 1,826 million in respect of listed equity securities / mutual funds held under 'Available-for-sale' category of investments in accordance with the treatment allowed under BSD Circular No. 4 of the SBP and SRO 150(2)/2009 of the SECP dated February 13, 2009. The said impairment loss has been determined on the basis of valuation of such listed equity securities / mutual funds using the market prices quoted on the stock exchange / net assets values as of December 31, 2008 and has been taken to 'Surplus on revaluation of assets' (net of tax) account as shown in the balance sheet. Had the impairment loss been fully charged to profit and loss account, profit after tax for the year would have been lower by Rs. 1,826 million and earnings per share would have been lower by Rs. 2.03 (See note 20.2).

(ii) The annexed notes I to 44 and Annexure I, II and III form an integral part of these financial statements.

Director

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# Consolidated Cash Flow Statement

For the year ended December 31, 2008



Excellence in Value

2007	2008		2008	2007
US Dollars in '000		Note	Rupees in '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
360,148	294,298		23,249,286	28,451,790
(41,505)	(36,548)		(2,887,314)	(3,278,917)
318,643	257,750		20,361,972	25,172,873
Adjustments:				
7,145	9,636	11.2	761,232	564,470
60	53	11.3	4,179	4,776
59,786	134,612	10.3	10,634,367	4,723,084
(509)	4,705			
-	51	9.11	371,729	(40,248)
(38)	(101)	18.1	4,000	-
117	136	11.6	(7,960)	(2,975)
505	-		10,751	9,214
(2,664)	(1,627)		-	39,899
(392)	(80)		(128,533)	(210,445)
2,228	9,511		(6,290)	(30,988)
66,238	156,896		751,403	176,014
384,881	414,646		12,394,878	5,232,801
			32,756,850	30,405,674
(Increase) / decrease in operating assets				
19,087	57,179		4,517,111	1,507,890
(4,815)	(2,855)		(225,566)	(380,393)
(367,532)	(1,050,417)		(82,982,937)	(29,035,002)
(35,281)	(131,631)		(10,398,820)	(2,787,228)
(388,541)	(1,127,724)		(89,090,212)	(30,694,733)
Increase / (decrease) in operating liabilities				
(44,858)	39,964		3,157,160	(3,543,761)
(21,709)	371,629		29,358,678	(1,714,990)
1,136,713	424,458		33,532,217	89,800,341
52,102	109,135		8,621,704	4,116,087
1,122,248	945,186		74,669,759	88,657,677
(123,752)	(198,765)		(15,702,406)	(9,776,401)
(117)	(136)		(10,751)	(9,214)
(123,869)	(198,901)		(15,713,157)	(9,785,615)
994,719	33,207		2,623,240	78,583,003
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net proceeds from / (investments in)				
(859,513)	132,439		10,462,712	(67,901,649)
30,087	36,827		2,909,317	2,376,810
41,505	36,548		2,887,314	3,278,917
(13,146)	(20,865)		(1,648,309)	(1,038,547)
256	-		-	20,196
168	315	11.6	24,881	13,261
(800,643)	185,264		14,635,915	(63,251,012)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
(186)	(227)		(17,911)	(14,667)
(35,847)	(77,277)		(6,104,894)	(2,831,895)
(36,033)	(77,504)		(6,122,805)	(2,846,562)
391	33,203		2,623,064	30,870
158,434	174,170		13,759,414	12,516,299
1,516,726	1,675,160		132,337,685	119,821,386
1,675,160	1,849,330	32	146,097,099	132,337,685

The annexed notes I to 44 and Annexure I, II and III form an integral part of these financial statements.

Chairman & President

Director

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Director

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2008

	Attributable to the shareholders of the holding company						
	Share capital	Reserves			Unappropriated profit	Minority Interest	Total
		Capital		Revenue			
		Exchange translation	Statutory	General			
		(Rupees in '000)					
Balance as at January 1, 2007	7,090,712	3,809,070	10,054,449	521,338	32,623,507	97,827	54,196,903
Exchange adjustments on translation of net assets of foreign branches, subsidiaries, associates and joint ventures	-	70,465	-	-	-	-	70,465
Transfer from surplus on revaluation of fixed assets-incremental depreciation - net of tax	-	-	-	-	39,007	-	39,007
Net income recognised directly in equity	-	70,465	-	-	39,007	-	109,472
Profit after taxation for the year ended December 31, 2007	-	-	-	-	19,393,263	11,902	19,405,165
Total recognised income and expense for the year	-	70,465	-	-	19,432,270	11,902	19,514,637
Issue of bonus shares 15%	1,063,607	-	-	-	(1,063,607)	-	-
Cash dividend (Rs.4 per share)	-	-	-	-	(2,836,285)	-	(2,836,285)
Transfer to statutory reserve	-	-	1,923,072	-	(1,923,072)	-	-
Balance as at December 31, 2007	8,154,319	3,879,535	11,977,521	521,338	46,232,813	109,729	70,875,255
Balance as at January 1, 2008	8,154,319	3,879,535	11,977,521	521,338	46,232,813	109,729	70,875,255
Exchange adjustments on translation of net assets of foreign branches, subsidiaries, associates and joint ventures	-	2,552,610	-	-	-	-	2,552,610
Transfer from surplus on revaluation of fixed assets-incremental depreciation - net of tax	-	-	-	-	130,456	-	130,456
Net income recognised directly in equity	-	2,552,610	-	-	130,456	-	2,683,066
Profit after taxation for the year ended December 31, 2008	-	-	-	-	15,681,084	2,970	15,684,054
Total recognised income and expense for the year	-	2,552,610	-	-	15,811,540	2,970	18,367,120
Issue of bonus shares 10%	815,432	-	-	-	(815,432)	-	-
Cash dividend (Rs.7.5 per share)	-	-	-	-	(6,115,739)	-	(6,115,739)
Transfer to statutory reserve	-	-	1,545,859	-	(1,545,859)	-	-
Balance as at December 31, 2008	8,969,751	6,432,145	13,523,380	521,338	53,567,323	112,699	83,126,636

The annexed notes I to 44 and Annexure I, II and III form an integral part of these financial statements.

Chairman & President

Director

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# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## I. THE GROUP AND ITS OPERATIONS

### I.1 The "Group" consists of:

Holding Company

- National Bank of Pakistan (the bank)

Subsidiary Companies

	Percentage Holding	
	2008 %	2007 %
- NBP Leasing Limited (formerly NBP Capital Limited)	100.00	100.00
- JSC Subsidiary Bank of NBP in Kazakhstan	100.00	100.00
- NBP Exchange Company Limited	100.00	100.00
- NBP Modaraba Management Company Limited	100.00	100.00
- Taurus Securities Limited	58.32	58.32
- National Agriculture Limited (Note 9.10)	100.00	100.00
- Cast-N-Link Products Limited (Note 9.10)	76.51	76.51

The Group is principally engaged in commercial banking, modaraba management, brokerage, leasing, foreign currency remittances and exchange transactions. Brief profile of the holding company and subsidiaries is as follows:

#### National Bank of Pakistan

The bank was incorporated in Pakistan under the National Bank of Pakistan Ordinance, 1949 and is listed on all the stock exchanges in Pakistan. Its registered and head office is situated at I.I.Chundrigar Road, Karachi. The bank is engaged in providing commercial banking and related services in Pakistan and overseas. The bank also handles treasury transactions for the Government of Pakistan (GoP) as an agent to the State Bank of Pakistan (SBP). The bank operates 1,254 (2007: 1,243) branches in Pakistan and 22 (2007: 18) overseas branches (including the Export Processing Zone branch, Karachi). Under a Trust Deed, the bank also provides services as trustee to National Investment Trust (NIT) and Long-term Credit Fund (LTCF).

#### NBP Leasing Limited (formerly NBP Capital Limited)

NBP Leasing Limited (formerly NBP Capital Limited) is a public unlisted company, incorporated in Pakistan on November 7, 1995 under the Companies Ordinance, 1984. The registered office of the company is at 4th Floor, P.I.C. Towers, M.T. Khan Road, Karachi. The company is primarily engaged in leasing business.

#### JSC Subsidiary Bank of NBP in Kazakhstan

JSC Subsidiary Bank of NBP in Kazakhstan is a joint-stock bank, which was incorporated in the Republic of Kazakhstan in 2001. The bank conducts its business under license number 25 dated October 29, 2005 (initial license was dated December 14, 2001) and is engaged in providing commercial banking services. The registered office of the bank is located at 105, Dostyk Ave, 050051, Almaty.

#### NBP Exchange Company Limited, Pakistan

NBP Exchange Company Limited is a public unlisted company, incorporated in Pakistan on September 24, 2002 under the Companies Ordinance, 1984. The company obtained license for commencement of operations from State Bank of Pakistan (SBP) on November 25, 2002 and commencement of business certificate on December 26, 2003 from the Securities and Exchange Commission of Pakistan (SECP). The registered office of the company is situated at Shaheen Complex, M.R. Kiyani Road, Karachi. The company is engaged in foreign currency remittances and exchange transactions.

The company has four branches, in Karachi, Islamabad, Rawalpindi and Mirpur Azad Jammu and Kashmir.

#### NBP Modaraba Management Company Limited, Pakistan

NBP Modaraba Management Company Limited is a public unlisted company, incorporated in Pakistan on August 6, 1992. Its registered office is 26 - Mclagon Road, Lahore. The principal purpose of the company is to float and manage modarabas. The company at present is managing First National Bank Modaraba.





# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## Taurus Securities Limited, Pakistan

Taurus Securities Limited is a public unlisted company, incorporated in Pakistan on June 27, 1993 under the Companies Ordinance, 1984. The registered office of the company is situated at 6th Floor, Progressive Plaza, Beaumont Road, Civil Lines, Karachi. It is engaged in the business of stock brokerage, investment counselling, and fund placements. It is a corporate member of the Karachi Stock Exchange (Guarantee) Limited.

### 1.2 BASIS OF CONSOLIDATION

- The consolidated financial statements include the financial statements of the bank (holding company) and its subsidiary companies together - "the Group".
- The financial statements of the subsidiaries are prepared for the same reporting year as the holding company for the purpose of consolidation, using consistent accounting policies.
- The assets, liabilities, income and expenses of subsidiary companies have been consolidated on a line by line basis.
- Minority interest represents the portion of the net results of operations and of net assets of subsidiary companies attributable to interests which are not owned by the holding company.
- Material intra-group balances and transactions have been eliminated.

## 2. BASIS OF PRESENTATION

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

The financial position and results of the Islamic banking branches of the bank have been disclosed in Annexure III to these financial statements.

- 2.2** The US Dollar amounts shown on the balance sheet, profit and loss account and cash flow statement are stated as additional information solely for the convenience of readers. For the purpose of conversion to US Dollars, the rate of Rs.79.00 to one US Dollar has been used for both 2008 and 2007 as it was the prevalent rate as on December 31, 2008.

## 3. STATEMENT OF COMPLIANCE

- 3.1** These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives shall prevail.
- 3.2** The State Bank of Pakistan 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 No. 10 dated August 26, 2002. Further, according to the notification of SECP dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirement of various circulars issued by SBP.



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for revaluation of land and buildings and valuation of certain investments and derivative financial instruments at fair value.

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5.1 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks in current and deposit accounts less overdrawn nostro accounts.

### 5.2 Investments

Investments other than those categorised as held-for-trading are initially recognised at fair value which includes transactions costs associated with the investments. Investments classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

All regular way purchases / sales of investment are recognised on the trade date, i.e., the date the Group commits to purchase/sell the investments. Regular way purchases or sales of investment require delivery of securities within the time frame generally established by regulation or convention in the market place.

The Group has classified its investment portfolio, except for investments in subsidiaries, associates and joint ventures, into 'Held-for-trading', 'Held-to-maturity' and 'Available-for-sale' portfolios as follows:

- Held-for-trading – These are securities which are acquired with the intention to trade by taking advantage of short-term market/interest rate movements and are to be sold within 90 days. These are carried at market value, with the related surplus/(deficit) on revaluation being taken to profit and loss account.
- Held-to-maturity – These are securities with fixed or determinable payments and fixed maturity that are held with the intention and ability to hold to maturity. These are carried at amortised cost.
- Available-for-sale – These are investments that do not fall under the held-for-trading or held-to-maturity categories. These are carried at market value except for incase of unquoted securities where market value is not available, which are carried at cost less provision for diminution in value, if any. Surplus / (deficit) on revaluation is taken to 'surplus / (deficit) on revaluation of assets' account shown below equity. On derecognition or impairment in quoted available-for-sale investments, the cumulative gain or loss previously reported as 'surplus / (deficit) on revaluation of assets' below equity is included in the profit and loss account for the period. However, for the current year, the impairment loss has been treated as explained in note 20.2.

Provision for diminution in value of investments for unquoted debt securities is calculated with reference to the time-based criteria as per the SBP's Prudential Regulations. Provision for diminution in value of investments in respect of unquoted shares is calculated with reference to book value of the same.

Held-for-trading and quoted available-for-sale securities are marked to market with reference to ready quotes on Reuters page (PKRV) or the Stock Exchanges.

Associates – Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method of accounting. However, in case where associates are considered as fully impaired and financial statements are not available these investments are stated at cost less provision.

Under the equity method, the Group's share of its associates' post-acquisition profits or losses is recognized in the income statement; its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

**Joint ventures** - The Group has interests in joint ventures which are jointly controlled entities. A joint venture is contractual arrangement whereby two or more parties undertake in economic activity that is subject to a joint control and includes a jointly controlled entity that involves the establishment of separate entity in which each venturer has an interest. The group accounts for its interest in joint venture using the equity method of accounting.

The carrying values of investments are reviewed for impairment when indications exist that the carrying values may exceed the estimated recoverable amounts.

## 5.3 Discount of negotiable instruments

These are stated at amortized cost less provision for doubtful debts, if any. The provision is made in accordance with the SECP Prudential Regulations for Non-Banking Finance Companies.

## 5.4 Repurchase and resale agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue 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 / return / interest expense and accrued over the life of the repo agreement using effective yield method.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet, as the Group does not obtain control over the securities. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up / return / interest income and accrued over the life of the reverse repo agreement using effective yield method.

## 5.5 Net investment in lease finance

Leases are classified finance lease when the Group transfers substantially all the risk and rewards incidental to ownership of the assets to the lessee. Net investment in lease finance is recognised at an amount equal to the aggregate of minimum lease payment including any guaranteed residual value and excluding unearned finance income, write-offs and provision for doubtful lease finances, if any. The provision is made in accordance with the SECP Prudential Regulations for Non-Banking Finance Companies.

## 5.6 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the dates on which the derivative contracts are entered into and are subsequently re-measured 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 instruments is taken to the profit and loss account.

## 5.7 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument. A financial asset is derecognised where (a) the rights to receive cash flows from the asset have expired; or (b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities are taken to income currently.

## 5.8 Advances

Advances are stated net off specific and general provisions. Provisions are made in accordance with the requirements of Prudential Regulations issued by SBP and charged to the profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances by the banks) for classification of non-performing loans and advances and computing provision / allowance thereagainst. Such regulations also require the bank to maintain general provision / allowance against consumer advances at specified percentage of such portfolio. Advances are written off where there are no realistic prospects of recovery.

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 5.9 Operating fixed assets and depreciation

### Property and equipment

#### Owned assets

Fixed assets except land and buildings are stated at cost less accumulated depreciation and impairment losses, if any. Land is stated at revalued amount. Buildings are stated at revalued amount less accumulated depreciation and impairment. Depreciation is charged to income applying the diminishing balance method except vehicles, computers and furnishing provided to executives, which are depreciated on straight-line method at the rates stated in note 11.2. Depreciation is charged from the month in which the assets are brought into use and no depreciation is charged from the month the assets are deleted.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are included in income currently.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Land and buildings' valuation are carried out by professionally qualified valuers with sufficient regularity to ensure that their carrying amount does not differ materially from their fair value.

The surplus arising on revaluation of fixed assets is credited to the "Surplus on Revaluation of Assets" account shown below equity. The Group has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the requirements of the Companies Ordinance, 1984 and SECP's SRO 45(I)/2003 dated January 13, 2003:

- depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the Profit and Loss Account; and
- an amount equal to incremental depreciation for the year net of deferred taxation is transferred from "Surplus on Revaluation of Fixed Assets account" to accumulated profit through Statement of Changes in Equity to record realization of surplus to the extent of the incremental depreciation charge for the year.

#### Leased assets

Assets subject to finance lease are accounted for by recording the assets and the related liability. These are recorded at lower of fair value and the present value of minimum lease payments at the inception of lease and subsequently stated net of accumulated depreciation. Depreciation is charged on the basis similar to the owned assets. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability.

#### Ijarah

Assets leased out under 'Ijarah' are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset using straight line basis.

Ijarah income is recognised on a straight line basis over the period of Ijarah contract.

#### Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Amortization is charged to income applying the straight-line method at the rates stated in note 11.3.



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## Capital work-in-progress

Capital work-in-progress is stated at cost. These are transferred to specific assets as and when assets are available for use.

## Impairment

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the fixed assets are written down to their recoverable amounts.

The resulting impairment loss is taken to profit and loss account except for impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of assets.

## 5.10 Taxation

### Current

Provision of current taxation is based on taxable income for the year determined in accordance with the prevailing laws of taxation on income earned for local as well as foreign operations, as applicable to the respective jurisdictions. The charge for the current tax also includes adjustments wherever considered necessary relating to prior year, arising from assessments framed during the year.

### Deferred

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

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

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

Deferred tax relating to gain / loss recognized in surplus on revaluation of assets is charged / credited to such account.

## 5.11 Employee benefits

### 5.11.1 Defined benefit plans

#### Pension scheme

The bank operates approved funded pension scheme for its eligible employees. The bank's costs are determined based on actuarial valuation carried out using Projected Unit Credit Method. Actuarial gains / losses exceeding, the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets are recognized as income or expense over the estimated working lives of the employees. Where the fair value of plan assets, exceeds the present value of defined benefit obligation together with unrecognized actuarial gains or losses and unrecognized past service cost, the bank reduces the resulting asset to an amount equal to the total of present value of any economic benefit in the form of reduction in future contributions to the plan and unrecognized actuarial losses and past service costs.

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## **Benevolent scheme**

The bank also operates an un-funded benevolent scheme for its eligible employees. Provision is made in the financial statements based on the actuarial valuation using the Projected Unit Credit Method. Actuarial gains / losses are recognized in the period in which they arise.

## **Gratuity scheme**

The Group also operates an un-funded gratuity scheme for its eligible contractual employees. Provision is made in the financial statements based on the actuarial valuation using the Projected Unit Credit Method. Actuarial gains / losses are accounted for in a manner similar to pension scheme.

## **Post retirement medical benefits**

The bank operates an un-funded post retirement medical benefits scheme for all of its employees. Provision is made in the financial statements for the benefit based on actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gains / losses are recognised over the estimated working lives of employees.

### **5.11.2 Defined contribution plan**

The Group operates an approved funded provident fund scheme covering all its employees. Equal monthly contributions are made by the Company and employees to the fund in accordance with the fund rules.

### **5.11.3 Retirement and other benefit obligations - In respect of JSC Subsidiary Bank of NBP in Kazakhstan (JSC)**

The JSC withholds amounts of pension contributions from employee salaries and pays them to state pension fund. The requirements of the Kazakhstan's legislation state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees.

### **5.11.4 Other employee benefits**

#### **Employees' compensated absences**

The bank accounts for all accumulating compensated absences when employees render service that increases their entitlement to future compensated absences. The liability is determined based on actuarial valuation carried out using the Projected Unit Credit Method.

## **5.12 Revenue recognition**

Mark-up / return / interest on advances and return on investments are recognized on accrual basis except in case of advances and investments classified under the Prudential Regulations on which mark-up is recognized on receipt basis.

Interest/mark-up on rescheduled/restructured advances and investments is recognized in accordance with the Prudential Regulations of SBP.

Fee, commission and brokerage income and remuneration for trustee services are recognized upon performance of services.

Dividend income on equity investments and mutual funds is recognized when right to receive is established.

Premium or discount on debt securities classified as available-for-sale and held-to-maturity securities is amortised using the effective interest method and taken to interest income.

Gains and losses on disposal of investments are dealt with through the profit and loss account in the year in which they arise.



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

The Group follows the "Financing Method" in accounting for recognition of finance income on leases other than Ijarah. Under this method the unearned finance income - that is, excess of aggregate lease rentals and the residual value over the cost of leased assets is deferred and then amortized to income over the term of the lease, applying the annuity method to produce a constant rate on the net investment in the lease finance.

## 5.13 Foreign currencies translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in the Pak Rupees which is the bank's functional and presentation currency.

Foreign currency transactions are converted into Rupees applying the exchange rate at the date of the respective transactions. Monetary assets and liabilities in foreign currencies and the assets / liabilities of foreign branches, and subsidiaries, net assets of associates and joint ventures are translated into Rupees at the rates of exchange prevailing at the balance sheet date.

Profit and loss account balances of foreign branches, subsidiaries are translated at average exchange rate prevailing during the year. Gains / losses on translation are included in the profit and loss account except net gains / losses arising on translation of net assets of foreign branches, subsidiaries, associates and joint ventures, which is credited to an exchange equalization reserve and reflected under reserves.

## 5.14 Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Goodwill is tested for impairment on annual basis.

## 5.15 Provision for off balance sheet obligations

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

## 5.16 Off setting

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

## 5.17 Fiduciary assets

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

## 5.18 Dividend and other appropriations

Dividend and appropriation to reserves, except appropriation which are required by the law, are recognised as liability in the financial statements in the year in which these are approved.

## 5.19 Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 5.19.1 Business segments

### Corporate finance

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

### Trading and sales

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

### Retail banking

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

### Commercial banking

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

### Payment and settlement

It includes payments and collections, funds transfer, clearing and settlement.

### Agency services

It includes escrow, depository receipts, securities lending (customers), corporate actions, issuer and paying agents.

## 5.19.2 Geographical segments

The Group operates in following geographical regions:

Pakistan  
Asia Pacific (including South Asia and Karachi Export Processing Zone)  
Europe  
United States of America  
Middle East

## 5.20 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no dilutive potential ordinary shares in issue at December 31, 2008.

## 5.21 Accounting estimates and judgments

The preparation of financial statements in conformity with Approved Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The estimates/judgments and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of estimate and judgements in relation to these financial statements are as follows:



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

**a) Provision against non-performing advances**

The Group reviews its loan portfolio to assess amount of non-performing loans and determine provision required there against on a quarterly basis. While assessing this requirement various factors including the past dues, delinquency in the account, financial position of the borrower, value of collateral held and requirements of Prudential Regulations are considered.

The amount of general provision against consumer advances is determined in accordance with the relevant prudential regulations and SBP directives. During the year, the management has changed the method of computing provision against non-performing advances as allowed under Prudential Regulations and explained in note 10.4.1.

**b) Fair value of derivatives**

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest and exchange rates over the term of the contract.

**c) Impairment of Available-for-sale investments**

The Group considers that Available-for-sale equity investments and mutual funds are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance. As of the balance sheet date the management has determine an impairment loss on available-for-sale securities as explained in note 20.2.

**d) Held-to-maturity investments**

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

**e) Income taxes**

In making the estimates for current and deferred income taxes, the management looks at the income tax law and the decisions of appellate authorities on certain issues in the past. There are certain matters where bank's view differs with the view taken by the income tax department and such amounts are shown as contingent liability.

**f) Employee benefit plans**

The liabilities for employee benefits plans are determined using actuarial valuations. The actuarial valuations involve assumptions about discount rates, expected rates of return on assets, future salary increases and future pension increases as disclosed in note 34. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

**5.22 Accounting standards, interpretations and amendments to approved accounting standards not yet effective.**

The following revised standards and interpretations with respect to approved Accounting Standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards or interpretations.

Standards and Interpretations		Effective date (accounting periods beginning on or after)
IAS - 1	Presentation of Financial Statements (Revised)	01 January 2009
IAS - 23	Borrowings Costs (Revised)	01 January 2009
IAS - 27	Consolidated and Separate Financial Statements (Revised)	01 January 2009
IFRS 3	Business Combinations (Revised)	01 July 2009
IFRS 4	Insurance Contracts	01 January 2009
IFRS 8	Operating Segments	01 January 2009
IFRIC - 13	Customer Loyalty Programs	01 July 2008
IFRIC - 15	Agreements for the Construction of Real Estate	01 January 2009
IFRIC - 16	Hedges of a Net Investment in Foreign Operation	01 October 2008
IFRIC - 17	Distributions of Non - Cash Assets to Owners	01 July 2009
IFRIC - 18	Interim Financial Reporting and Impairment	01 July 2009

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



The Group considers that the above standards and interpretations are either not relevant or will have no material impact on its financial statements in the period of initial application other than to the extent of certain changes or enhancements in the presentation and disclosures in the financial statements provided that such changes do not conflict with the format of financial statements prescribed by SBP for banks.

In addition to the above, amendments and improvements to various accounting standards have also been issued by IASB which are generally effective for accounting periods beginning on or after 1 January 2009. The management is in the process of evaluating the impact of such amendments and improvements on the Group's financial statements for the ensuing periods.

	Note	2008 Rupees in '000	2007
<b>6. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
Local currency		6,394,041	6,058,641
Foreign currency		2,095,478	1,738,623
		8,489,519	7,797,264
With State Bank of Pakistan in			
Local currency current account	6.1	42,593,879	56,865,314
Local currency deposit account		572	572
		42,594,451	56,865,886
Foreign currency current account	6.2	1,443,548	1,492,188
Foreign currency deposit account	6.2	4,348,570	1,182,316
Foreign currency collection account		23,891	488,669
Foreign currency placement accounts	6.3	23,741,430	24,571,600
		29,557,439	27,734,773
With other central banks in			
Foreign currency current accounts	6.4	15,721,977	1,434,686
Foreign currency deposit accounts	6.5	10,414,960	1,177,905
		26,136,937	2,612,591
	32	106,778,346	95,010,514

- 6.1** This includes statutory liquidity reserves maintained with the SBP under Section 22 of the Banking Companies Ordinance, 1962.
- 6.2** These represent mandatory reserves maintained in respect of foreign currency deposits under FE-25 scheme, as prescribed by the SBP.
- 6.3** This represents US Dollar placements and carry interest at the rate of 4.21% per annum (2007: 6.5% per annum) with maturities within two months.
- 6.4** These balances pertain to the foreign branches and are held with central banks of respective countries. These include balances to meet the statutory and central bank regulatory requirements of respective countries.
- 6.5** These balances pertain to the foreign branches and are held with central banks of respective countries. These include balances to meet the statutory and central bank regulatory requirements. These carry mark-up at the rate of 2.0% per annum (2007: 3.5% per annum).

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## 7. BALANCES WITH OTHER BANKS

	Note	2008 Rupees in '000	2007 Rupees in '000
In Pakistan			
On current accounts		98,517	715,771
On deposit account		130,019	698,718
		228,536	1,414,489
Outside Pakistan			
On current accounts		3,654,531	6,447,178
On deposit accounts	7.1	35,607,662	30,354,596
		39,262,193	36,801,774
	32	39,490,729	38,216,263

7.1 These include various deposits with correspondent banks and carry mark-up rates ranging from 0.05% to 12% per annum (2007: 0.07% to 10% per annum).

## 8. LENDINGS TO FINANCIAL INSTITUTIONS - net

Call money lendings	8.2	3,530,350	2,308,026
Repurchase agreement lendings (Reverse Repo)	8.3	13,470,731	19,348,166
Letter of placements	8.4	186,000	-
Lendings to financial institutions - gross	8.1	17,187,081	21,656,192
Less: Provision held against lendings		(48,000)	-
Lendings to financial institutions - net		17,139,081	21,656,192
<b>8.1 Particulars of lendings - gross</b>			
In local currency		17,187,081	21,656,192
In foreign currencies		-	-
		17,187,081	21,656,192

8.2 These carry mark-up at rates ranging from 11.5% to 19.5% per annum (2007: 9.9% to 10.5% per annum).

8.3 These carry mark-up at rates ranging from 9% to 16% per annum (2007: 8% to 19.79% per annum).

### 8.3.1 Securities held as collateral against lendings to financial institutions

	2008			2007		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	----- Rupees in '000 -----			----- Rupees in '000 -----		
Market Treasury Bills	8,873,895	-	8,873,895	18,567,924	-	18,567,924
Pakistan Investment Bonds	4,596,836	-	4,596,836	590,000	-	590,000
Others	-	-	-	190,242	-	190,242
	13,470,731	-	13,470,731	19,348,166	-	19,348,166

8.3.2 Market value of the securities under repurchase agreement lendings amount to Rs.12,848 million (2007: Rs.19,413 million).

8.4 These carry mark-up at rates ranging from 18% to 18.5% per annum (2007: Nil).

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 9. INVESTMENTS - net

Note	2008			2007		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	----- Rupees in '000 -----			----- Rupees in '000 -----		
<b>9.1 Investments by type:</b>	9.13					
<b>Held-for-trading securities</b>						
Ordinary shares of listed companies	7,496	-	7,496	785,594	-	785,594
Ijarah Sukuk Bonds	1,000,000	-	1,000,000	-	-	-
<b>Total Held-for-trading securities</b>	1,007,496	-	1,007,496	785,594	-	785,594
<b>Available- for- sale securities</b>						
Ordinary shares of listed companies	3,673,105	-	3,673,105	1,947,051	-	1,947,051
Ordinary shares of unlisted companies	716,610	-	716,610	304,119	-	304,119
	4,389,715	-	4,389,715	2,251,170	-	2,251,170
Investment outside Pakistan	463,295	-	463,295	463,295	-	463,295
Market Treasury Bills	64,523,811	23,990,054	88,513,865	117,851,357	416,578	118,267,935
Preference shares	297,500	-	297,500	305,000	-	305,000
Pakistan Investment Bonds	4,306,820	66,987	4,373,807	3,950,207	-	3,950,207
Federal Investment Bonds	940,000	-	940,000	940,000	-	940,000
GoP Foreign Currency Bonds	1,212,348	-	1,212,348	850,853	-	850,853
Foreign Government Securities	1,657,303	-	1,657,303	33,704	-	33,704
Term Finance Certificates / Musharika, Foreign Currency Debt Securities and Sukuk Bonds	17,876,117	-	17,876,117	6,814,642	-	6,814,642
Investments in mutual funds	1,082,700	-	1,082,700	1,425,886	-	1,425,886
NIT Units	7,643,084	-	7,643,084	5,764,258	-	5,764,258
NIT Market Opportunity Fund	1,800,000	-	1,800,000	-	-	-
<b>Total Available- for- sale securities</b>	106,192,693	24,057,041	130,249,734	140,650,372	416,578	141,066,950
<b>Held-to-maturity securities</b>						
Government Compensation Bonds	2,331,182	-	2,331,182	2,331,182	-	2,331,182
Provincial Government Securities	-	-	-	36,513	-	36,513
Pakistan Investment Bonds	9,515,583	-	9,515,583	11,773,316	-	11,773,316
Market Treasury Bills	-	-	-	413,745	-	413,745
GoP Foreign Currency Bonds	15,517,577	-	15,517,577	10,933,794	-	10,933,794
Foreign Government Securities	3,168,246	-	3,168,246	5,418,086	-	5,418,086
Debentures, Bonds, Participation Term Certificates and Term Finance Certificates	2,808,298	-	2,808,298	4,508,548	-	4,508,548
Certificates of investment	-	-	-	800,000	-	800,000
<b>Total Held-to-maturity securities</b>	33,340,886	-	33,340,886	36,215,184	-	36,215,184
<b>Investments in associates</b>	1,139,778	-	1,139,778	1,143,581	-	1,143,581
<b>Investments in joint ventures</b>	2,451,411	-	2,451,411	2,200,668	-	2,200,668
<b>Investments in subsidiaries</b>	3,245	-	3,245	3,245	-	3,245
<b>Investments at cost</b>	144,135,509	24,057,041	168,192,550	180,998,644	416,578	181,415,222
<b>Less: Provision for diminution in value of Investments</b>	(1,542,273)	-	(1,542,273)	(1,173,593)	-	(1,173,593)
<b>Investments (net of provisions)</b>	142,593,236	24,057,041	166,650,277	179,825,051	416,578	180,241,629
Unrealized gain / (loss) on revaluation of investments classified as held-for-trading	1,707	-	1,707	(31,964)	-	(31,964)
Surplus on revaluation of available-for-sale securities - net	4,587,441	(34,535)	4,552,906	31,879,205	(1,403)	31,877,802
<b>Total investments at carrying value</b>	147,182,384	24,022,506	171,204,890	211,672,292	415,175	212,087,467

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
<b>9.2 Investments by segments</b>	9.13		
<b>Federal Government Securities</b>			
Market Treasury Bills		88,513,865	118,681,680
Pakistan Investment Bonds	9.4	13,889,390	15,723,523
Federal Investment Bonds	9.5	940,000	940,000
Government Compensation Bonds		2,331,182	2,331,182
GoP Foreign Currency Bonds		16,729,925	11,784,647
Ijarah Sukuk Bonds		1,000,000	-
		123,404,362	149,461,032
<b>Provincial Government Securities</b>		-	36,513
<b>Foreign Government Securities</b>		4,825,549	5,451,790
<b>Fully Paid up Ordinary Shares</b>			
- Listed Companies		3,680,601	2,732,645
- Unlisted Companies		716,610	304,119
		4,397,211	3,036,764
<b>Debentures, Bonds, Participation Term Certificates, Term Finance Certificates, Musharika, Foreign Currency Debt Securities and Sukuk Bonds</b>			
- Listed		1,775,071	992,479
- Unlisted		18,909,344	10,330,711
		20,684,415	11,323,190
<b>Other Investments</b>			
- NIT Units	9.6.1	7,643,084	5,764,258
- NIT Market Opportunity Fund	9.6.2	1,800,000	-
- Investments in mutual funds		1,082,700	1,425,886
- Preference Shares		297,500	305,000
- Certificates of Investment		-	800,000
- Investment outside Pakistan	9.7	463,295	463,295
<b>Investments in associates</b>	9.8	1,139,778	1,143,581
<b>Investments in joint ventures</b>	9.9	2,451,411	2,200,668
<b>Investments in subsidiaries</b>	9.10	3,245	3,245
<b>Total investments at cost</b>		168,192,550	181,415,222
Less : Provision for diminution in value of investments	9.11	(1,542,273)	(1,173,593)
<b>Investments (Net of provisions)</b>		166,650,277	180,241,629
Surplus / (deficit) on revaluation of Held-for-trading securities	9.12	1,707	(31,964)
Surplus on revaluation of Available-for-sale securities	20.1	4,552,906	31,877,802
<b>Total investments at carrying value</b>		171,204,890	212,087,467

**9.3** Market value of held-to-maturity investments is Rs.27,407 million (2007: Rs.34,283 million).

**9.4** These include Pakistan Investment Bonds amounting to Rs.75 million (2007: Rs.75 million) held by SBP as pledge against demand loans and TT / DD discounting facilities.

**9.5** These represent Federal Investment Bonds provided to pay off liabilities relating to former Mehran Bank Limited.

## **9.6 Investment in Mutual Funds managed by NIT**

### **9.6.1 NIT Units**

The bank's investment in NIT consists of 453,120,795 units (2007: 361,545,322 units), which includes 333,746,836 units (2007: 333,746,836 units) covered under Letter of Comfort (LoC) and 119,373,959 (2007: 27,798,486 units) as Non-LoC units.

The LoC holding represents those units in respect of which the GoP had issued a Letter of Comfort dated December 30, 2008 stating that on bank's willingness to continue holding the units upto June 30, 2009 from the date of LoC, NIT be will facilitated to redeem these units at Rs.13.70 per unit. As of the balance sheet date the net assets value of the fund's units held by the bank amounted to Rs. 10,030 million (2007: Rs. 21,566 million). Rating of NIT mutual fund is 5 star (2007: 4 star) by PACRA.



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 9.6.2 NIT Market Opportunity Fund

During the year, the bank invested Rs. 1,800 million (2007: Nil) in NIT Market Opportunity Fund against the aggregate investment commitment of Rs. 2,000 million (2007: Nil). The fund has been established during the year as an open end mutual fund for the special purpose of equity market stabilization and is managed by NIT Limited. As of the balance sheet date, the net assets value of the fund's units held by the bank amounted to Rs. 1,004 million (2007: Nil).

## 9.7 Investment outside Pakistan - Bank Al-Jazira

The bank holds 17,500,000 (2007: 13,125,000) shares in Bank Al-Jazira (BAJ) incorporated in the Kingdom of Saudi Arabia, representing 5.83% (2007: 5.83%) holding in total equity of BAJ. During the year, 4,375,000 ordinary shares were issued as bonus shares. The investment has been marked to market using closing price as quoted on the Saudi Stock Exchange in accordance with SBP concurrence vide letter No. BSD/SU-13/331/685/2006 dated February 17, 2006. Rating of Bank Al-Jazira is A- by Fitch Rating.

	Number of shares	Percentage holding	Note	2008 Rupees in '000	2007
<b>9.8 Investments in associates</b>					
<b>Un-quoted</b>					
Pakistan Emerging Venture Limited	12,500,000	33.33		51,415	51,415
Information System Associates Limited	2,300,000	28.07		1,719	1,719
National Fructose Company Limited	1,300,000	39.50		6,500	6,500
Pakistan Insulation Limited	494,500	24.79		695	695
Venture Capital Fund Management	33,333	33.33		-	-
Kamal Enterprises Limited	11,000	20.37		-	-
Mehran Industries Limited	37,500	32.05		-	-
Qurell Cassettes Limited	46,250	30.83		-	-
Tharparkar Sugar Mills Limited	2,500,000	21.50		-	-
Youth Investment Promotion Society	644,508	25.00		-	-
Khushhali Bank Limited	40,000,000	23.45	9.8.4	400,000	400,000
Dadabhoy Energy Supply Company Limited	9,900,000	33.00		32,105	32,105
K-Agricole Limited	5,000	20.00		-	-
New Pak Limited	200,000	20.00		-	-
Prudential Fund Management	150,000	20.00		-	-
				492,434	492,434
<b>Quoted</b>					
First Credit and Investment Bank Limited	20,000,000	30.77	9.9.3	255,106	250,964
National Fibres Limited	17,119,476	20.19		-	-
Asian Leasing Company Limited	2,863,600	27.39		-	-
Taha Spinning Mills Limited	833,800	20.59		2,501	2,501
Kohat Textile Mills Limited	2,906,900	33.03		-	-
Land Mark Spinning Mills Limited	3,970,960	32.75		39,710	39,710
S.G. Fibres Limited	3,754,900	25.03		218,535	218,535
Nina Industries Limited	4,906,000	20.27		49,060	49,060
First National Bank Modaraba	7,500,000	30.00	9.9.3	82,432	90,377
			9.8.1	647,344	651,147
				1,139,778	1,143,581
Less: Provision for diminution in value of investments				(402,240)	(402,240)
				737,538	741,341

**9.8.1** Aggregate value of investments in associates (quoted) on the basis of latest available quoted prices amounts to Rs.354.489 million (2007: Rs.275.359 million). Due to low trade volumes of securities, management considers that there is no active market for these quoted investments, except for First Credit and Investment Bank Limited and First National Bank Modaraba, and therefore provision for impairment has been made against the same.

**9.8.2** Associates with zero carrying amount, represent the investments acquired from former NDFC which have negative equity or whose operations were closed at the time of amalgamation.



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

**9.8.3** The details of break-up value based on latest available financial statements of un-quoted investments in associates are as follows:

	Year / Period ended	Break-up value of bank's share Rupees in '000
Pakistan Emerging Venture Limited	June 30, 2008	1,906
Information System Associates Limited	June 30, 2008	24,219
Pakistan Insulation Limited	June 30, 2001	2,630
Mehran Industries Limited	June 30, 2001	5,681
Tharparkar Sugar Mills Limited	September 30, 2001	(83,140)
Khushhali Bank Limited	September 30, 2008	437,612
Prudential Fund Management	June 30, 2007	(2,482)
Dadabhoy Energy Supply Company Limited	June 30, 2007	103,952

**9.8.4** During 2007, the Government of Pakistan, Finance Division (Investment Wing) vide their letter no. 4(3) Inv-I/2006 dated June 5, 2007 has advised the Bank to divest its shareholding in Khushhali Bank Limited through public announcement. Accordingly, the bank had initiated the process for such sale and has appointed a consultant to identify the prospective buyer and negotiate the strategic sale.

	Note	2008 Rupees in '000	2007 Rupees in '000
<b>9.9 Investments in joint ventures</b>			
United National Bank Limited	9.9.1 & 9.9.3	2,348,412	2,120,341
National Fullerton Asset Management Limited (NAFA)	9.9.2 & 9.9.3	102,999	80,327
		<u>2,451,411</u>	<u>2,200,668</u>

**9.9.1** Under a joint venture agreement, the bank holds 13.5 million ordinary shares (45%) and United Bank Limited (UBL) holds 16.5 million ordinary shares (55%) in the venture. In addition to ordinary shares, four preference shares categories as "A", "B", "C" and "D" have been issued and allotted. The "B" and "D" category shares are held by the bank and category "A" and "C" are held by UBL. Dividends payable on "A" and "B" shares are related to the ability of the venture to utilize tax losses that have been surrendered to it on transfer of business from the bank or UBL as appropriate. Dividends payable on "C" and "D" shares are related to loans transferred to the venture by the bank or UBL that have been written-off or provided for at the point of transfer and the ability of the venture to realize in excess of such loan value.

**9.9.2** NAFA has been set up for the purpose of providing asset management services with a paid-up capital of Rs.250 million (2007: Rs.250 million) as a joint venture between the bank, NIB Bank Limited and Alexandra Fund Management PTE Limited. The bank has 27% (2007: 27%) holding as at December 31, 2008.

During the year, process was initiated for merger of NAFA with PICIC Asset Management Company Limited. However, the current exceptional market conditions have prevented the formation of a meaningful view and hence a decision on whether or not this merger will take place has been deferred for the time being.

**9.9.3** Investments of the Group in associated companies, First Credit & Investment Bank Limited (FCIBL), First National Bank Modaraba (FNBM) and Joint Venture companies, United National Bank Limited and National Fullerton Asset Management Limited have been accounted for under equity method of accounting as at December 31, 2008 in accordance with the treatment specified in International Accounting Standard 28 "Investments in Associates" and International Accounting Standard 31 "Interests in Joint Ventures" respectively.

# Consolidated Notes to the Financial Statements

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Excellence in Value

## 9.9.4 Movement Schedule for Associate and Joint Ventures

	2008				2007			
	Associate		Joint Venture		Associate		Joint Venture	
	----- Rupees in '000 -----				----- Rupees in '000 -----			
	FCIBL	FNB	NAFA	UNBL	FCIBL	FNB	NAFA	UNBL
Opening Balance	250,964	90,377	80,327	2,120,341	224,776	85,577	58,480	1,892,148
Addition	-	-	-	-	-	-	-	-
Share of profit for the year	4,142	2,148	22,672	105,861	26,188	4,800	21,847	188,598
Exchange translation reserve - net of tax	-	-	-	(222,060)	-	-	-	39,595
Surplus on revaluation of properties	-	-	-	344,270	-	-	-	-
Deficit on revaluation of securities	-	(10,093)	-	-	-	-	-	-
Closing Balance	255,106	82,432	102,999	2,348,412	250,964	90,377	80,327	2,120,341

## 9.10 Investments in subsidiaries

	Percentage holding	2008 Rupees in '000	2007 Rupees in '000
National Agriculture Limited	100.00	2,000	2,000
Cast-N-Link Products Limited	76.51	1,245	1,245
		3,245	3,245
Less: Provision for diminution in value of investments		(3,245)	(3,245)
		-	-

## 9.11 Particulars of provision for diminution in the value of investments

Opening balance		1,173,593	1,253,429
Charge for the year	20.2	394,409	-
Reversals		(22,680)	(40,248)
		371,729	(40,248)
Amount written off		(3,049)	(39,588)
Closing balance	9.11.1	1,542,273	1,173,593

### 9.11.1 Particulars of provision in respect of type and segments

#### Available-for-sale securities

Ordinary shares of listed companies and mutual funds	394,409	-
Ordinary shares of unlisted companies	115,514	115,514

#### Held-to-maturity securities

Debentures, Bonds, Participation Term Certificates, and Term Finance Certificates	626,865	652,594
Associates	402,240	402,240
Subsidiaries	3,245	3,245
	1,542,273	1,173,593

## 9.12 Unrealized gain / (loss) on revaluation of investments classified as held-for-trading

Ordinary shares of listed companies	(4,085)	(31,964)
Ijarah Sukuk Bonds	5,792	-
	1,707	(31,964)

**9.13** Detailed information relating to investments in shares of listed and unlisted companies, Preference Shares, Mutual Funds, Government Securities, Bonds, Debentures, Term Finance Certificates, Sukuks etc. including quality of available-for-sale securities is given in Annexure-I to the financial statements.

# Consolidated Notes to the Financial Statements

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	Note	2008 Rupees in '000	2007 Rupees in '000
<b>10. ADVANCES - net</b>			
Loans, cash credits, running finances, etc.			
In Pakistan		389,450,214	324,390,924
Outside Pakistan		45,292,545	29,737,559
		434,742,759	354,128,483
Net investment in finance lease			
In Pakistan		467,392	527,867
Outside Pakistan		-	-
		467,392	527,867
Bills discounted and purchased (excluding Government treasury bills)			
Payable in Pakistan		2,973,812	2,673,256
Payable outside Pakistan		19,518,940	16,144,430
		22,492,752	18,817,686
Margin Financing / Continuous Funding System Financing	10.8	255,453	1,308,715
Advances - gross	10.1	457,958,356	374,782,751
Less: Provision against non-performing advances	10.3	(44,881,966)	(34,413,102)
Advances - net of provision		413,076,390	340,369,649
<b>10.1 Particulars of advances - gross</b>			
<b>10.1.1</b> In local currency		384,870,383	328,900,762
In foreign currencies		73,087,973	45,881,989
		457,958,356	374,782,751
<b>10.1.2</b> Short-term (for upto one year)		334,777,881	249,134,831
Long-term (for over one year)		123,180,475	125,647,920
		457,958,356	374,782,751

## 10.2 Net investment in finance lease

	2008				2007			
	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	332,927	96,424	-	429,351	365,705	122,671	-	488,376
Residual value	-	112,502	-	112,502	-	115,451	-	115,451
Minimum lease payments	332,927	208,926	-	541,853	365,705	238,122	-	603,827
Financial charges for future periods	34,746	39,715	-	74,461	30,215	45,745	-	75,960
	298,181	169,211	-	467,392	335,490	192,377	-	527,867

The leases executed are for a term of 3 to 5 years. Security deposit is generally obtained upto 10% of the cost of leased assets at the time disbursement. The Group requires the lessees to insure the leased assets in favour of the Group and maintained financial ratios, as required under the SECP Prudential Regulations for Non-Banking Finance Companies. Additional surcharge is charged on delayed rentals. The fixed return implicit in these ranges from 10.75% to 18% and KIBOR + 2% (2007: 10.75% to 18% and KIBOR + 2%) per annum.

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

- 10.2** Advances include Rs.56,503 million (2007: Rs.38,318 million) which have been placed under non-performing status as detailed below:

2008								
Classified Advances			Provision Required			Provision Held		
Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000								
<b>Category of Classification</b>								
Other Assets Especially								
Mentioned	667,170	-	667,170	-	-	-	-	-
Substandard	6,149,457	59,853	6,209,310	1,545,067	14,963	1,560,030	14,963	1,560,030
Doubtful	9,760,535	28,682	9,789,217	4,811,887	14,341	4,826,228	14,341	4,826,228
Loss	39,103,789	733,097	39,836,886	36,262,001	122,490	36,384,491	122,490	36,384,491
	<u>55,680,951</u>	<u>821,632</u>	<u>56,502,583</u>	<u>42,618,955</u>	<u>151,794</u>	<u>42,770,749</u>	<u>42,618,955</u>	<u>151,794</u>
2007								
Classified Advances			Provision Required			Provision Held		
Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000								
<b>Category of Classification</b>								
Other Assets Especially								
Mentioned	565,889	-	565,889	-	-	-	-	-
Substandard	4,483,776	37,641	4,521,417	1,097,813	9,410	1,107,223	9,410	1,107,223
Doubtful	2,916,347	1,656	2,918,003	1,453,829	828	1,454,657	828	1,454,657
Loss	29,745,438	566,805	30,312,243	29,718,461	71,474	29,789,935	71,474	29,789,935
	<u>37,711,450</u>	<u>606,102</u>	<u>38,317,552</u>	<u>32,270,103</u>	<u>81,712</u>	<u>32,351,815</u>	<u>81,712</u>	<u>32,351,815</u>

## 10.3 Particulars of provision against non-performing advances

2008				2007		
	Specific	General	Total	Specific	General	Total
Note	----- Rupees in '000 -----					
Opening balance	32,351,815	2,061,287	34,413,102	29,528,672	2,731,380	32,260,052
Exchange adjustments	20,507	65,613	86,120	809	13,387	14,196
Charge for the year	12,999,585	85,425	13,085,010	9,437,007	286,210	9,723,217
Reversal during the year	(2,373,121)	(77,522)	(2,450,643)	(4,030,443)	(969,690)	(5,000,133)
	10,626,464	7,903	10,634,367	5,406,564	(683,480)	4,723,084
Amounts written off	(590,858)	(23,586)	(614,444)	(1,525,294)	-	(1,525,294)
Other adjustments	362,821	-	362,821	(1,058,936)	-	(1,058,936)
Closing balance	42,770,749	2,111,217	44,881,966	32,351,815	2,061,287	34,413,102

## 10.4 Particulars of provisions against non-performing advances

	2008			2007		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
In local currency	42,618,955	1,717,748	44,336,703	32,270,103	1,818,856	34,088,959
In foreign currencies	151,794	393,469	545,263	81,712	242,431	324,143
	42,770,749	2,111,217	44,881,966	32,351,815	2,061,287	34,413,102

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

**10.4.1** During the year, the SBP vide its BSD Circular No. 2 dated January 27, 2009 has amended Prudential Regulations in respect of provisioning against non-performing advances. The revised regulations that are effective from December 31, 2008 allows reduction to the extent of 30% of forced sale value of pledged stock and mortgaged commercial and residential properties, held by the bank in determining the amount of provision against non-performing advances. Further, the regulations also allows consideration of 50% of the value of properties held against housing finance scheme. Accordingly, the aforesaid changes in the provisioning computation for the current year has resulted in reduction of provision of Rs. 485 million and a consequent increase in profit after tax of Rs. 315 million.

However, in accordance with the SBP directive, the increase in profit after tax of Rs. 135 million resulting from the reduction in provisioning (other than against housing finance scheme) shall not be available for payment of cash or stock dividend.

	Note	2008 Rupees in '000	2007
<b>10.5 Particulars of write offs</b>			
<b>10.5.1</b> Against provisions	10.3	614,444	1,525,294
Directly charged to Profit and Loss account		-	39,899
		<u>614,444</u>	<u>1,565,193</u>
<b>10.5.2</b> Write offs of Rs.500,000 and above	10.6	584,160	1,544,971
Write offs of below Rs.500,000		30,284	20,222
		<u>614,444</u>	<u>1,565,193</u>

## 10.6 Details of loan write offs of Rs.500,000/- and above

In terms of sub-section 3 of section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of Rs.500,000 or above allowed to a person(s) during the year ended December 31, 2008 is given in Annexure-II.

## 10.7 Particulars of loans and advances to directors, associated companies, etc.

Debts due by directors, executives, officers & staff of the bank or any of them either severally or jointly with any other person

Balance at beginning of year	14,326,577	13,316,110
Loans granted during the year	6,322,024	4,284,598
Repayments	(3,500,353)	(3,274,131)
Balance at end of year	<u>17,148,248</u>	<u>14,326,577</u>

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 year	199,391	222,759
Loans granted during the year	-	-
Repayments / other adjustments	(199,391)	(23,368)
Balance at end of year	<u>-</u>	<u>199,391</u>

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

Balance at beginning of year	1,515,120	1,600,070
Loans granted during the year	-	-
Repayments	(349,274)	(84,950)
Balance at end of year	<u>1,165,846</u>	<u>1,515,120</u>

**10.8** These are secured against shares of listed companies, market value of which amounted to Rs.127.520 million (2007: Rs.1,309 million) at the balance sheet date. These carry mark-up ranging from 0.47% to 17% per annum (2007: 10.7% to 18% per annum).



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

	Note	2008 Rupees in '000	2007
<b>II. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	11.1	1,019,059	463,146
Property and equipment	11.2	23,232,627	25,492,561
Intangible assets	11.3	20,278	23,595
		<u>24,271,964</u>	<u>25,979,302</u>
<b>11.1 Capital work-in-progress</b>			
Civil works		481,881	374,511
Equipment		2,249	11,820
Advances to suppliers and contractors		110,813	76,815
License Fee for core banking software		424,116	-
		<u>1,019,059</u>	<u>463,146</u>

## 11.2 Property and equipment

	Cost/revalued amount				Accumulated depreciation				Book Value at December 31, 2008	Rate of depreciation
	At January 1, 2008	Revaluation adjustments	Additions / (deletions)	At December 31, 2008	At January 1, 2008	Charge for the year / (deletions)	Revaluation adjustments	At December 31, 2008		
	Rupees in '000									
Owned										
Land										
- freehold	11,055,039	(1,539,343)	350	9,516,046	-	-	-	-	9,516,046	Nil
- leasehold	9,501,737	(2,316,548)	15,688	7,200,877	-	-	-	-	7,200,877	Nil
Buildings on land:										
- freehold	1,830,774	695,070 (101,496)	27,381 (4,820)	2,446,909	-	101,657 (161)	(101,496)	-	2,446,909	5% on book value
- leasehold	1,345,116	499,402 (76,961)	162,290 (718)	1,929,129	-	77,215 (254)	(76,961)	-	1,929,129	5% on book value
Furniture and fixtures	1,310,625	-	170,119 (4,083)	1,476,661	863,299	64,581 (2,205)	-	925,675	550,986	10% to 30% on book value, 20% on straight-line on new furnishing limit to executives and refurbishment of branches
Computer & peripheral equipment	1,461,473	-	160,420 (584)	1,621,309	1,109,938	161,391 (460)	-	1,270,869	350,440	33% on cost
Electrical & office equipment	1,654,703	-	337,111 (360)	1,991,454	1,115,361	150,325 (147)	-	1,265,539	725,915	20% on book value
Vehicles	497,190	-	218,175 (48,278)	667,087	239,627	157,892 (39,366)	-	358,153	308,934	20% on cost
	28,656,657	(2,661,419) (178,457)	1,091,534 (58,843)	26,849,472	3,328,225	713,061 (42,593)	(178,457)	3,820,236	23,029,236	
Assets held under finance lease										
Vehicles	163,131	-	7,798 (1,552)	169,377	93,318	9,775 (881)	-	102,212	67,165	20% on cost
Office Equipment	820	-	1,648	2,468	655	985	-	1,640	828	
Assets given under Ijarah										
	95,358	-	78,658	174,016	1,207	37,411	-	38,618	135,398	33% on cost
2008	28,915,966	(2,661,419) (178,457)	1,179,638 (60,395)	27,195,333	3,423,405	761,232 (43,474)	(178,457)	3,962,706	23,232,627	

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## Property and equipment

	Cost/revalued amount					Accumulated depreciation					Book Value at December 31, 2007	Rate of depreciation
	At January 1, 2007	Revaluation adjustments	Additions / (deletions)	Adjustment	At December 31, 2007	At January 1, 2007	Charge for the year / (deletions)	Revaluation and other adjustments	At December 31, 2007			
Rupees in '000												
Owned												
Land												
- freehold	2,781,313	7,798,804	4,258	470,664	11,055,039	-	-	-	-	11,055,039	Nil	
- leasehold	2,798,186	6,372,800	-	330,751	9,501,737	-	-	-	-	9,501,737	Nil	
Buildings on land:												
- freehold	1,773,312	1,217,359 (551,335)	148,018	(35,000) (721,580)	1,830,774	482,973	75,362	(7,000) (551,335)	-	1,830,774	5% on book value	
- leasehold	1,312,416	386,338 (409,136)	135,333	(79,835)	1,345,116	357,434	51,702	(409,136)	-	1,345,116	5% on book value	
Furniture and fixtures	1,229,608	-	84,871 (3,854)	-	1,310,625	808,080	57,691 (2,472)	-	863,299	447,326	10% to 30% on book value, 20% on straight-line on new furnishing limit to executives and refurbishment of branches	
Computer & peripheral equipment	1,285,023	-	177,240 (790)	-	1,461,473	953,953	156,759 (774)	-	1,109,938	351,535	33% on cost	
Electrical & office equipment	1,460,644	-	198,034 (3,975)	-	1,654,703	981,052	137,302 (2,993)	-	1,115,361	539,342	20% on book value	
Vehicles	411,988	-	105,906 (23,391)	2,687	497,190	186,560	73,274 (16,838)	(3,369)	239,627	257,563	20% on cost	
	13,052,490	15,775,301 (960,471)	853,660 (32,010)	689,267 (721,580)	28,656,657	3,770,052	552,090 (23,077)	(970,840)	3,328,225	25,328,432		
Assets held under finance lease												
Vehicles	131,090	-	34,070 (1,244)	(785)	163,131	83,818	10,899 (719)	(680)	93,318	69,813	20% on cost	
Office equipment	2,249	-	- (1,429)	-	820	983	272 (600)	-	655	165		
Assets given under Ijarah	-	-	95,358	-	95,358	-	1,207	-	1,207	94,151	33% on cost	
2007	13,185,829	15,775,301 (960,471)	983,088 (34,683)	688,482 (721,580)	28,915,966	3,854,853	564,470 (24,396)	(971,520)	3,423,405	25,492,561		

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 11.3 Intangible assets

	Cost/revalued amount			Accumulated amortization			Book value at December 31, 2008	Rate of amortization
	At January 1, 2008	Additions	At December 31, 2008	At January 1, 2008	Charge for the year	At December 31, 2008		
	----- Rupees in '000 -----							
Computer software	26,086	862	26,948	15,149	4,179	19,328	7,620	33.33% on cost
Website	1,041	-	1,041	1,041	-	1,041	-	33.33% on cost
Room & Membership Card	12,591	-	12,591	-	-	-	12,591	
Others	2,601	-	2,601	2,534	-	2,534	67	20% on cost
2008	42,319	862	43,181	18,724	4,179	22,903	20,278	

	Cost/revalued amount			Accumulated amortization			Book value at December 31, 2007	Rate of amortization
	At January 1, 2007	Additions / (deletion)	At December 31, 2007	At January 1, 2007	Charge for the year / (deletion)	At December 31, 2007		
	Rupees in '000							
Computer software	27,760	5,299 (6,973)	26,086	10,918	4,231	15,149	10,937	33.33% on cost
Website	1,041	-	1,041	1,041	-	1,041	-	33.33% on cost
Room & Membership Card	12,591	-	12,591	-	-	-	12,591	
Others	2,601	-	2,601	1,989	545	2,534	67	20% on cost
2007	43,993	5,299 (6,973)	42,319	13,948	4,776	18,724	23,595	

## 11.4 Revaluation of domestic properties

During the year a desktop revaluation of major properties was carried out to ascertain that assets are carried at no more than their recoverable amount. The desktop revaluations were carried out by M/s Younus Mirza & Co. and M/s Arch-e-Decon (Pvt.) Limited. This has resulted in deficit of Rs.2.661 million. Had there been no revaluation, the carrying amount of revalued assets at December 31, 2008 would have been as follows:

	Rupees in '000
Freehold land	284,529
Leasehold land	385,674
Buildings on freehold land	120,786
Buildings on leasehold land	250,947

- 11.5** The Islamic Banking Branches of the bank have entered into Ijarah transactions with customers during the year. The significant Ijarah transactions have been entered in respect of heavy duty earth moving machinery. The rate of profit is 3 months KIBOR + 3% and 6 months KIBOR + 1.5% (2007: 6 months KIBOR + 1.5% per annum).

The Ijarah payments receivable from customers for each of the following periods under the terms of the respective agreements are given below

	Rupees in '000
Not later than one year	61,369
Later than one year but not later than five years	96,030

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## 11.6 Details of disposals of property and equipment

Details of property and equipment whose original cost or the book value exceeds rupees one million or two hundred fifty thousand rupees, whichever is lower are given below:

Particulars of property and equipment	Original cost	Book value	Sale proceeds	Profit / (loss)	Mode of Disposal	Particulars of Purchaser
	Rupees in '000					
Building on freehold land	3,420	3,306	3,501	195	Auction	Mr. Irshad Khan
Building on freehold land	1,400	1,353	913	(440)	Auction	Mr. Faizan Khan
Building on leasehold land	718	464	3,005	2,541	Auction	Mr. S. Muhammad Ali
Motor Vehicle	849	527	527	-	As per service rules on retirement	Mr. Mukhtar Hussain Jaskani - SVP
Motor Vehicle	879	521	835	314	Insurance Claim	National Insurance Company Limited
Motor Vehicle	939	331	331	-	As per service rules	Mr. Tahir Yaqoob - EVP
Motor Vehicle	924	322	322	-	As per service rules on retirement	Mr. Abdul Rauf - SVP
Motor Vehicle	895	287	287	-	As per service rules on retirement	Mr. Hamid Masood - SVP
Motor Vehicle	939	563	563	-	As per service rules on retirement	Mrs. Khursheed Maqsood Ali - EVP
Motor Vehicle	1,449	99	444	345	As per service rules on retirement	Mr. Amjad Rafi - SVP
Motor Vehicle	1,698	255	255	-	As per service rules on retirement	Mr. Ijaz Hussaini - SVP
Furniture and Fixtures	1,643	895	704	(191)	Auction	Mughal Furniture
Other assets (having book value of less than Rs.250,000 and cost of less than Rs.1,000,000)	44,642	7,998	13,194	5,196		
	60,395	16,921	24,881	7,960		

## 12. DEFERRED TAX ASSETS - net

### Deferred tax assets arising in respect of

Provision for diminution in the value of investments	357,446	228,408
Provision against advances	4,093,904	636,600
Other provision	376,111	103,806
Charge against defined benefits plans	666,181	289,333
Provision against off-balance sheet obligation	116,622	115,222
	5,610,264	1,373,369

### Less: Deferred tax (liabilities) arising in respect of

Excess of accounting book value of leased assets over lease liabilities	(5,600)	(3,196)
Difference between accounting book value of fixed assets and tax base	(169,754)	(85,259)
Revaluation of securities	(895,673)	(5,382,510)
Revaluation of fixed assets	(1,334,665)	(986,846)
Others	(1,007)	(14,618)
	(2,406,699)	(6,472,429)

Net deferred tax assets / (liabilities)

Note	2008 Rupees in '000	2007
	357,446	228,408
	4,093,904	636,600
	376,111	103,806
	666,181	289,333
	116,622	115,222
	5,610,264	1,373,369
	(5,600)	(3,196)
	(169,754)	(85,259)
20.1	(895,673)	(5,382,510)
20.3	(1,334,665)	(986,846)
	(1,007)	(14,618)
	(2,406,699)	(6,472,429)
	3,203,565	(5,099,060)

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

	Note	2008 Rupees in '000	2007
<b>13. OTHER ASSETS</b>			
Income / mark-up accrued in local currency		12,063,169	7,159,932
Income / mark-up accrued in foreign currencies		1,638,916	1,740,892
Advances, deposits, advance rent and other prepayments	13.1	2,838,139	2,545,597
Advance taxation (payments less provisions)		13,761,340	9,854,942
Receivable from GoP	13.2	283,871	278,501
Assets acquired from Corporate and Industrial Restructuring Corporation (CIRC)		622,857	786,453
Branch Adjustment Account		3,194,657	-
Derivatives:			
Un-realized gain on forward foreign exchange contracts		2,114,857	431,763
Un-realized gain on cross currency swaps		-	71,813
Commission receivable		1,821,824	1,822,685
Stationery and stamps on hand		369,751	319,053
Barter trade balances		195,399	195,399
Receivable on account of Government transactions	13.3	323,172	323,172
Receivable from Government under VHS scheme	13.4	417,875	416,355
Less: amount charged / provision		(417,875)	(416,355)
Receivable from pension fund	34.1.2	4,496,943	3,676,345
Prize bonds on hand		311,109	281,595
Receivable from brokers		-	33,686
Others		3,536,036	3,663,415
		<u>47,572,040</u>	<u>33,185,243</u>
Less: Provision held against other assets			
Income / mark-up accrued in local currency / foreign currencies		327,081	296,592
Advances, deposits, advance rent and other prepayments		400,000	
Stationery and stamps on hand		51,200	51,200
Barter trade balances		195,399	195,399
Receivable on account of Government transactions		323,172	323,172
Others		1,362,952	1,029,477
	13.5	<u>2,659,804</u>	<u>1,895,840</u>
		<u>44,912,236</u>	<u>31,289,403</u>

**13.1** This includes Rs.800 million advance against Pre-IPO placement of Term Finance Certificates.

**13.2** Upon dissolution of CIRC and take over by the bank with effect from September 22, 2006, the said amount represents receivable from GoP.

**13.3** This represents amount receivable from Government of Pakistan on account of encashment of various instruments handled by the bank for Government of Pakistan as an agent of SBP.

**13.4** This represents payments made under the Voluntary Handshake Scheme (VHS), recoverable from Government of Pakistan. Due to uncertainty about its recoverability, although despite a claim being lodged, full amount has been provided for.

## **13.5 Provisions against other assets**

Opening balance		1,895,840	1,771,607
Charge for the year	13.5.1	768,119	130,374
Reversals		(4,155)	(6,141)
Closing balance		<u>2,659,804</u>	<u>1,895,840</u>

**13.5.1** This includes Rs.400 million (2007:Nil) as provision against Pre-IPO placement of Term Finance Certificates.

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
<b>14. BILLS PAYABLE</b>			
In Pakistan		10,147,427	6,922,716
Outside Pakistan		71,634	139,185
		<u>10,219,061</u>	<u>7,061,901</u>
<b>15. BORROWINGS</b>			
In Pakistan		38,309,981	8,733,781
Outside Pakistan		1,734,310	2,598,061
	15.1 & 15.2	<u>40,044,291</u>	<u>11,331,842</u>
<b>15.1 Particulars of borrowings with respect to currencies</b>			
In local currency		38,309,981	8,733,781
In foreign currencies		1,734,310	2,598,061
	15.2	<u>40,044,291</u>	<u>11,331,842</u>
<b>15.2 Details of borrowings</b>			
<b>Secured</b>			
Borrowings from State Bank of Pakistan:			
Under Export Refinance Scheme		4,921,924	3,213,430
Under Long Term Financing under Export Oriented Project (LTF-EOP)		2,971,599	4,072,708
Under Locally Manufactured Machinery (LMM)		-	290
Finance to payoff liabilities relating to former MBL	15.2.1	188,000	376,000
		8,081,523	7,662,428
Repurchase agreement borrowings		23,460,682	383,886
		<u>31,542,205</u>	<u>8,046,314</u>
<b>Unsecured</b>			
Call borrowings		8,259,310	2,258,970
Overdrawn nostro accounts		171,976	889,092
Others	32	70,800	137,466
		<u>8,502,086</u>	<u>3,285,528</u>
		<u>40,044,291</u>	<u>11,331,842</u>

**15.2.1** This comprises of balance of loan of Rs.940 million obtained in 1999. The loan is interest free and is repayable in five equal annual installments after an initial grace period of five years.

**15.2.2** Mark-up / interest rates and other terms are as follows:

- The bank has entered into agreements with the SBP for extending export finance to customers. As per the terms of the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of finances by directly debiting the current account maintained by the bank with SBP. Export refinance loans from SBP are at the rate of 7.5% per annum (2007: 7.5% per annum).
- Call borrowings carry interest ranging from 12% to 16.5% per annum (2007: 8.0% to 10.25% per annum).
- Repurchase agreement borrowings carry mark-up at the rate of 8.75% to 15% per annum (2007: 8.10% per annum).
- Unsecured borrowings "Others" carry interest at the rate of 10% per annum (2007: 10% and 6 months KIBOR+1% per annum).



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

## 16. DEPOSITS AND OTHER ACCOUNTS

### Customers

Fixed deposits
Savings deposits
Current accounts - remunerative
Current accounts - non-remunerative

### Financial Institutions

Remunerative deposits
Non-remunerative deposits

Note	2008 Rupees in '000	2007 Rupees in '000
	142,315,907	128,417,463
	179,807,686	188,655,146
	50,740,004	76,708,609
	143,412,718	139,795,683
	516,276,315	533,576,901
	38,438,503	31,180,729
	70,634,451	27,059,422
	109,072,954	58,240,151
16.1	625,349,269	591,817,052

### 16.1 Particulars of deposits

In local currency
In foreign currencies [including deposits of foreign branches of Rs.124,533 million (2007: Rs.81,489 million)]

470,716,921	486,653,011
154,632,348	105,164,041
625,349,269	591,817,052

## 17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	Rupees in '000			Rupees in '000		
Not later than one year	17,796	2,567	15,229	18,869	3,451	15,418
Later than one year and not later than five years	11,335	1,290	10,045	20,410	2,089	18,321
	29,131	3,857	25,274	39,279	5,540	33,739

The Group has entered into lease agreements with various leasing companies for lease of vehicles. Lease rentals are payable in quarterly installments. Financial charges included in lease rentals are determined on the basis of discount factors applied at the rates ranging from 11.59% to 19.65% per annum and KIBOR + 2.25% to KIBOR + 4.00% per annum (2007: 11.59% to 12.94% per annum and KIBOR + 2.25% per annum). At the end of lease term, the bank has the option to acquire the assets subject to adjustment of security deposits.

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## 18. OTHER LIABILITIES

	Note	2008 Rupees in '000	2007
Mark-up / return / interest payable in local currency		8,809,941	4,305,639
Mark-up / return / interest payable in foreign currencies		1,019,751	1,108,424
Unearned commission and income on bills discounted		133,324	106,817
Accrued expenses		1,937,496	1,587,408
Advance payments		210,883	149,853
Unclaimed dividends		23,494	12,649
Derivatives:			
Un-realized loss on forward foreign exchange contracts		2,657,506	514,452
Un-realized loss on cross currency swaps		2,065,687	-
Un-realized loss on interest rate swaps		-	77,954
Provision against off balance sheet obligations	18.1	429,824	425,824
Branch adjustment account - net		-	3,433,226
Employee benefits:			
Post retirement medical benefits	34.1.3	2,946,554	2,582,476
Compensated absences	34.2.1	2,246,752	1,662,930
Benevolent fund	34.1.4	765,748	759,957
Gratuity scheme	34.1.5	106,270	66,708
Staff welfare fund		424,880	659,336
Liabilities relating to:			
Bangladesh (former East Pakistan)		227,089	227,089
Barter trade agreements		11,001,952	8,775,910
Special separation package		78,422	78,422
Payable to GoP for acquisition of assets from CIRC		638,772	638,772
Payable to brokers		-	17,491
Others [(including provision of Rs.358 million (2007: Rs.178 million) for contingencies)]		4,263,756	4,160,213
		<u>39,988,101</u>	<u>31,351,550</u>
<b>18.1 Provision against off balance sheet obligations</b>			
Opening balance		425,824	425,824
Charge for the year		4,000	-
Closing balance	18.1.1	<u>429,824</u>	<u>425,824</u>

**18.1.1** This represents provision against non-funded exposure of borrowers where the bank considers that the borrower will not be able to meet its contractual obligations at the time of amount becoming due.

## 19. SHARE CAPITAL

### 19.1 Authorized Capital

2007	2008		2008	2007
Number of shares			Rupees in '000	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs.10 each	<u>10,000,000</u>	<u>10,000,000</u>

### 19.2 Issued, subscribed and paid-up

140,388,000	140,388,000	Ordinary shares of Rs.10 each	1,403,880	1,403,880
675,043,989	756,587,100	Fully paid in cash	7,565,871	6,750,439
		Issued as fully paid bonus shares		
<u>815,431,989</u>	<u>896,975,100</u>		<u>8,969,751</u>	<u>8,154,319</u>

The Federal Government and the SBP held about 75.60% shares of the bank as at the year ended December 31, 2008 (2007: 75.60%).

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



	Note	2008 Rupees in '000	2007
<b>20. SURPLUS ON REVALUATION OF ASSETS - net</b>			
Available-for-sale securities	20.1	3,647,140	26,495,292
Fixed assets	20.3	17,677,429	20,543,099
		<u>21,324,569</u>	<u>47,038,391</u>
<b>20.1 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax</b>			
Federal Government securities		(872,274)	(70,186)
Term Finance Certificates		(84,886)	33,612
Quoted shares and mutual funds		(491,588)	2,565,998
GoP Foreign Currency Bonds		(679,108)	(73,531)
National Investment Trust Units		2,386,570	15,801,458
NIT Market Opportunity Fund		(796,196)	-
Investment outside Pakistan		5,090,388	13,620,451
		<u>4,552,906</u>	<u>31,877,802</u>
Deferred tax liability recognized	12	(895,673)	(5,382,510)
Share of revaluation loss on securities of associate		(10,093)	-
		<u>3,647,140</u>	<u>26,495,292</u>

- 20.2** During the year, the stock exchanges introduced 'floor mechanism' in respect of prices of equity securities based on the closing price as prevailing on August 27, 2008. Under the "floor mechanism", the individual security price of equity securities could vary within normal circuit breaker limit, but not below the floor price level. The mechanism was effective from August 28, 2008 and remained in place until December 15, 2008. During this period trading of securities effectively remained suspended on the stock exchanges. The trading resumed on December 15, 2008, however, the trading volumes upto December 31, 2008 were significantly low as compared to the volumes before the institution of floor mechanism. However, pursuant to the BSD Circular Letter No. 2 dated January 27, 2009 issued by the SBP and circular issued by the SECP on January 29, 2009, the listed equity securities and the mutual fund units held by the Group under 'Available-for-sale' category have been valued at the prices quoted on the stock exchanges / net asset values as of December 31, 2008.

Furthermore, the SBP vide its BSD Circular No. 4 and the SECP vide its SRO 150(I)/2009 dated February 13, 2009 has allowed banks and companies respectively, that the impairment loss, if any, resulting from the valuation of listed equity securities / mutual funds held under 'Available-for-sale' category of investments as of December 31, 2008 may be held under 'surplus on revaluation of asset' account as shown on the balance sheet. The impairment loss is required to be taken to the profit and loss account in the year 2009 on quarterly basis after adjustment for the effects of price movements in that year. However, for the purposes of distribution of dividend, the impairment loss as referred above shall be treated as a charge to the profit and loss for the year.

As of the balance sheet date, the impairment loss on listed equity securities and mutual fund investments held under 'Available-for-sale' category amounts to Rs. 2,422 million. In view of the SBP and the SECP directives as aforesaid and management estimates regarding price recovery in equity market, the impairment loss to the extent of Rs. 394 million has been recognised in the profit and loss account for the current year [representing 25% of impairment loss (calculated on Available-for-sale securities of the bank) excluding impairment loss on NIT Market Opportunity Fund of the bank] and balance of Rs. 2,028 million (net of tax of Rs. 1,826 million) is held under 'Surplus on revaluation of assets' account which shall be taken to the profit and loss account in the year 2009 as per the requirement of SBP and SECP directives explained in the preceding paragraph.

The recognition of full impairment loss in the profit and loss account of the current year would have had the following effect on these financial statements.

	2008 Rupees '000
Increase in provision for diminution in the value of investments	2,028,474
Decrease in profit for the year	2,028,474
Decrease in profit after tax	1,825,627
Increase in surplus on revaluation of assets – net of tax	1,825,627
Decrease in unappropriated profit	1,825,627
Increase in deferred tax charge	202,847
Decrease in earnings per share	Rs.2.03

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
<b>20.3 Surplus / (deficit) on revaluation of fixed assets - net of tax</b>			
Surplus on revaluation on January 1,		21,529,945	5,814,655
Share of surplus on revaluation of properties of joint venture		344,270	-
Net (deficit) / surplus on revaluation of bank's properties during the year		(2,661,419)	15,775,301
Transferred to unappropriated profit in respect of incremental depreciation charged during the year -net of deferred tax		(130,456)	(39,007)
Related deferred tax liability		(70,246)	(21,004)
		(200,702)	(60,011)
		19,012,094	21,529,945
Less: Related deferred tax liability on:			
Revaluation as at January 1,		986,846	446,556
Revaluation of bank's properties during the year		418,065	561,294
Incremental depreciation charged during the year transferred to profit and loss account		(70,246)	(21,004)
	12	1,334,665	986,846
Surplus on revaluation of fixed assets on December 31,		17,677,429	20,543,099
<b>21. CONTINGENCIES AND COMMITMENTS</b>			
<b>21.1 Direct credit substitutes</b>			
Includes general guarantee of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities issued in favour of:			
- Government		15,444,979	15,096,694
- Financial institutions		5,873,517	6,898,062
- Others		11,762,514	17,271,257
		33,081,010	39,266,013
<b>21.2 Transaction-related contingent liabilities</b>			
Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credits related to particular transactions issued in favour of:			
- Government		18,660,550	17,235,612
- Financial institutions		5,060	6,041,812
- Others		7,904,339	7,502,582
		26,569,949	30,780,006
<b>21.3 Trade-related contingent liabilities</b>			
Letters of credit Issued in favour of			
- Government		133,467,937	139,367,158
- Financial institutions		1,007,327	187,561
- Others		36,292,676	59,601,103
		170,767,940	199,155,822
<b>21.4 Other contingencies</b>			
<b>21.4.1</b> Claims against the bank not acknowledged as debts [including SBP liabilities on Bangladesh borrowing and interest thereon amounting to Rs.172 million (2007: Rs.170 million) and claims relating to former MBL amounting to Rs.965 million (2007: Rs.965 million)].		11,442,569	9,263,526

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 21.4.2 Taxation

The income tax assessments of the bank for global operations and for Azad Kashmir have been finalized up to and including the Tax year 2008 (accounting year ended December 31, 2007).

Appeals filed by the bank and tax department for various assessment years are pending before various appellate forums/court of law. The major issues involved include taxability of interest credited to suspense account, disallowances of cost incurred in respect of employees' special separation scheme, disallowed/added provision against bad & doubtful debts, allocation of expenses relating to exempt income and revaluation loss of barter trade agreements.

During the year, the orders for the assessment years 1997-98, 1998-99 and 1999-2000 were given appeal effects in respect of interest in suspense account amounting to Rs.1,880 million the tax impact of which was Rs.1,090 million. Further, the assessments for Tax Years 2006, 2007 and 2008 were amended by the Taxation Authorities disallowing allocation of expenses relating to exempt income, provision against bad and doubtful debts, charge against medical and compensated absences and revaluation of barter balances, the tax impact of which amounts to Rs.5,471 million.

During the year, favourable recommendations by ADRC have been received, in respect of taxability of interest credited to suspense account, cost incurred in respect of employees' special separation scheme, allocation of expenses relating to exempt income, claim of Benevolent Fund and revaluation loss of barter trade agreements.

The aggregate financial effects of all matters in appeals against which tax provisions has not created in the books works out at Rs.14,024 million (December 31, 2007: Rs.9,643 million). No provision there against has been considered necessary by the Bank as the management, based on the opinion of tax lawyers and consultants, expects favorable outcome of the above matters.

## 21.4.3 Provident Fund

In 1977, in accordance with the GoP policy, the bank's employees' benefits were changed from the Provident Fund to an enhanced Pension Scheme and an option was given to the employees either to opt for the new scheme or retain the existing benefits. Almost all employees opted for the new scheme. The bank considered that in accordance with the policy decision of the Banking Council and Finance Division of GoP, the balance of bank's contribution lying in the members' account in the Provident Fund upto that date should have been transferred to the Pension Fund to partially cover the additional cost of the enhanced benefits.

Subsequently, three employees filed a writ petition in 1980 before a Single Bench of Lahore High Court claiming the balance lying in their Provident Fund Account. This petition was dismissed by the Single Bench in July, 1982. Against this decision of the Single Bench, the aggrieved employees filed Intra Court Appeal before the High Court which was heard by a Division Bench of the Lahore High Court on a number of dates, extending over 16 years. Appeal against the Order of Single Bench was finally dismissed by the Division Bench vide Order dated July 31, 1998. One employee filed an appeal in the Supreme Court against the judgment of the Lahore High Court. In 2003, such appeals were finally decided by the Supreme Court of Pakistan against the bank. The Supreme Court directed the bank that the employees shall be paid contribution made by the bank together with the interest upto the date of payment. The bank in accordance with the legal interpretation obtained, commenced settlement of dues of eligible employees who had joined service of the bank prior to 1977.

For the purpose of settlement, interest has been calculated in accordance with Rule 12 of the Provident Fund Rules at average redemption yield of Central Government Rupee Loans of twenty years maturity or thereabout and such interest has been calculated in accordance with Rule 19 i.e. to ex-employees upto the date of retirement or death and upto date of payment in case of serving employees.



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

Some Ex-Employees not being satisfied with the payment filed contempt against the Bank in 2004. This case in the form of Criminal Original No. 7/2004 is pending before Supreme Court of Pakistan in which the petitioners claimed that the amount being paid to them against Bank's contribution is far less than that due to them. The Bank filed a reply and submitted before the Honorable Court that the rate of the interest which the petitioners are claiming is far higher than that due to them and the payment being made is in accordance with Provident Funds Rules. Pending outcome of the said contempt appeal, the Bank has decided not to claim excess fund lying in Provident Fund Account although as per legal opinion it would be lawful to the Bank to adjust the Banks Books of Accounts regarding excessive interest paid or accrued.

On one of the dates of hearing, the Court had already observed that the contempt proceedings are not meant to cover the amount, if according to petitioners the amount falls short of their expectations. Under contempt proceedings, their jurisdiction is only confined to punishing for disobedience of the order. The Court also put a direct question to the counsel for the petitioners to pinpoint the portion of the Order of Supreme Court which according to him, was disobeyed. The learned Counsel of the petitioners was unable to do so. The Court therefore expressed the view that proceedings of contempt were not competent. However, the matter is still awaiting the decision of Honourable Supreme Court's of Pakistan.

Pending outcome of the said application, the bank has decided not to claim excess fund lying in the Provident Fund, other than the one which pertains to former East Pakistan employees. The management is confident that the payments being made are in accordance with the Supreme Court's decision. The additional liability which may arise in case of different interpretation of the Honourable Supreme Court's decision cannot be estimated until such interpretation is made.

	2008	2007
	Rupees in '000	
<b>21.5 Commitments in respect of forward exchange contracts</b>		
Purchase	69,361,297	49,819,478
Sale	55,563,737	38,137,569
<b>21.6 Commitments in respect of trading with government securities</b>		
Purchase	5,200,000	-
Sale	5,200,000	-
<b>21.7 Commitments for the acquisition of operating fixed assets</b>	490,396	475,088
<b>21.8 Other commitments</b>		
- Equity futures sold	-	289,299
- Interest rates swaps	-	8,852,500
- Cross currency swaps	8,082,780	9,317,886
<b>21.9 Commitments to inject capital in the following companies under share-holders agreement</b>		
- Nishat Power Limited	-	300,000
- Nishat (Chunian) Limited	-	300,000
<b>21.10 Commitments for purchase of NIT Market Opportunity Fund units</b>	200,000	-
<b>21.11 Commitments for investment in NIT State Enterprise Fund</b>	7,000,000	-



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 22. DERIVATIVE INSTRUMENTS

- 22.1** The bank is involved in derivative transactions including interest rate swaps, cross currency swaps and equity futures. The bank also enter into forward foreign exchange contracts, the un-realized gain and loss on such contracts are disclosed in note 13 and 19 respectively.

The Asset Liability Committee regularly reviews the bank's risk profile in respect of derivatives. Operations procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and derivative activities. These controls include appropriate segregation of duties, regular reconciliation of accounts, and the valuation of assets and positions. The bank has established trading limits, allocation process, operating controls and reporting requirements that are specifically designed to control risk of aggregate positions, assure compliance with accounting and regulatory standards and provide accurate management information regarding these activities.

Accounting policies in respect of derivative financial instruments are mentioned in note 5.6.

### 22.2 Product Analysis

Counterparties	2008							
	Interest Rate Swaps		Cross Currency Swaps		Forward Rate Agreements		FX Options	
	No. of	Notional	No. of	Notional	No. of	Notional	No. of	Notional
	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)
<b>With Banks for</b>								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	-	-	-	-	-	-
<b>With FIs other than banks</b>								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	-	-	-	-	-	-
<b>With other entities for</b>								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	10	8,082,780	-	-	-	-
<b>Total</b>								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	10	8,082,780	-	-	-	-
	-	-	10	8,082,780	-	-	-	-

Counterparties	2007							
	Interest Rate Swaps		Cross Currency Swaps		Forward Rate Agreements		FX Options	
	No. of	Notional	No. of	Notional	No. of	Notional	No. of	Notional
	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)
<b>With Banks for</b>								
Hedging	-	-	-	-	-	-	-	-
Market Making	6	4,400,000	-	-	-	-	-	-
<b>With FIs other than banks</b>								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	-	-	-	-	-	-
<b>With other entities for</b>								
Hedging	-	-	-	-	-	-	-	-
Market Making	7	4,452,500	9	9,317,886	-	-	-	-
<b>Total</b>								
Hedging	-	-	-	-	-	-	-	-
Market Making	13	8,852,500	9	9,317,886	-	-	-	-
	13	8,852,500	9	9,317,886	-	-	-	-



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## 22.3 Maturity Analysis

### Interest Rate Swaps

2008					
Rupees in '000					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 month to 1 Year	-	-	-	-	-
1 to 2 Years	-	-	-	-	-
2 to 3 Years	-	-	-	-	-
3 to 5 Years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
Above 10 Years	-	-	-	-	-

2007					
Rupees in '000					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	8	6,642,772	56,574	8,281	(48,293)
6 month to 1 Year	5	2,209,728	31,776	2,115	(29,661)
1 to 2 Years	-	-	-	-	-
2 to 3 Years	-	-	-	-	-
3 to 5 Years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
Above 10 Years	-	-	-	-	-

### Cross Currency Swaps

2008					
Rupees in '000					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 month to 1 Year	-	-	-	-	-
1 to 2 Years	-	-	-	-	-
2 to 3 Years	-	-	-	-	-
3 to 5 Years	2	1,475,890	5,085,538	3,976,549	(1,108,989)
5 to 10 years	8	6,606,890	5,057,839	4,101,141	(956,698)
Above 10 Years	-	-	-	-	-

2007					
Rupees in '000					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 month to 1 Year	-	-	-	-	-
1 to 2 Years	-	-	-	-	-
2 to 3 Years	-	-	-	-	-
3 to 5 Years	-	-	-	-	-
5 to 10 years	9	9,317,886	334,095	405,908	71,813
Above 10 Years	-	-	-	-	-

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

	Note	2008 Rupees in '000	2007
<b>23. MARK-UP / RETURN / INTEREST EARNED</b>			
On loans and advances to:			
Customers		42,386,209	33,279,319
Financial institutions		726,789	-
		43,112,998	33,279,319
On investments in:			
Held for trading securities		1,306,934	-
Available-for-sale securities		9,795,484	8,543,874
Held-to-maturity securities		2,325,658	2,428,035
		13,428,076	10,971,909
On deposits with financial institutions		2,955,971	4,825,324
On securities purchased under resale agreements		1,532,721	1,496,717
On derivative financial instruments		122,052	268,961
		61,151,818	50,842,230
<b>24. MARK-UP / RETURN / INTEREST EXPENSED</b>			
Deposits		22,478,370	15,927,487
Securities sold under repurchase agreements		766,533	207,355
Short-term borrowings		520,691	655,240
Long-term borrowings		12,710	23,192
On derivative financial instruments		99,500	213,661
		23,877,804	17,026,935
<b>25. GAIN / (LOSS) ON SALE AND REDEMPTION OF SECURITIES - net</b>			
Federal government securities			
Market Treasury Bills	25.1	41,987	(3,925)
Pakistan Investment Bonds		(32,861)	23,941
		9,126	20,016
NIT Units		-	1,775,003
Shares - listed	25.1	383,527	559,206
Ijarah Sukuk		4,465	165
		397,118	2,354,390
<b>25.1</b>	This includes gain on market treasury bills and loss on shares amounting to Rs. 45.56 million and Rs. 69.94 million respectively, transferred from held-for-trading to available-for-sale investments in accordance with the BSD Circular Letter No. 7 of 2008 dated December 30, 2008.		
<b>26. OTHER INCOME</b>			
Rent on property		24,467	30,483
Profit on sale of property and equipment	11.6	7,960	2,975
Others	26.1	1,223,476	119,652
		1,255,903	153,110
<b>26.1</b>	This includes Rs.987.610 million (2007: Nil) of compensation for delayed refunds determined under section 171 of the Income Tax Ordinance, 2001. The compensation on delayed adjustments / issuance of outstanding refund pertains to various assessment years from 1991-92 to 2001-2002.		

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
<b>27. ADMINISTRATIVE EXPENSES</b>			
Salaries and allowances	27.3	11,393,654	9,073,198
Charge for defined benefit plans		1,018,791	335,925
Non-executive directors' fee, allowances and other expenses	35	9,131	2,993
Rent, taxes, insurance, electricity, etc.		1,033,976	861,383
Legal and professional charges		210,659	264,653
Communications		473,349	321,629
Repairs and maintenance		261,839	239,194
Financial charges on leased assets		10,751	9,214
Stationery and printing		581,582	387,484
Advertisement, sponsorship and publicity		171,573	294,967
Donations / Contributions	27.1	33,449	395
Auditors' remuneration	27.2	73,455	58,945
Depreciation	11.2	761,232	564,470
Amortization	11.3	4,179	4,776
Conveyance		115,198	93,022
Entertainment		35,756	33,571
Travelling		232,537	245,550
Security services		752,133	593,239
Outsourcing		284,337	266,102
Others		905,763	737,901
		<u>18,363,344</u>	<u>14,388,611</u>

## 27.1 Donations / Contributions include following amounts exceeding Rs.0.1 million.

Q.M. Fareed Memorial Library, Department of Economics - University of Karachi	-	200
Ali Hassan Mangi Memorial Trust	450	-
Establishment of Central Library at NAB Headquarter Islamabad	1,000	-
Fund Raising Campaign for Earthquake victims of Peoples Republic of China	1,000	-
Chief Minister (N.W.F.P.) Flood Relief Fund	7,000	-
Balochistan Chief Minister Earthquake Relief Fund	10,000	-
Home Department, Government of Sindh Police	13,990	-
	<u>33,440</u>	<u>200</u>

None of the directors/executives or their spouses have any interest in the donee.

## 27.2 Auditors' remuneration

	M.Yousuf Adil Saleem & Co.	Ford Rhodes Sidat Hyder & Co.	2008 Total	2007 Total
	Rupees in '000			
Audit fee	2,854	2,854	5,708	5,708
Review of interim financial statements	1,584	1,584	3,168	3,168
Fee for audit of domestic branches	3,990	3,990	7,980	5,980
Fee for special certifications and sundry advisory services	2,685	2,035	4,720	254
Fee for audit of overseas branches including advisory services and out-of-pocket expenses	-	-	47,783	40,354
Fee for audit of subsidiaries	279	817	1,096	965
Out-of-pocket expenses	1,500	1,500	3,000	2,516
	<u>12,892</u>	<u>12,780</u>	<u>73,455</u>	<u>58,945</u>

## 27.3 The salaries and allowances include charge for staff welfare fund which is based on estimated payments to be made out of current year's profits.

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

	Note	2008 Rupees in '000	2007
<b>28. OTHER CHARGES</b>			
Penalties imposed by SBP		562,535	17,141
Others		20,826	-
		<u>583,361</u>	<u>17,141</u>
<b>29. TAXATION</b>			
For the year			
Current	29.1	11,797,821	8,333,955
Deferred		<u>(4,230,776)</u>	<u>322,986</u>
	29.2	7,567,045	8,656,941
For prior year			
Current		<u>(1,813)</u>	<u>389,684</u>
		<u>7,565,232</u>	<u>9,046,625</u>
<b>29.1</b>	Current taxation includes Rs.612 million (2007: Rs.543 million) of overseas branches.		
<b>29.2 Relationship between tax expense and accounting profit</b>			
Accounting profit before tax		23,249,286	28,451,790
Income tax at statutory rate @ 35% (2007: 35%)		8,137,250	9,892,050
Increase/(decrease) in taxes resulting from:			
Inadmissible differences		171,152	255,408
Income taxed at reduced rate		(826,357)	(939,118)
Income exempt from tax		-	(801,399)
Overseas taxation		85,000	250,000
Tax charge for current year		<u>7,567,045</u>	<u>8,656,941</u>
		<b>2008</b>	<b>2007</b>
<b>30. BASIC EARNINGS PER SHARE</b>			
Profit attributable to shareholders of the holding company	<b>Rupees '000</b>	<u>15,681,084</u>	<u>19,393,263</u>
Weighted average number of ordinary shares	<b>Numbers '000</b>	<u>896,975</u>	<u>896,975</u>
Basic earnings per share	<b>Rupees</b>	<u>17.48</u>	<u>21.62</u>
<b>30.1</b>	Earnings per share for the year 2007 has been restated for the effect of bonus shares issued during the year.		
<b>31. DILUTED EARNINGS PER SHARE</b>			
Basic and diluted earnings per share are same.			
<b>32. CASH AND CASH EQUIVALENTS</b>			
Cash and balances with treasury banks	6	106,778,346	95,010,514
Balances with other banks	7	39,490,729	38,216,263
Overdrawn nostros	15.2	<u>(171,976)</u>	<u>(889,092)</u>
		<u>146,097,099</u>	<u>132,337,685</u>

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## 33. STAFF STRENGTH

Permanent  
Temporary / on contractual basis  
Total Staff Strength

2008	2007
Rupees in '000	
15,219	15,695
796	877
16,015	16,572

**33.1** In addition to the above, the bank is utilizing the services of other companies for outsourcing purposes and the number of persons deployed by such companies as at year end are 6,010 (2007: 5,192).

## 34. EMPLOYEE BENEFITS

### 34.1 Defined benefit plans

#### 34.1.1 General description

General description of the type of defined benefit plan and accounting policy for recognising actuarial gains and losses is disclosed in note 5.11 to the financial statements.

#### Principal actuarial assumption

The financial assumptions used in actuarial valuation at December 31, 2008 of pension fund, post retirement medical benefits, benevolent fund and gratuity schemes are as follows:

	2008	2007
Salary increase	14% per annum	10% per annum
Discount rate	14% per annum	10% per annum
Expected rate of return on plan assets	14% per annum	10% per annum
Pension indexation rate	10% per annum	6% per annum
Rate of inflation in the cost of medical benefits	10% per annum	7% per annum
Exposure inflation rate	3% per annum	3% per annum
Number of employees covered under retirement benefit plan	14,344	12,999

Note 2008 2007  
Rupees in '000

#### 34.1.2 Reconciliation of (recoverable from) pension fund

Present value of defined benefit obligations	15,011,555	12,704,049
Fair value of plan assets	(17,738,992)	(19,503,391)
Net actuarial losses not recognized	(1,587,558)	3,122,997
Past Service Cost - Non Vested	(181,948)	-
	13 (4,496,943)	(3,676,345)

The recognized amount has been restricted to present value of any economic benefits available in the form of refunds from the plan or reduction in future contribution to the plan.

#### Movement in (recoverable from) pension fund

Opening net asset	(3,676,345)	(2,951,933)
Charge for the year	(157,789)	(197,568)
Contribution to the fund made during the year	(662,809)	(526,844)
	(4,496,943)	(3,676,345)

#### Charge for pension fund

Current service cost	342,649	324,541
Interest cost	1,270,405	1,086,232
Expected return on plan assets	(1,950,339)	(1,560,058)
Actuarial gains recognized	(106,605)	(48,283)
Past Service Cost -Vested	286,101	-
	(157,789)	(197,568)

#### Actual return on plan assets

1,870,261	2,060,092
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# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 34.1.2.1 Components of fair value of plan assets as a percentage of total fair value of plan assets

	2008 %	2007 %
Bonds	58.25	59.89
Equities	19.54	29.40
Cash and net current assets	22.21	10.71

Reconciliation of (recoverable from) pension fund for the five years are as follows:

	2008	2007	2006	2005	2004
	----- Rupees in '000 -----				
Present value of defined benefit obligations	15,011,555	12,704,049	12,069,249	10,085,072	8,889,166
Fair value of plan assets	(17,738,992)	(19,503,391)	(17,333,982)	(13,615,308)	(10,953,151)
Net actuarial (losses) / gains not recognized	(1,587,558)	3,122,997	2,312,800	1,006,568	16,126
Past Service Cost - Non Vested	(181,948)	-	-	-	-
	(4,496,943)	(3,676,345)	(2,951,933)	(2,523,668)	(2,047,859)

Note 2008 2007  
Rupees in '000

## 34.1.3 Reconciliation of payable to medical benefit plan

Present value of defined benefit obligations	2,909,308	2,726,617
Fair value of plan assets	-	-
Net actuarial losses / (gains) not recognized	37,246	(144,141)
	18 2,946,554	2,582,476

### Movement in net liability recognized

Opening net liability	2,582,476	2,276,586
Charge for the year	380,084	323,543
Benefits paid	(16,005)	(17,653)
	2,946,555	2,582,476

### Charge for medical benefit plan

Current service cost	107,421	85,036
Interest cost	272,662	233,576
Actuarial losses recognized	-	4,931
	380,083	323,543

Reconciliation of payable to medical benefit plan for the five years are as follows:

	2008	2007	2006	2005	2004
	----- Rupees in '000 -----				
Present value of defined benefit obligations	2,909,308	2,726,617	2,595,291	2,303,706	2,212,279
Net actuarial losses not recognized	37,246	(144,141)	(318,705)	(301,957)	(440,381)
	2,946,554	2,582,476	2,276,586	2,001,749	1,771,898

### Effect of 1% movement in assumed medical cost trend rate

	2008		2007	
	Increase	Decrease	Increase	Decrease
	----- Rupees in '000 -----			
Impact on obligations	111,540	(86,842)	145,588	(111,073)
Impact on cost	22,685	(17,403)	23,191	(17,363)

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
<b>34.1.4 Movement in net liability recognized for benevolent fund</b>			
Opening net liability		759,957	802,937
Charge for the year		53,256	22,756
Benefits paid	18	(47,465)	(65,736)
		<u>765,748</u>	<u>759,957</u>
<b>Charge for benevolent fund</b>			
Current service cost		18,592	19,567
Interest cost		75,996	72,264
Actuarial gains recognized		(41,332)	(69,075)
		<u>53,256</u>	<u>22,756</u>

Reconciliation of net liability recognized for benevolent fund for the five years are as follows:

	2008	2007	2006	2005	2004
	----- Rupees in '000 -----				
Opening net liability	759,957	802,937	729,725	733,572	638,103
Net charge for the year	53,256	22,756	129,185	56,242	162,032
Benefits paid	(47,465)	(65,736)	(55,973)	(60,089)	(66,563)
	<u>765,748</u>	<u>759,957</u>	<u>802,937</u>	<u>729,725</u>	<u>733,572</u>

	Note	2008 Rupees in '000	2007
<b>34.1.5 Reconciliation of payable to gratuity benefit plan</b>			
Present value of defined benefit obligations		116,216	82,098
Net actuarial losses not recognized		(9,946)	(4,309)
Unrecognized Past Service Cost		-	(11,081)
	18	<u>106,270</u>	<u>66,708</u>
<b>Movement in net liability recognized</b>			
Opening liability		66,708	33,409
Charge for the year		42,424	33,299
Benefits paid		(2,862)	-
		<u>106,270</u>	<u>66,708</u>
<b>Charge for gratuity benefit plan</b>			
Current service cost		23,133	16,980
Interest cost		8,210	5,238
Past service cost to be recognized		11,081	11,081
		<u>42,424</u>	<u>33,299</u>
<b>34.2 Other employee benefits</b>			
<b>34.2.1 Movement in net liability recognized for compensated absences</b>			
Opening net liability		1,662,930	1,639,708
Charge for the year		696,627	23,222
Benefits paid during the year	18	(112,805)	-
		<u>2,246,752</u>	<u>1,662,930</u>

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



**Reconciliation of net liability recognized for compensated absences for the five years are as follows:**

	2008	2007	2006	2005	2004
	----- Rupees in '000 -----				
Opening net liability	1,662,930	1,639,708	1,521,326	1,219,566	1,281,741
Net charge for the year	583,822	23,222	118,382	301,760	(62,175)
	2,246,752	1,662,930	1,639,708	1,521,326	1,219,566

## 34.3 Expected contributions to be paid to the funds in the next financial year

	2009			
	Pension fund	Benevolent Scheme	Medical Scheme	Gratuity Scheme
	----- Rupees in '000 -----			
Contribution to be paid	(230,680)	94,588	380,083	42,423

## 35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President		Directors		Executives	
	2008	2007	2008	2007	2008	2007
	----- Rupees in '000 -----					
Fees	-	-	9,131	2,993	-	-
Managerial remuneration	8,760	7,800	-	-	307,313	196,553
Charge for defined benefit plan	-	-	-	-	63,157	38,825
Rent and house maintenance	5,616	5,265	-	-	153,659	93,303
Utilities	1,593	1,029	-	-	36,965	19,719
Medical	222	1,061	-	-	35,015	28,200
Conveyance	-	-	-	-	84,701	46,450
Leave fare assistance	7,440	3,000	-	-	-	-
Bonus & others	28,441	25,812	-	-	220,694	84,388
	52,072	43,967	9,131	2,993	901,504	507,438
Number of persons	1	1	6	8	377	239

The President and certain executives are also provided with free use of the bank's cars, household equipments and free membership of clubs.

Executives mean officers, other than the chief executive and directors, whose basic salary exceeds five hundred thousand rupees in the financial year.

This note does not include particulars of directors, chief executive, and executives of subsidiaries.

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

### 36.1 On-balance sheet financial instruments

	2008		2007	
	Book Value	Fair Value	Book Value	Fair Value
	----- Rupees in '000 -----			
<b>Assets</b>				
Cash and balances with treasury banks	106,778,346	106,778,346	95,010,514	95,010,514
Balances with other banks	39,490,729	39,490,729	38,216,263	38,216,263
Lendings to financial institutions	17,139,081	17,139,081	21,656,192	21,656,192
Investments	171,204,890	165,271,004	212,087,467	210,355,236
Advances	413,076,390	413,076,390	340,369,649	340,369,649
Other assets	22,414,965	22,414,965	15,455,687	15,455,687
	<b>770,104,401</b>	<b>764,170,515</b>	<b>722,795,772</b>	<b>721,063,541</b>
<b>Liabilities</b>				
Bills payable	10,219,061	10,219,061	7,061,901	7,061,901
Borrowings	40,044,291	40,044,291	11,331,842	11,331,842
Deposits and other accounts	625,349,269	625,349,269	591,817,052	591,817,052
Liabilities against assets subject to finance lease	25,274	25,274	33,739	33,739
Other liabilities	29,451,859	29,451,859	20,284,270	20,284,270
	<b>705,089,754</b>	<b>705,089,754</b>	<b>630,528,804</b>	<b>630,528,804</b>

### 36.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	69,361,297	70,313,593	49,819,478	52,819,753
Forward sale of foreign exchange	55,563,737	51,907,012	38,137,569	38,601,892
Cross currency swaps and interest rate swaps	8,082,780	6,017,093	18,170,386	18,092,432
Equity futures sold	-	-	289,299	279,270

All quoted and unquoted investments have been valued in accordance with the accounting policy stated in note 5.2.

Fair value of loans and advances cannot be determined with reasonable accuracy due to absence of current and active market. Loans and advances are repriced frequently on market rates and are reduced for any impairment against non-performing advances determined in accordance with Prudential Regulations.

In the opinion of the management, fair value of other 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 deposits are frequently repriced.

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 37. Segment Details with respect to Business Activities

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage
	Rupees in '000							
<b>2008</b>								
Total income	324,911	14,855,479	13,114,628	20,687,687	1,712,732	3,161,901	15,481	84,671
Total expenses	2,522	1,550,401	9,555,826	15,626,897	811,775	3,078,617	10,261	71,903
Net income	322,389	13,305,078	3,558,802	5,060,790	900,957	83,284	5,220	12,768
Segment Assets (Gross)	-	360,732,802	119,318,254	339,465,777	-	-	166,582	393,785
Segment Non Performing Loans	-	-	5,499,383	51,003,200	-	-	-	-
Segment Provision Required	-	-	4,077,787	40,763,377	-	-	-	-
Segment Liabilities	-	49,369,652	179,472,757	486,627,911	-	-	32,281	123,393
Segment Return on net Assets (ROA) (%)	-	5.57%	2.44%	1.34%	-	-	3.26%	2.72%
Segment Cost of funds (%)	-	5.52%	3.46%	4.16%	-	-	-	-
<b>2007</b>								
Total income	311,422	10,073,097	11,376,127	21,979,092	1,052,772	2,840,489	19,862	103,430
Total expenses	1,455	432,233	6,549,071	9,399,696	610,926	2,239,189	7,614	64,317
Net income	309,967	9,640,864	4,827,056	12,579,396	441,846	601,300	12,248	39,113
Segment Assets (Gross)	-	319,173,618	123,134,050	321,602,707	-	-	153,798	544,617
Segment Non Performing Loans	-	-	2,351,296	35,966,256	-	-	-	-
Segment Provision Required	-	-	994,931	31,356,884	-	-	-	-
Segment Liabilities	-	9,708,553	121,426,879	515,364,382	-	-	150	195,180
Segment Return on net Assets (ROA) (%)	-	3.43%	4.07%	4.17%	-	-	7.96%	7.18%
Segment Cost of funds (%)	-	5.90%	1.81%	3.02%	-	-	-	0.65%

## 38. TRUST ACTIVITIES

### 38.1 National Investment Trust (NIT)

Under a trust deed, the bank provides services, as a trustee to NIT and is performing functions of sale/purchase of NIT units, safe custody and maintaining unit holders accounts. The bank is keeping approximately 1.5 billion (2007: 1.4 billion) shares with market value of Rs.45,570 million (2007: Rs.95,687 million) in safe custody / Central Depository Company on behalf of NIT.

### 38.2 Long-term Credit Fund (LTCF)

Consequent upon the NDFC amalgamation, the bank manages on behalf of the GoP, LTCF established from the proceeds of loans disbursed by various international funding agencies for financing private sector energy development projects. Fund assets are accounted for separately from those of the bank and amounted to Rs.40 billion on December 31, 2008 (2007: Rs.36 billion).

### 38.3 Endowment Fund

The Students Loan Scheme was launched by the GoP in collaboration with major commercial banks of Pakistan to facilitate meritorious students in acquiring education by offering markup free loans.

The scheme is administered by a high powered committee headed by the Deputy Governor, State Bank of Pakistan and the Presidents of NBP, HBL, UBL, MCB, ABL and the Deputy Secretary, Ministry of Finance. The State Bank has assigned National Bank of Pakistan to operate the scheme.

The committee in its meeting held on 7th August 2001 approved creation of Endowment Fund initially at an amount of Rs.500 million. Rs.396 million were transferred from the old Qarz-e-Hasna Fund, Rs.50 million contributed by GoP and Rs.54 million were contributed by participating banks (HBL, NBP & UBL 25% each, MCB 17.5% and ABL 7.5%).

The amount of the fund in investments stands at Rs.737 million as at 31 December 2008 (2007: Rs.728 million).

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## 39. RELATED PARTY TRANSACTIONS

The Group has related party relationship with its associated undertakings, employee benefit plans, and its key management personnel (including their associates). The details of investments in subsidiary companies and associated undertakings are stated in note 9 to these financial statements.

Transactions between the bank and its related parties are carried out under normal course of business except employee staff loans and provident fund that are as per agreement.

Detail of loans and advances to the companies or firms, in which the directors of the bank are interested as directors, partners or in case of private companies as members, are given in note 10.7 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to an approval in respect of staff retirement and other benefit plans as disclosed in note 34 to these financial statements. Remuneration to the executive and disposal of vehicles are disclosed in notes 35 and 11.6 to the financial statements.

	2008	2007
	Rupees in '000	
<b>Balance outstanding at year end</b>		
<b>Advances to:</b>		
Associates	1,269,498	1,515,120
Key management executives *	95,931	89,102
Debts due by company in which a director of the bank is interested as director	-	199,391
<b>Placements with:</b>		
Joint venture	420,535	759,343
Associates	25,881	27,331
<b>Deposits from:</b>		
<b>Pension fund</b>		
Opening balance	2,088,976	3,077,536
Received during the year	12,055,094	1,990,643
Repaid during the year	(10,203,909)	(2,979,203)
Closing Balance	3,940,161	2,088,976
<b>Provident fund</b>		
Opening balance	8,078,395	7,397,487
Received during the year	1,351,602	1,325,349
Repaid during the year	(922,697)	(644,441)
Closing Balance	8,507,300	8,078,395
<b>Income for the year</b>		
On advances/placements with:		
Associates	3,045	23,160
Debts due by company in which a director of the bank is interested as director	-	5,965
<b>Expenses for the year</b>		
Remuneration to key management executives	149,330	77,208
Charge for defined benefit plan	6,738	5,605
<b>On deposits of:</b>		
Provident fund	946,446	943,205
Other receivables	32,195	30,529
Other payables	11,594	11,154

\* This includes loans extended to certain key management executives in accordance with the terms of employment.

**39.1** Although the Federal Government and the SBP held about 75.60% shares of the bank (2007: 75.60%), the transactions with these entities have not been treated as related party transactions for the purpose of this disclosure.



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



## 40. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II

### 40.1 Statutory minimum capital requirement and management of capital

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the bank operates;
- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The State Bank of Pakistan through its BSD Circular No. 19 dated September 5, 2008 requires the minimum paid-up capital (net of losses) for Banks / DFIs to be raised to Rs. 23,000 million by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs. 5,000 million paid up capital (net of losses) by the end of the financial year 2008.

Minimum Paid up Capital (Net of losses) - Rs. in '000	Dead line by which to be increased
5,000,000	31-12-2008
6,000,000	31-12-2009
10,000,000	31-12-2010
15,000,000	31-12-2011
19,000,000	31-12-2012
23,000,000	31-12-2013

The paid-up capital of the Bank for the year ended December 31, 2008 stood at Rs. 8,969 million and is in compliance with the SBP requirement for the said year. In addition the Banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 9% of the risk weighted exposure of the Bank whereas in December 2007, it was required as 8%.

The State Bank of Pakistan's regulatory capital as managed by the bank is analyzed into following tiers:

- Tier I capital, which comprises of highest quality capital element and include fully paid up capital, share premium, reserve for bonus shares, general reserves and unappropriated profits.
- Tier II capital, which includes general reserve for loan losses, revaluation reserves, exchange translation reserves and subordinated debts.
- Tier III capital, which includes short term sub-ordinated debts. This capital is solely for the purpose of meeting a proportion of the capital requirements for market risk.

Various limits are applied to elements of the capital base. Qualifying tier II and tier III capital cannot exceed the tier I capital. Revaluation reserves are eligible upto 45 percent for treatment as tier II capital. There is also restriction on the amount of general reserve for loan losses upto 1.25 percent of total risk weighted assets. Subordinated debts cannot exceed 50 percent of tier I capital. Further tier III capital cannot exceed 250 percent of tier I capital.

Risk weighted assets are measured according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counter party, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet exposure, with some adjustments to reflect more contingent nature of potential losses.

Bank's policy is to maintain strong capital base so as to maintain, investor, creditor and market confidence and to sustain future development of the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the State Bank of Pakistan. The ratios compare the amount of eligible capital with the total of risk-weighted assets. The Bank monitors and reports its capital ratios under SBP rules, which ultimately determine the regulatory capital required to be maintained by Banks and DFIs.

There have been no material changes in the Bank's management of capital during the year.

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## 40.2 Tier I Capital

Fully paid-up capital  
General reserves  
Unappropriated profits  
Minority interest

### Deductions:

50% of the investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet

### Total eligible Tier I capital

### Supplementary Capital

### Tier II Capital

General Provisions subject to 1.25% of total Risk Weighted Assets  
Revaluation Reserve (upto 45%)  
Foreign exchange translation reserve

### Deductions:

50% of the investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet

### Total eligible Tier II capital

### Tier III Capital

### Eligible Tier III Capital

### Total eligible Capital

2008 2007  
Rupees in '000

8,969,751	8,154,319
14,044,718	12,498,859
53,567,323	46,232,813
112,699	109,729
76,694,491	66,995,720
1,594,475	1,425,816
75,100,016	65,569,904
2,111,217	2,061,287
10,092,548	20,994,681
6,432,145	3,879,535
18,635,910	26,935,503
1,594,475	1,425,816
17,041,435	25,509,687
-	-
-	-
92,141,451	91,079,591

## 40.3 Capital Adequacy Ratio

Note	2008	2007	2008	2007
	Capital Requirements	Risk Weighted Assets	Rupees in '000	Rupees in '000
<b>Credit Risk</b>				
Claim on				
Public sector entities	498,884	635,882	5,543,161	7,948,519
Banks	908,944	787,596	10,099,376	9,844,955
Corporates	18,416,975	15,148,929	204,633,061	189,361,609
Retail portfolio	5,669,345	3,580,784	62,992,724	44,759,795
Loans secured by residential property	608,970	470,928	6,766,331	5,886,604
Past due loans	1,087,289	472,353	12,080,993	5,904,413
Investment in fixed assets	2,184,477	2,078,344	24,271,963	25,979,302
Other assets	3,386,877	4,145,468	37,631,966	51,818,351
Off balance sheet - non-market related exposure	5,419,943	3,428,222	60,221,586	42,852,772
Off balance sheet - market related exposure	58,515	31,993	650,170	399,909
Equity exposure risk held in the banking book	227,830	66,957	2,531,440	836,957
	38,468,049	30,847,456	427,422,771	385,593,186
<b>Market Risk</b>				
Interest rate risk	311,299	386,769	3,458,874	4,834,616
Equity position risk	614	120,581	6,822	1,507,258
Foreign exchange risk	2,390,298	3,094,983	26,558,870	38,687,291
	2,702,211	3,602,333	30,024,566	45,029,165
<b>Operational Risk</b>	7,887,243	5,925,623	87,636,038	74,070,288
<b>Total</b>	49,057,503	40,375,412	545,083,375	504,692,639
<b>Capital Adequacy Ratio</b>				
Total eligible regulatory capital held (a) 40.2	92,141,451	91,079,591		
Total Risk Weighted Assets (b) 40.3	545,083,375	504,692,639		
Capital Adequacy Ratio (a) / (b)	16.90%	18.05%		



# Consolidated Notes to the Financial Statements

## For the year ended December 31, 2008

### 40.4 Credit risk - General disclosures

The Bank uses the 'Standardised Approach' for all its Credit Risk Exposures.

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures. These are applied consistently across the Bank credit portfolio for both on - balance sheet and off - balance sheet exposures. The methodology applied for using External Credit Assessment Institutions (ECAI's) inclusive of the alignment of alpha numerical scale of each agency used with risk bucket is as per SBP Basel II guidelines as is given below:

Exposures	2008	
	JCR - VIS	PACRA
Corporate	✓	✓
Banks	x	x
Sovereigns	x	x
SME's	x	x
Securitisation	N/A	N/A
Others	N/A	N/A

### 40.5 Credit Exposures subject to Standardised Approach

Exposures	Rating Category #	2008		2007	
		Amount Outstanding	Deduction CRM	Amount Outstanding	Deduction CRM
Cash and Cash Equivalents	-	8,489,519	-	7,797,264	-
Claims on Government of Pakistan	-	257,826,059	-	262,150,093	-
Foreign Currency claims on SBP	-	45,608,256	-	39,445,889	-
Claims on other sovereigns and on GoP	-	30,725,072	-	8,064,381	-
PSE's	1	12,373,662	-	-	-
PSE's	1	6,136,857	-	15,897,038	-
Banks	Unrated	50,578,679	5,976,003	59,872,455	15,478,534
Corporates	1	4,261,513	734,028	-	-
Corporates	2	261,004	37,303	-	-
Corporates	3	17,932	1,780	-	-
Corporates	Unrated	209,622,740	6,346,041	189,648,752	287,143
Retail portfolio	Unrated	90,746,299	6,756,000	76,299,169	16,619,443
Secured by residential property	-	19,332,375	-	16,818,868	-
Past due loans	-	13,731,834	-	5,965,736	-
Listed Equity investments - banks	-	1,629,796	-	554,049	-
Unlisted equity investments	-	601,096	-	188,605	-
Investments in fixed assets	-	24,271,963	-	25,979,302	-
Other assets	-	37,631,966	-	51,818,351	-
		<b>813,846,622</b>	<b>19,851,155</b>	<b>760,499,952</b>	<b>32,385,120</b>
				<b>793,995,467</b>	<b>728,114,832</b>

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## 41. RISK MANAGEMENT

### 41.1 Credit risk

The Group is exposed to credit risk from the possibility that a borrower or counter-party may fail to meet its obligations in accordance with agreed terms, principally the failure to make required payments on loans or obligations due to the Group. The goal of credit risk management is to maintain a healthy asset portfolio. In order to achieve this, the Group has adopted a credit policy that covers several aspects including credit initiation and approval, credit maintenance, credit risk monitoring, documentation, disbursement and remedial management as well as credit policies specific to various businesses and industries. This process is strengthened by post-disbursement measures used to detect deterioration in the credit risk profile of borrowers. The Bank's product policy manuals, which detail approved credit exposure, are reviewed by the Risk Management Division and approved by the Risk Management Committee and the Board of Directors.

The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. Borrower limits are set by the Credit Committee upon the recommendation of the Credit Management Group, within the controlling parameters of the SBP's Prudential Regulations. Bank's credit risk policies for loans also apply to credit substitutes. The Group has a review process that ensures the proper level of review and approval depending, among other things, the tenure of the facility, the aggregate size of all facilities extended to the borrower and its related parties, the type of collateral and whether the borrower is on watch list. Where possible, all loans and advances are secured by acceptable form of collateral to mitigate credit risk.

Bank's primary rating tool is a Credit Risk Rating, which is an internal risk rating system designed to reflect the overall risk profile of the borrower or guarantor. Risk ratings are assigned according to the perception of risk on a numerical scale, determined through examining several criteria. It is a system that provides nationwide risk management infrastructure with a common language for assessing and monitoring risk in credit portfolio. The Bank considers both financial and qualitative parameters, including, for example, key financial ratios, interest coverage, debt service coverage, liquidity, profit margin and debt-equity ratio. The borrower's risk rating is also reviewed periodically.

Once a loan is disbursed, the Bank undertakes ongoing credit analysis and monitoring at several levels. If a borrower wishes to renew or roll over the loan, the Bank applies substantially the same standards as the Bank would to granting a new loan. Typically, the Bank performs an annual credit review of each loan customer and update the review during the course of the year as circumstances warrant.

Special Assets Management Group (SAMG) of the bank is responsible for monitoring the stuck up advances. It negotiates with the borrowers and takes legal actions against the delinquent borrowers.

### 41.1.1 SEGMENTAL INFORMATION

#### 41.1.1.1 Segment by class of business

	2008					
	Advances (Gross)		Deposits		Contingencies & Commitments	
	Rupees in '000	Percentage %	Rupees in '000	Percentage %	Rupees in '000	Percentage %
Chemical and pharmaceuticals	5,213,257	1.14	959,264	0.15	8,721,107	3.78
Agribusiness	23,194,510	5.06	12,283,214	1.96	179,558	0.08
Textile	67,390,147	14.72	1,494,141	0.24	3,948,164	1.71
Cement	10,463,059	2.28	261,859	0.04	2,962,080	1.29
Sugar	7,480,998	1.63	95,576	0.02	59,454	0.03
Flour	1,769,715	0.39	41,252	0.01	-	-
Rice processing	8,750,800	1.91	746,816	0.12	14,718	0.01
Shoes & leather garments	775,247	0.17	142,520	0.02	91,502	0.04
Automobile and transportation equipment	3,666,980	0.80	1,110,266	0.18	164,102	0.07
Financial	9,637,810	2.10	93,847,141	15.01	8,514,092	3.70
Insurance	548,428	-	3,072,062	0.49	-	-
Transportation	18,826,039	4.11	3,940,498	0.63	532,754	0.23
Real Estate Construction	7,307,463	1.60	4,715,627	0.75	2,040,396	0.89
Electronics and electrical appliances	25,495,367	5.57	804,813	0.13	18,142,525	7.87
Production and transmission of energy	23,741,121	5.18	1,978,177	0.32	16,368,119	7.10
Food and tobacco	1,883,671	0.41	406,688	0.07	99,258	0.04
Fertilizer	12,836,593	2.80	407,107	0.07	2,699,057	1.17
Metal products	3,237,281	0.71	419,291	0.07	762,454	0.33
Oil, gas, petroleum and energy	25,398,022	5.55	18,092,743	2.89	6,550,049	2.84
Telecommunication	5,901,256	1.29	6,345,118	1.01	2,692,737	1.17
Hotel and services	10,633,240	2.32	18,956,793	3.03	207,968	0.09
Public sector commodity operations	34,656,493	7.57	13,173,246	2.11	4,705,571	2.04
Individuals	75,511,864	16.49	241,949,136	38.69	2,050,229	0.89
General traders	18,727,871	4.09	13,274,272	2.12	875,387	0.38
Others	54,911,124	12.11	186,831,649	29.87	*148,037,618	64.25
	457,958,356	100.00	625,349,269	100.00	230,418,899	100.00

\* This includes Rs.130.755 million against commitments for non-funded facilities extended to public sector.

# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

## 41.1.1.2 Segment by sector

	2008					
	Advances (Gross)		Deposits		Contingencies & Commitments	
	Rupees in '000	Percentage %	Rupees in '000	Percentage %	Rupees in '000	Percentage %
Public / Government	102,885,247	22.47	200,063,752	31.99	130,755,274	56.75
Private	355,073,109	77.53	425,285,517	68.01	99,663,625	43.25
	<u>457,958,356</u>	<u>100.00</u>	<u>625,349,269</u>	<u>100.00</u>	<u>230,418,899</u>	<u>100.00</u>

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

	2008		2007	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	----- Rupees in '000 -----			
Chemical and pharmaceuticals	3,883,528	2,793,899	1,528,242	1,496,988
Agribusiness	1,601,920	540,640	1,698,478	709,774
Textile	17,964,960	15,613,360	14,555,983	12,571,994
Cement	2,505,630	2,205,630	1,192,930	1,192,930
Sugar	1,720,970	1,363,230	1,340,425	1,340,425
Flour	179,670	176,500	169,787	144,113
Rice processing	1,805,700	1,488,930	818,768	600,694
Shoes & leather garments	264,430	205,260	107,908	106,609
Automobile and transportation equipment	934,510	593,860	361,852	328,000
Financial	105,200	30,200	60,235	60,235
Transportation	1,300,380	705,200	69,818	68,836
Real Estate Construction	271,300	172,730	334,860	254,511
Electronics and electrical appliances	2,716,020	916,140	168,013	148,225
Food and tobacco	376,770	274,030	968,742	867,133
Fertilizer	256,320	251,670	210,856	206,091
Metal products	2,535,450	2,502,610	1,993,805	1,989,868
Oil, gas, petroleum and energy	129,790	102,020	1,215,650	1,067,101
Hotel and services	417,210	168,600	56,624	34,057
Individuals	2,998,870	1,864,470	896,420	528,512
General traders	2,338,030	2,146,490	1,661,610	1,484,882
Others	12,195,925	8,655,280	8,906,546	7,150,837
	<u>56,502,583</u>	<u>42,770,749</u>	<u>38,317,552</u>	<u>32,351,815</u>

## 41.1.1.4 Details of non-performing advances and specific provisions by sector

Public / Government	2,919,805	855,805	908,750	908,750
Private	53,582,778	41,914,944	37,408,802	31,443,065
	<u>56,502,583</u>	<u>42,770,749</u>	<u>38,317,552</u>	<u>32,351,815</u>

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For the year ended December 31, 2008

	2008			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
----- Rupees in '000 -----				
<b>41.1.1.5 Geographical segment analysis</b>				
Pakistan	21,486,979	652,722,994	91,258,873	220,821,158
Asia Pacific (including South Asia)	775,568	57,832,159	7,636,635	4,396,174
Europe	21,976	17,152,155	2,936,022	4,618,849
United States of America	303,085	15,448,822	1,802,237	582,718
Middle East	661,678	76,921,071	817,438	-
	23,249,286	820,077,201	104,451,205	230,418,899

## 41.2 Market risk

Market risk refers to the risk of loss arising from movements in market variables, including observable variables such as interest rates, exchange rates and equity indices, and other variables that are only indirectly observable, such as volatilities and correlations. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss and to reduce our exposure to the volatility inherent in financial instruments.

The Bank's risk review division, together with the Board of Directors and its risk management committee, approves market risk policies, including exposure limits for specific categories of investments, which are then implemented by the management. Market Risk Office is responsible for monitoring market risk exposure and for managing market risk activities on a day-to-day basis, however, any transaction or product that falls beyond the board-approved policy must be approved first by the Credit Committee / ALCO and then, if necessary by Board of Directors. Currently, Market Risk Office is focused on monitoring limits in our net open position, interest rate risk, intraday limits, revaluation limits, mark-to-market limit, contract limit, settlement limit, call and repo-reverse repo limit and foreign exchange gap limits.

A market risk policy and procedural manual has been approved by the risk management committee and the Board of Directors. The policy covers equity trading, foreign exchange, money market, fixed income and asset, liability management and liquidity risk.

	2008			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
----- Rupees in '000 -----				
<b>41.2.1 Foreign exchange risk</b>				
Pakistan Rupee	634,504,391	543,069,446	(13,398,207)	78,036,738
United States Dollar	109,217,793	115,313,160	8,158,754	2,063,387
Great Britain Pound	6,943,653	8,877,392	2,736,007	802,268
Japanese Yen	29,500,604	26,413,129	(1,010,564)	2,076,911
Euro	17,216,599	13,802,198	3,506,470	6,920,871
Other currencies	22,694,161	8,150,671	7,540	14,551,030
	185,572,810	172,556,550	13,398,207	26,414,467
	820,077,201	715,625,996	-	104,451,205

Currency risk arises where the value of financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the bank enters into ready, spot, forward and swap transactions with the SBP and in the inter bank market.

The bank's foreign exchange exposure comprises of forward contracts, purchases of foreign bills, foreign currencies cash in hand, balances with banks abroad, foreign placements with SBP and foreign currencies assets and liabilities. The net open position is managed within the statutory limits, as fixed by the SBP. Counter-parties limits are also fixed to limit risk concentration. Appropriate segregation of duties exist between the front and back office functions while compliance with the net open position limit is independently monitored on an ongoing basis.



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## 41.2.2 Equity position risk

Investments in equity are generally regarded as riskier relative to fixed income securities owing to the inherent volatility of stock market prices. The risk from various factors that include, but are not limited to:

- Changes in business cycle affecting the business of the company in which the investment is made. Change in business circumstances (i.e. fundamentals) of the company, its business sector, industry and/or economy in general.
- Mismanagement of the investee company, third party liability whether through class action or otherwise or occurrence of other events such as strikes, fraud, etc. in the company in which investment is made.
- Fluctuation in the shares' prices resulting from their dependence on market sentiment, speculative activity, supply and demand of shares and liquidity in the market.
- The possibility of defaults by participant or failure of the stock exchanges, the depositories, the settlement or the clearing system is discharging their fiduciary responsibilities.
- Any government or court order restraining payment of dividend by a company to its shareholders.

The bank mitigates the aforesaid risk as follows:

- Through diversification and capping maximum exposure in a single sector/company. Additionally continuous follow up of these sectors and companies through self monitoring and fundamentals research from reputable brokerage houses.
- Compliances with the SECP Corporate Governance Rules by the investee company prudent investing practices (focus on dividend payout history).
- The bank will refrain from speculative trading and the investment will be made as per the guidelines on liquidity and growth as per investment policy manual or set by the Board of Directors.
- The bank follows a delivery versus payment settlement system thereby minimizing risk available in relation to settlement risk.



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### 41.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Group is exposed to interest/mark-up rate risk as a result of mismatches or gaps in the amount of interest/mark-up based assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching/re-pricing of assets and liabilities. The Group is not excessively exposed to interest/mark-up rate risk as its assets and liabilities are re-priced frequently. The Assets and Liabilities Committee (ALCO) of the Group monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Group.

Management of interest rate risk is one of the critical components of market risk management in banks. The Bank's net interest income or net interest margin is dependent on the movement of interest rates and mismatches in the cash flows or re-pricing dates. Interest rate risk management includes establishing and monitoring various risk curbing limits such as duration limits, duration gap limits and interest rate sensitivity limits.

As part of risk reporting, an interest rate sensitivity statement is prepared on a monthly basis. This statement classifies the interest rate-sensitive assets and liabilities into various maturity groups enabling the management to monitor the impact of interest rate movements on the balance sheet positions.

On-balance sheet financial instruments	Effective Yield / Interest rate	Total	Up to 1 Month	2008								Non-interest bearing financial instruments	
				Over 1 to 3 Months	Over 3 to 6 Months	Exposed to Yield / Interest risk		Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years			
						Over 6 Months to 1 Year	Over 1 to 2 Years						
Rupees in '000													
Assets													
Cash and balances with treasury banks	1.57%	106,778,346	30,466,388	23,743,780	29	673,906	-	-	-	-	-	52,568,149	
Balances with other banks	7.35%	39,490,729	20,314,183	11,591,669	2,440,321	2,900,000	-	-	-	-	-	4,470,650	
Lending to financial institutions - net	10.92%	17,139,081	10,826,791	2,748,942	-	3,153,239	-	-	-	-	-	663,348	
Investments - net	10.55%	171,204,890	43,971,045	64,718,725	11,778,347	3,153,239	8,814,513	4,098,962	9,567,157	3,536,650	583,413	21,022,839	
Advances - net	11.44%	413,076,390	127,865,781	97,751,383	65,501,295	93,158,291	6,020,019	12,322,873	3,654,436	104,653	6,414,591	283,068	
Other assets	0.00%	22,414,965	-	-	-	-	-	-	-	-	-	22,414,965	
		770,104,401	233,444,188	200,554,499	79,679,992	99,885,436	14,834,532	16,421,835	13,221,593	3,641,303	6,998,004	101,423,019	
Liabilities													
Bills payable	0.00%	10,219,061	-	-	-	-	-	-	-	-	-	10,219,061	
Borrowings	5.40%	40,044,291	22,909,619	16,224,270	-	183,629	-	-	70,800	-	-	655,973	
Deposits and other accounts	3.86%	625,349,269	304,725,549	22,587,557	38,627,748	39,471,223	21,6819	974,000	3,985,448	500,000	-	21,426,925	
Sub-ordinated loans	10.15%	-	-	-	-	-	-	-	-	-	-	-	
Liabilities against assets subject to finance lease	10.15%	25,274	-	-	25,274	-	-	-	-	-	-	29,451,859	
Other liabilities	0.00%	29,451,859	-	-	-	-	-	-	-	-	-	29,451,859	
		705,089,754	327,635,168	38,811,827	38,653,022	39,654,852	21,6819	974,000	4,056,248	500,000	-	25,458,818	
		65,014,647	(94,190,980)	16,174,267	41,026,970	60,230,584	14,617,713	15,447,835	9,165,345	3,141,303	6,998,004	(153,164,799)	
On-balance sheet gap													
Off-balance sheet financial instruments													
Cross currency swaps		8,082,780	-	-	-	-	-	-	1,475,890	6,606,890	-	-	
Forward purchase of foreign exchange		69,361,297	33,665,071	28,050,570	3,258,961	4,386,695	-	-	-	-	-	-	
Forward sale of foreign exchange		55,563,737	20,141,567	25,393,431	8,429,125	1,599,614	-	-	-	-	-	-	
		133,007,814	53,806,638	53,444,001	11,688,086	5,986,309	-	-	1,475,890	6,606,890	-	-	
Total Yield / Interest Risk Sensitivity Gap		(40,394,342)	21,518,673	52,715,056	6,621,6893	14,617,713	15,447,835	10,641,235	9,748,193	6,998,004	(153,164,799)		
Cumulative Yield / Interest Risk Sensitivity Gap		(40,394,342)	174,802,331	227,517,387	293,734,280	308,351,993	323,799,828	334,441,063	344,189,256	351,187,260	198,022,461		



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Effective Yield / Interest rate	Total	Exposed to Yield / Interest risk								Non-interest bearing financial instruments
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	
		Rupees in '000								

## On-balance sheet financial instruments

### Assets

Cash and balances with treasury banks	95,01,05,14	3,305,551	14,744,115	10,889,486	-	-	-	-	-	-	66,07,13,62
Balances with other banks	38,21,62,63	16,690,863	13,052,263	9,50,870	338,118	1,600	-	-	-	-	7,18,25,49
Lending to financial institutions - net	21,656,192	15,862,579	1,444,431	4,349,182	-	-	-	-	-	-	-
Investments - net	212,087,467	24,718,088	29,581,770	35,350,436	47,908,671	15,047,901	2,013,422	5,193,435	8,670,159	940,090	42,663,495
Advances - net	340,369,649	94,699,095	78,517,308	65,106,386	82,344,884	5,381,526	10,884,531	2,045,963	1,380,787	-	9,169
Other assets	15,455,687	-	-	11,646,360	-	-	-	-	-	-	15,455,687
	722,795,772	155,276,176	137,339,887	116,646,360	130,591,673	20,431,027	12,897,953	7,239,398	10,050,946	940,090	131,382,262

### Liabilities

Bills payable	7,061,901	-	-	-	-	-	-	-	-	-	7,061,901
Borrowings	11,331,842	2,126,189	7,940,648	-	-	-	-	-	-	-	1,265,005
Deposits and other accounts	591,817,052	394,806,712	9,291,403	20,511,104	129,231	-	-	-	-	-	1,67,078,602
Sub-ordinated loans	-	-	-	-	8,113	-	-	-	-	-	-
Liabilities against assets subject to finance lease	33,739	-	4,297	4,482	-	12,735	4,112	-	-	-	-
Other liabilities	20,284,270	-	-	-	-	-	-	-	-	-	20,284,270
	630,528,804	396,932,901	17,226,348	20,515,586	137,344	12,735	4,112	7,239,398	10,050,946	940,090	1,95,689,778
	97,266,968	(241,656,725)	(120,103,539)	(96,130,774)	(130,454,329)	(20,418,292)	(12,893,841)	(7,239,398)	(10,050,946)	(940,090)	(64,307,516)

## On-balance sheet gap

### Off-balance sheet financial instruments

Cross currency and interest rate swaps	18,170,386	-	-	6,669,022	2,183,478	-	-	-	9,317,886	-	-
Equity futures	289,299	-	289,299	-	-	-	-	-	-	-	-
Forward purchase of foreign exchange	49,819,478	15,459,204	11,073,536	12,940,963	10,345,775	-	-	-	-	-	-
Forward sale of foreign exchange	38,137,569	17,018,360	7,820,977	12,891,619	406,613	-	-	-	-	-	-

## Off-balance sheet gap

Total Yield / Interest Risk Sensitivity Gap	198,683,700	(209,179,161)	139,287,351	128,632,378	143,390,195	20,418,292	12,893,841	7,239,398	19,368,832	940,090	(64,307,516)
Cumulative Yield / Interest Risk Sensitivity Gap	(209,179,161)	(69,891,810)	58,740,568	202,130,763	222,549,055	235,442,896	242,682,294	262,051,126	262,991,216	198,683,700	-



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### 41.3 Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its liability when they fall due. To limit this risk, management has arranged diversified funded sources, manages assets with liquidity in mind and monitors liquidity on daily basis. In addition, the bank maintain statutory deposits with central banks inside and outside Pakistan.

The purpose of liquidity management is to ensure sufficient cash flow to meet all of our liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to our business franchises, as well as to capitalize on opportunities for business expansion. This includes Bank's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature and to make new loans and investments as opportunities arise.

The Treasury Management Group is responsible for ensuring that the branch has adequate liquidity and monitors liquidity gaps, to execute this responsibility. Stress testing is performed on our liquidity processes in line with SBP requirements.

#### 41.3.1 Maturities of Assets and Liabilities

	2008									
	Upto 1 Month		Over 1 to 3 Months		Over 3 to 6 Months		Over 6 Months to 1 Year		Over 1 to 2 Years	
	Total	Month	Months	Months	Months	Months	Year	Years	Years	Above 10 Years
Assets										
Cash and balances with treasury banks	106,778,346	83,036,887	23,741,430	29	673,905	-	-	-	-	-
Balances with other banks	39,490,729	24,784,834	11,591,669	2,440,321	2,900,000	-	-	-	-	-
Lending to financial institutions - net	17,139,081	11,490,138	2,748,943	-	8,010,429	-	-	-	-	-
Investments - net	171,204,890	45,466,903	49,594,216	4,552,585	21,132,154	13,945,026	20,698,166	4,627,948	3,177,462	6,284,775
Advances - net	413,076,390	76,528,551	69,330,773	49,829,748	93,927,837	23,945,962	24,592,275	40,095,058	28,541,411	24,271,964
Operating fixed assets	24,271,964	-	-	-	-	-	-	-	-	-
Deferred tax assets - net	3,203,565	-	-	-	-	-	1,336,227	436,000	1,867,338	-
Other assets	44,912,236	12,667,460	8,705,557	4,333,590	367,039	4,572,125	13,830,465	-	-	-
	820,077,201	253,974,773	165,712,588	61,156,273	105,879,210	49,650,241	52,367,766	62,565,451	35,036,697	33,734,201
Liabilities										
Bills payable	10,219,061	10,219,061	-	-	617,883	-	2,068	-	-	-
Borrowings	40,044,291	23,872,704	11,745,400	758,666	37,129,732	2,973,667	2,158,990	73,903	-	-
Deposits and other accounts	625,349,269	474,653,644	43,435,302	59,730,435	1,086,513	1,086,513	2,158,990	6,461,373	671,500	21,780
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	25,274	-	4,762	4,043	7,713	5,841	1,280	1,635	-	-
Deferred tax liabilities - net	-	-	-	-	-	-	-	-	-	-
Other liabilities	39,988,101	17,513,868	-	3,539,137	-	12,637,269	338,772	-	-	5,959,055
	715,625,996	526,259,277	55,185,464	64,032,281	37,755,328	16,703,290	2,501,110	6,536,911	671,500	5,980,835
Net assets	104,451,205	(272,284,504)	11,052,712	(2,876,008)	68,123,882	32,946,951	49,866,656	56,028,540	34,365,197	27,753,366
Share capital	8,969,751	-	-	-	-	-	-	-	-	-
Reserves	20,476,863	-	-	-	-	-	-	-	-	-
Unappropriated profit	53,567,323	-	-	-	-	-	-	-	-	-
Minority Interest	112,699	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets - net	21,324,569	-	-	-	-	-	-	-	-	-
	104,451,205	-	-	-	-	-	-	-	-	-



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	2007									
	Up to 1 Month		Over 1 to 3 Months		Over 3 to 6 Months		Over 6 Months to 1 Year		Over 1 to 2 Years	
	Total	Month	Months	Months	Months	Year	Years	Years	Years	Above 10 Years
Rupees in '000										
<b>Assets</b>										
Cash and balances with treasury banks	95,01,514	69,37,6913	14,744,115	10,889,486	-	-	-	-	-	-
Balances with other banks	38,21,6263	23,87,3412	13,052,263	9,50,870	338,118	1,600	-	-	-	-
Lending to financial institutions - net	21,65,6192	15,862,579	1,444,431	4,349,182	-	-	-	-	-	-
Investments - net	21,20,87,467	25,97,5122	22,513,217	34,21,6220	69,97,28,299	29,711,008	2,880,074	14,24,6944	8,921,323	3,695,260
Advances - net	340,36,9,649	44,813,126	65,490,514	32,079,136	71,061,635	24,71,6935	27,81,8534	38,617,223	18,993,410	16,779,136
Operating fixed assets	25,979,302	-	-	-	-	-	-	28,661	2,577	25,948,064
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	31,289,403	5,939,660	6,858,706	4,01,5798	192,677	3,767,886	9,962,363	552,313	27,917,310	46,422,460
	764,608,790	185,840,812	124,103,246	86,500,692	141,520,729	58,197,429	40,660,971	53,445,141	-	-
<b>Liabilities</b>										
Bills payable	7,061,901	7,061,901	-	-	-	-	-	-	-	-
Borrowings	11,331,842	2,728,565	7,108,797	290,939	662,226	183,715	140,011	21,7589	-	-
Deposits and other accounts	591,81,7052	467,662,028	30,029,348	67,477,692	10,438,842	7,435,245	1,837,228	6,491,030	390,226	55,413
Sub-ordinated loans	-	-	4,297	4,482	8,113	12,735	4,112	-	-	-
Liabilities against assets subject to finance lease	33,739	-	-	-	-	-	-	-	-	-
Deferred tax liabilities - net	5,099,060	-	1,239,084	3,511,172	-	-	-	3,551,891	1,547,169	-
Other liabilities	31,351,550	11,935,949	-	-	13,180	10,201,606	9,663	2,689,020	-	1,751,876
	646,695,144	489,388,443	38,381,526	71,284,285	11,122,361	17,833,301	1,991,014	12,949,530	1,937,395	1,807,289
	117,913,646	(303,547,631)	85,721,720	15,21,6407	130,398,368	40,364,128	38,669,957	40,495,611	25,979,915	44,615,171
<b>Net assets</b>										
Share capital	8,154,319	-	-	-	-	-	-	-	-	-
Reserves	16,378,394	-	-	-	-	-	-	-	-	-
Unappropriated profit	46,232,813	-	-	-	-	-	-	-	-	-
Minority Interest	109,729	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets - net	47,038,391	-	-	-	-	-	-	-	-	-
	117,913,646	-	-	-	-	-	-	-	-	-

Savings and current deposits have been classified as due upto one months. However, the bank does not expect these deposits to fall below their current level.

## 41.4 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. The bank seeks to ensure that key operational risk are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The key objectives of Operational Risk measurement and management include:

- Ensuring continued solvency of the bank through capital adequacy and enhanced understanding and management of significant operational risk exposures.
  - Ensuring that customer impact is minimised through proactive and focused risk management practices.
  - Ensuring senior management attention on significant operational risk exposure areas and that risk mitigation is given prioritized focus.
- The bank has undertaken the following high-level strategic initiatives for the effective implementation of Operational Risk Management:
- Recruiting skilled resources for Operational Risk Management.
  - Developing policies, procedures and defining end to end information flow to establish a vigorous governance infrastructure.



# Consolidated Notes to the Financial Statements

For the year ended December 31, 2008

## 42. SUBSEQUENT EVENT

The Board of Directors of the holding company has proposed a cash dividend of Rs.6.5 per share (2007: Rs.7.5 per share) amounting to Rs. 5,830 million (2007: Rs.6,115 million) and bonus shares in the proportion of 20 ordinary shares per 100 ordinary shares held (2007: 10) amounting to Rs. 1,794 million (2007: Rs. 815 million) at its meeting held on March 18, 2009 for approval of the members at the annual general meeting to be held on April 28, 2009. These financial statements do not reflect this appropriation as explained in note 5.18.

## 43. GENERAL

**43.1** Figures have been rounded off to the nearest thousand rupees.

**43.2** Corresponding figures have been re-arranged and re-classified wherever necessary, for the purpose of comparison. Major reclassifications are as follows:

Statement	Component	Reclassification from	Reclassification to	Rupees in '000
Balance sheet	Assets	Advances	Investments (Available-for-sale securities)	358,170
Balance sheet	Liabilities	Borrowings	Other Liabilities	70,887

## 44. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on March 18, 2009 by the Board of Directors of the Bank.

Chairman & President

Director

Director

Director