



Financial Statements 2009

Balance Sheet

As at December 31, 2009

2008 US Dollars in '000'	2009 US Dollars in '000'		Note	2009 Rupees in '000'	2008 Rupees in '000'
ASSETS					
1,264,228	1,374,908	Cash and balances with treasury banks	6	115,827,868	106,503,756
455,161	337,182	Balances with other banks	7	28,405,564	38,344,608
203,314	232,505	Lendings to financial institutions - net	8	19,587,176	17,128,032
2,027,709	2,583,478	Investments - net	9	217,642,822	170,822,491
4,902,265	5,641,266	Advances - net	10	475,243,431	412,986,865
287,470	298,504	Operating fixed assets	11	25,147,192	24,217,655
38,039	36,350	Deferred tax assets - net	12	3,062,271	3,204,572
528,824	704,102	Other assets	13	59,316,438	44,550,347
9,707,010	11,208,295			944,232,762	817,758,326
LIABILITIES					
121,303	126,076	Bills payable	14	10,621,169	10,219,061
480,258	537,463	Borrowings	15	45,278,138	40,458,926
7,418,194	8,623,332	Deposits and other accounts	16	726,464,825	624,939,016
—	—	Sub-ordinated loans		—	—
300	506	Liabilities against assets subject to finance lease	17	42,629	25,274
—	—	Deferred tax liabilities		—	—
470,737	501,752	Other liabilities	18	42,269,623	39,656,831
8,490,792	9,789,129			824,676,384	715,299,108
<u>1,216,218</u>	<u>1,419,166</u>			<u>119,556,378</u>	<u>102,459,218</u>
NET ASSETS					
REPRESENTED BY					
106,473	127,768	Share capital	19	10,763,702	8,969,751
236,706	269,238	Reserves		22,681,707	19,941,047
622,669	728,199	Unappropriated profit		61,346,510	52,456,204
965,848	1,125,205			94,791,919	81,367,002
250,370	293,961	Surplus on revaluation of assets - net	20	24,764,459	21,092,216
<u>1,216,218</u>	<u>1,419,166</u>			<u>119,556,378</u>	<u>102,459,218</u>
CONTINGENCIES AND COMMITMENTS					
			21		

The annexed notes 1 to 44 and Annexure I, II and III form an integral part of these financial statements.

Chairman & President

Director

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Profit and Loss Account

For the year ended December 31, 2009

2008 US Dollars in '000'	2009 US Dollars in '000'		Note	2009 Rupees in '000'	2008 Rupees in '000'
723,407	925,260	Mark-up / return / interest earned	23	77,947,697	60,942,798
283,518	468,753	Mark-up / return / interest expensed	24	39,489,649	23,884,768
439,889	456,507	Net mark-up / interest income		38,458,048	37,058,030
125,748	131,089	Provision against non-performing advances-net	10.3	11,043,469	10,593,565
4,431	7,189	Provision for diminution in the value of investments-net	9.10	605,629	373,249
48	240	Provision against off balance sheet obligations	18.1	20,237	4,000
—	—	Bad debts written off directly		—	—
130,227	138,518			11,669,335	10,970,814
309,662	317,989	Net mark-up / interest income after provisions		26,788,713	26,087,216
NON MARK-UP / INTEREST INCOME					
94,076	106,006	Fee, commission and brokerage income		8,930,391	7,925,370
34,174	22,795	Dividend income		1,920,336	2,878,932
47,114	35,945	Income from dealing in foreign currencies		3,028,165	3,969,057
4,694	54,507	Gain on sale and redemption of securities - net	25	4,591,894	395,427
20	28	Unrealized gain on revaluation of Investments classified as Held-for-trading	9.11	2,355	1,707
14,783	6,555	Other income	26	552,216	1,245,369
194,861	225,836	Total non mark-up / interest income		19,025,357	16,415,862
504,523	543,825			45,814,070	42,503,078
NON MARK-UP / INTEREST EXPENSES					
215,697	267,929	Administrative expenses	27	22,571,470	18,171,198
8,873	7,369	Other provisions / write offs		620,780	747,521
6,925	3,818	Other charges	28	321,647	583,361
231,495	279,116	Total non mark-up / interest expenses		23,513,897	19,502,080
273,028	264,709			22,300,173	23,000,998
—	—	Extraordinary / unusual items		—	—
273,028	264,709	PROFIT BEFORE TAXATION		22,300,173	23,000,998
139,626	109,462	Taxation - Current		9,221,513	11,762,650
—	(49,063)	- Prior years		(4,133,282)	—
(50,096)	(11,869)	- Deferred		(999,904)	(4,220,242)
89,530	48,530		29	4,088,327	7,542,408
183,498	216,179	PROFIT AFTER TAXATION		18,211,846	15,458,590
538,248	622,669	Unappropriated profit brought forward		52,456,204	45,344,188
1,548	1,472	Transfer from surplus on revaluation of fixed assets on account of incremental depreciation	20.2	123,934	130,456
723,294	840,320	Profit available for appropriation [see note 10.4.1]		70,791,984	60,933,234
..... US Dollars Rupees					
0.17	0.20	Basic earnings per share	30	16.92	14.36
0.17	0.20	Diluted earnings per share	31	16.92	14.36

The annexed notes 1 to 44 and Annexure I, II and III form an integral part of these financial statements.

Chairman & President

Director

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Statement of Comprehensive Income

For the year ended December 31, 2009

2008 US Dollars in '000'	2009		2009 Rupees in '000'	2008
183,498	216,179	Profit after taxation for the year	18,211,846	15,458,590
		Other comprehensive income:		
31,136	10,914	Exchange adjustments on translation of net assets of foreign branches	919,475	2,623,064
<u>214,634</u>	<u>227,093</u>	Total comprehensive income for the year	<u>19,131,321</u>	<u>18,081,654</u>

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8209

Cash Flow Statement

For the year ended December 31, 2009

2008 US Dollars in '000'	2009 US Dollars in '000'	Note	2009 Rupees in '000'	2008 Rupees in '000'
CASH FLOWS FROM OPERATING ACTIVITIES				
273,028	264,709		22,300,173	23,000,998
(34,174)	(22,795)		(1,920,336)	(2,878,932)
238,854	241,914		20,379,837	20,122,066
Adjustments:				
8,887	10,294	11.2	867,214	748,690
34	55	11.3	4,600	2,885
125,749	131,089	10.3	11,043,469	10,593,565
4,431	7,189	9.10	605,629	373,249
47	240	18.1	20,237	4,000
(87)	(90)	11.6	(7,587)	(7,289)
128	119		10,072	10,750
8,873	7,369		620,780	747,521
148,062	156,265		13,164,414	12,473,371
386,916	398,179		33,544,251	32,595,437
(Increase) / decrease in operating assets				
50,906	(29,760)		(2,507,144)	4,288,568
(2,654)	(16,279)		(1,371,434)	(223,610)
(988,336)	(870,091)		(73,300,035)	(83,261,500)
(123,207)	(119,826)		(10,094,603)	(10,379,475)
(1,063,291)	(1,035,956)		(87,273,216)	(89,576,017)
Increase in operating liabilities				
37,476	4,773		402,108	3,157,159
360,392	58,484		4,926,951	30,360,866
392,094	1,205,139		101,525,809	33,031,581
102,534	30,896		2,602,792	8,637,877
892,496	1,299,292		109,457,660	75,187,483
(185,929)	(121,871)		(10,266,950)	(15,663,472)
(128)	(120)		(10,072)	(10,750)
(186,057)	(121,991)		(10,277,022)	(15,674,222)
30,064	539,524		45,451,673	2,532,681
CASH FLOWS FROM INVESTING ACTIVITIES				
Net (investments in) / proceeds from				
125,358	(612,741)		(51,619,842)	10,560,682
28,001	131,024		11,038,014	2,358,937
34,174	22,795		1,920,336	2,878,932
(19,419)	(21,030)		(1,771,649)	(1,635,957)
—	(7,330)		(617,495)	—
261	162	11.6	13,657	22,032
168,375	(487,120)		(41,036,979)	14,184,626
CASH FLOWS FROM FINANCING ACTIVITIES				
(191)	(250)		(21,024)	(16,078)
(72,467)	(69,089)		(5,820,338)	(6,104,894)
(72,658)	(69,339)		(5,841,362)	(6,120,972)
31,136	10,914		919,475	2,623,064
156,917	(6,021)		(507,193)	13,219,399
1,560,430	1,717,347	32	144,676,388	131,456,989
1,717,347	1,711,326	32	144,169,195	144,676,388

The annexed notes 1 to 44 and Annexure I, II and III form an integral part of these financial statements.

Chairman & President

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Statement of Changes in Equity

For the year ended December 31, 2009

	Share capital	Reserves			Unappropriated profit	Total
		Capital		Revenue		
		Exchange translation	Statutory	General		
..... (Rupees in '000')						
Balance as at January 1, 2008	8,154,319	3,364,312	11,886,474	521,338	45,344,188	69,270,631
Total comprehensive income for the year ended December 31, 2008	—	2,623,064	—	—	15,458,590	18,081,654
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	—	—	—	—	130,456	130,456
Transfer to statutory reserve	—	—	1,545,859	—	(1,545,859)	—
Transactions with owners						
Issue of bonus shares (10%)	815,432	—	—	—	(815,432)	—
Cash dividend (Rs. 7.5 per share)	—	—	—	—	(6,115,739)	(6,115,739)
Balance as at December 31, 2008	8,969,751	5,987,376	13,432,333	521,338	52,456,204	81,367,002
Balance as at January 1, 2009	8,969,751	5,987,376	13,432,333	521,338	52,456,204	81,367,002
Total comprehensive income for the year ended December 31, 2009	—	919,475	—	—	18,211,846	19,131,321
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax	—	—	—	—	123,934	123,934
Transfer to statutory reserve	—	—	1,821,185	—	(1,821,185)	—
Transactions with owners						
Issue of bonus shares (20%)	1,793,951	—	—	—	(1,793,951)	—
Cash dividend (Rs. 6.5 per share)	—	—	—	—	(5,830,338)	(5,830,338)
Balance as at December 31, 2009	10,763,702	6,906,851	15,253,518	521,338	61,346,510	94,791,919

The annexed notes 1 to 44 and Annexure I, II and III form an integral part of these financial statements.

Chairman & President

Director

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Notes to the Financial Statements

For the year ended December 31, 2009

1. STATUS AND NATURE OF BUSINESS

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. It's 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 1,265 (2008: 1,254) branches in Pakistan and 22 (2008: 22) overseas branches (including the Export Processing Zone branch, Karachi). The bank also provides services as trustee to National Investment Trust (NIT), Long-Term Credit Fund (LTCF) and Endowment Fund for student loans scheme.

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 These financial statements are separate financial statements of the bank in which the investments in subsidiaries, associates and joint ventures are stated at cost and have not been accounted for on the basis of reported results and net assets of the investees.

- 2.3 The US Dollar amounts shown on the balance sheet, profit and loss account, statement of comprehensive income 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. 84.2441 to 1 US Dollar has been used for both 2009 and 2008 as it was the prevalent rate as on December 31, 2009.

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 Letter 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 requirements of various circulars issued by SBP.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2010:

- Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after July 01, 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. As explained in note 9.8.2 the bank is in process of acquiring holding of NIB Bank Limited in National Fullerton Asset Management Limited (NAFA), which will increase the bank's post acquisition holding to 53% and will give control to the bank. Currently the transaction is in process, the impact under IFRS 3 can not be determined.

Notes to the Financial Statements

For the year ended December 31, 2009

- Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 01, 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the bank's financial statements.
- IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after October 01, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the bank's operations.
- IFRIC - 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 01, 2009) states that when an entity distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non-cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the bank does not distribute non-cash assets to its shareholders, this interpretation has no impact on the bank's financial statements.

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

- Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 01, 2010). Currently effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the bank's financial statements.
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the bank's financial statements.
- IAS 24 Related Party Disclosures (revised 2009) – (effective for annual periods beginning on or after January 01, 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on bank's financial statements.
- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – (effective for annual periods beginning on or after July 01, 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any impact on the bank's financial statements.

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.

Notes to the Financial Statements

For the year ended December 31, 2009

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Change in accounting policies

5.1.1 Presentation of Financial Statements

Starting January 01, 2009, the bank has changed its accounting policy in respect of 'Presentation of financial statements'. IAS 1 (Revised) 'Presentation of Financial Statements' (effective for annual periods beginning on or after January 1, 2009) – The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. Further, under revised standard, an entity may present the components of profit or loss either as part of a single statement of comprehensive income or in a separate income statement. The bank has opted to present the components of profit or loss in a separate statement while a statement of comprehensive income is presented separately as permitted under revised IAS 1.

As surplus on revaluation of assets does not form part of the equity under the local laws and is presented below the equity in the balance sheet, accordingly changes in equity arising from surplus on revaluation of assets have not been considered as part of comprehensive income and accordingly these are not included in the statement of comprehensive income presented in these financial statements.

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

5.2 Cash and cash equivalents

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.

5.3 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 bank 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 bank 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 in case 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. Provision for diminution in value of investments in respect of unquoted shares is calculated with reference to book value of the same. 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 9.13.

Provision for diminution in value of investments for unquoted debt securities is calculated as per the SBP's Prudential Regulations.

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

Investments in subsidiaries, associates and joint venture companies are stated at cost. Provision is made for any impairment in value, if any.

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

Notes to the Financial Statements

For the year ended December 31, 2009

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 bank 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 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.

5.6 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the bank 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 bank 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 bank has transferred substantially all the risks and rewards of the asset, or (ii) the bank 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.

5.7 Advances

Advances are stated net off specific and general provisions. Provisions are made in accordance with the requirements of Prudential Regulations issued by the 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 there against. 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.

5.8 Operating fixed assets and depreciation

Property and equipment

Owned assets

Property and equipment 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. Cost of fixed assets of foreign branches include exchange differences arising on translation at year-end rates. 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 bank 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 profit and loss account during the financial period in which they are incurred.

Assets are derecognised when disposed or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of property and equipment 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.

Notes to the Financial Statements

For the year ended December 31, 2009

The surplus arising on revaluation of fixed assets is credited to the "Surplus on Revaluation of Assets account" shown below equity. The bank 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(1)/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;
- An amount equal to incremental depreciation for the year net of deferred taxation is transferred from "Surplus on Revaluation of Fixed Assets account" to unappropriated 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. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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, 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. Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the amount which would have been determined had there been no impairment. Reversal of impairment loss is recognized as income.

5.9 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.

Notes to the Financial Statements

For the year ended December 31, 2009

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 deductible 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 substantially 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.

5.10 Employee benefits

5.10.1 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 in the profit and loss account 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.

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 profit and loss account in the period in which they arise.

Gratuity scheme

The bank 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 in the profit and loss account over the estimated working lives of employees.

5.10.2 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.

5.11 Revenue recognition

Income on loans and advances and debt security investments are recognized on a time proportion basis that takes into account effective yield on the asset. In case of advances and investments classified under the Prudential Regulations, interest / 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, brokerage and commission income other than commission on letter of credit and guarantees and remuneration for trustee services are recognized upon performance of services.

Commission on letters of credit and guarantees is recognized on time proportion basis.

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 profit and loss account.

Notes to the Financial Statements

For the year ended December 31, 2009

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

5.12 Foreign currencies translation

The bank's financial statements are presented in Pak Rupees (Rs.) 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 assets / liabilities of foreign branches are translated into Rupees at the rates of exchange prevailing at the balance sheet date.

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

Items included in the financial statements of the bank's foreign branches are measured using the currency of the primary economic environment in which the bank operates (the functional currency).

5.13 Provision for off balance sheet obligations

Provision for guarantees, claims and other off balance sheet obligations is made when the bank 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.

5.14 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 bank intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

5.15 Fiduciary assets

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

5.16 Dividend and other appropriations

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

5.17 Segment reporting

A segment is a distinguishable component of the bank 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.

5.17.1 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.

Notes to the Financial Statements

For the year ended December 31, 2009

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.

5.17.2 Geographical segments

The bank operates in following geographical regions:

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

5.18 Earnings per share

The bank 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 bank 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, 2009.

5.19 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 bank'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 judgments in relation to these financial statements are as follows:

a) Provision against non-performing loans and advances

The bank 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 loans 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 bank 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 determined an impairment loss on available-for-sale securities as explained in note 9.13.

d) Held-to-maturity investments

The bank 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.



Notes to the Financial Statements

For the year ended December 31, 2009

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) Fixed assets, depreciation and amortisation

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern.

g) Employees' benefit plans

The liabilities for employees' 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.

	Note	2009 Rupees in '000'	2008
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		7,129,749	6,315,312
Foreign currency		1,842,223	1,944,155
		8,971,972	8,259,467
With State Bank of Pakistan in			
Local currency current account	6.1	50,649,271	42,592,894
Local currency deposit account		29	29
		50,649,300	42,592,923
Foreign currency current account	6.2	1,705,892	1,443,548
Foreign currency deposit account	6.2	5,117,677	4,348,570
Foreign currency collection account		58,171	23,891
Foreign currency placement account	6.3	16,848,820	23,741,430
		23,730,560	29,557,439
With other central banks in			
Foreign currency current accounts	6.4	17,752,207	15,678,967
Foreign currency deposit accounts	6.5	14,723,829	10,414,960
		32,476,036	26,093,927
	32	<u>115,827,868</u>	<u>106,503,756</u>

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 1.97 % per annum (2008: 4.21% 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 interest at the rate of 0.25% per annum (2008: 2.0% per annum).

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008
7. BALANCES WITH OTHER BANKS			
In Pakistan			
On current accounts		—	83,728
On deposit account		1,600	1,600
		<u>1,600</u>	<u>85,328</u>
Outside Pakistan			
On current accounts		4,070,615	3,239,201
On deposit accounts	7.1	24,333,349	35,020,079
		<u>28,403,964</u>	<u>38,259,280</u>
	32	<u>28,405,564</u>	<u>38,344,608</u>

7.1 These include various deposits with correspondent banks and carry interest rates ranging from 0.11% to 7.5% per annum (2008: 0.05% to 12% per annum).

8. LENDINGS TO FINANCIAL INSTITUTIONS - net

Call money lendings	8.2	1,153,000	3,529,000
Repurchase agreement lendings (Reverse Repo)	8.3	18,356,176	13,461,032
Letter of placements	8.4	174,000	186,000
Lendings to financial institutions - gross	8.1	19,683,176	17,176,032
Less: Provision held against lendings		(96,000)	(48,000)
Lendings to financial institutions - net		<u>19,587,176</u>	<u>17,128,032</u>

8.1 Particulars of lendings - gross

In local currency	19,683,176	17,176,032
In foreign currencies	—	—
	<u>19,683,176</u>	<u>17,176,032</u>

8.2 These carry mark-up at rates ranging from 12.4% to 12.9% per annum (2008: 11.5% to 19.5% per annum).

8.3 These carry mark-up at rates ranging from 12% to 12.8% per annum (2008: 9% to 16% per annum).

8.3.1 Securities held as collateral against lendings to financial institutions

	2009			2008		
	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	16,690,799	—	16,690,799	9,199,422	—	9,199,422
Pakistan Investment Bonds	1,665,377	—	1,665,377	4,261,610	—	4,261,610
	<u>18,356,176</u>	<u>—</u>	<u>18,356,176</u>	<u>13,461,032</u>	<u>—</u>	<u>13,461,032</u>

8.3.2 Market value of the securities under repurchase agreement lendings amount to Rs.18,401 million (2008: Rs.12,848 million).

8.4 These carry mark-up at rates ranging from 11.34% to 18.5% per annum (2008: 18% to 18.5% per annum).

Notes to the Financial Statements

For the year ended December 31, 2009

9. INVESTMENTS - nets

Note	2009			2008		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	Rupees in '000'			Rupees in '000'		
9.1 Investments by type:	9.12					
Held-for-trading securities						
Market Treasury Bills	1,987,272	—	1,987,272	—	—	—
Pakistan Investment Bonds	221,275	—	221,275	—	—	—
Ordinary shares of listed companies	170,383	—	170,383	7,496	—	7,496
Ijarah Sukuk Bonds	—	—	—	1,000,000	—	1,000,000
Total Held-for-trading securities	2,378,930	—	2,378,930	1,007,496	—	1,007,496
Available-for-sale securities						
Ordinary shares of listed companies	15,499,059	—	15,499,059	3,669,441	—	3,669,441
Ordinary shares of unlisted companies	753,114	—	753,114	716,610	—	716,610
Investment outside Pakistan	9.6					
Market Treasury Bills	16,252,173	—	16,252,173	4,386,051	—	4,386,051
Preference shares	463,295	—	463,295	463,295	—	463,295
Pakistan Investment Bonds	91,064,768	23,504,630	114,569,398	64,523,811	23,990,054	88,513,865
Federal Investment Bonds	271,533	—	271,533	275,000	—	275,000
GoP Foreign Currency Bonds	10,907,159	1,213,247	12,120,406	4,105,665	66,987	4,172,652
Foreign Government Securities	—	—	—	940,000	—	940,000
Term Finance Certificates / Musharika, Foreign Currency Debt Securities and Sukuk Bonds	3,021,990	—	3,021,990	1,212,348	—	1,212,348
Investments in mutual funds	210,003	—	210,003	1,657,303	—	1,657,303
NIT Units	30,914,446	—	30,914,446	17,695,681	—	17,695,681
NIT Market Opportunity Fund Units	977,335	—	977,335	993,897	—	993,897
9.5.1	1,042,439	—	1,042,439	7,643,084	—	7,643,084
9.5.2	1,530,000	—	1,530,000	1,800,000	—	1,800,000
Total Available-for-sale securities	156,655,141	24,717,877	181,373,018	105,696,135	24,057,041	129,753,176
Held-to-maturity securities						
Government Compensation Bonds	1,132,963	—	1,132,963	2,331,182	—	2,331,182
Pakistan Investment Bonds	8,616,000	263,661	8,879,661	9,515,583	—	9,515,583
GoP Foreign Currency Bonds	371,910	—	371,910	15,517,577	—	15,517,577
Foreign Government Securities	1,392,168	—	1,392,168	3,150,553	—	3,150,553
Debentures, Bonds, Participation Term Certificates and Term Finance Certificates	10,508,477	—	10,508,477	2,808,298	—	2,808,298
Total Held-to-maturity securities	22,021,518	263,661	22,285,179	33,323,193	—	33,323,193
Investments in associates	9.7	989,669	—	959,669	—	959,669
Investments in joint ventures	9.8	1,312,335	—	1,312,335	—	1,312,335
Investments in subsidiaries	9.9	1,939,953	—	1,352,458	—	1,352,458
Investments at cost		185,297,546	24,981,538	143,651,286	24,057,041	167,708,327
Less: Provision for diminution in value of Investments	9.10	(2,141,534)	—	(1,542,273)	—	(1,542,273)
Investments (net of provisions)		183,156,012	24,981,538	142,109,013	24,057,041	166,166,054
Unrealized gain on revaluation of investments classified as Held-for-trading	9.11	2,355	—	1,707	—	1,707
Surplus / (deficit) on revaluation of Available-for-sale securities	20.1	9,502,001	916	4,689,265	(34,535)	4,654,730
Total investments at carrying value		192,660,368	24,982,454	146,799,985	24,022,506	170,822,491

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008
9.2 Investments by segments	9.12		
Federal Government Securities			
Market Treasury Bills		116,556,670	88,513,865
Pakistan Investment Bonds	9.4	21,221,342	13,688,235
Federal Investment Bonds		—	940,000
Government Compensation Bonds		1,132,963	2,331,182
GoP Foreign Currency Bonds		3,393,900	16,729,925
Ijarah Sukuk Bonds		1,000,000	1,000,000
		<u>143,304,875</u>	<u>123,203,207</u>
Foreign Government Securities		1,602,171	4,807,856
Fully Paid up Ordinary Shares			
- Listed Companies		15,669,442	3,676,937
- Unlisted Companies		753,114	716,610
		<u>16,422,556</u>	<u>4,393,547</u>
Debentures, Bonds, Participation Term Certificates, Term Finance Certificates, Musharika, Foreign Currency Debt Securities and Sukuk Bonds			
- Listed		2,335,738	1,594,635
- Unlisted		38,087,185	18,909,344
		<u>40,422,923</u>	<u>20,503,979</u>
Other Investments			
- NIT Units	9.5.1	1,042,439	7,643,084
- NIT Market Opportunity Fund Units	9.5.2	1,530,000	1,800,000
- Investments in mutual funds		977,335	993,897
- Preference Shares		271,533	275,000
- Investment outside Pakistan	9.6	463,295	463,295
		<u>989,669</u>	<u>959,669</u>
Investments in associates	9.7		
		1,312,335	1,312,335
Investments in joint ventures	9.8		
		1,939,953	1,352,458
Investments in subsidiaries	9.9		
		<u>210,279,084</u>	<u>167,708,327</u>
Total investments at cost			
Less : Provision for diminution in value of investments	9.10	(2,141,534)	(1,542,273)
Investments (Net of provisions)		<u>208,137,550</u>	<u>166,166,054</u>
Unrealized gain on revaluation of investments classified as			
Held-for-trading	9.11	2,355	1,707
Surplus on revaluation of Available-for-sale securities	20.1	9,502,917	4,654,730
Total investments at carrying value		<u><u>217,642,822</u></u>	<u><u>170,822,491</u></u>

9.3 Market value of held-to-maturity investments is Rs. 19,571 million (2008: Rs. 27,407 million).

9.4 These include Pakistan Investment Bonds amounting to Rs. 75 million (2008: Rs. 75 million) held by SBP as pledge against demand loans and TT / DD discounting facilities.

9.5 Investment in Mutual Funds managed by NITL

9.5.1 National Investment (Unit) Trust [NI(U)T]

The bank had investment in 485,331,172 NI(U)T units, which included 333,746,836 covered under Letter of Comfort (LOC) and 151,584,336 units as Non-LOC units. The LOC holding represented those units in respect of which the Government of Pakistan ("GoP") had issued a letter of comfort ("LOC") to the bank and three other banks (here-in-after collectively referred to as LOC Holder's) promising that in the event the redemption price of units of NI(U)T-LOC Holders' Fund fell below Rs. 13.70 per unit and the bank desired to redeem its holding of units, the GoP would facilitate National Investment Trust Limited (NITL) in the redemption of such holding at the rate of Rs. 13.70 per unit. The LOC had been extended from time to time and expired on December 31, 2009.

Notes to the Financial Statements

For the year ended December 31, 2009

In the financial year 2007, the Board of National Investment Trust Limited (NITL) decided to split the National Investment (Unit) Trust into two funds to facilitate the sale and transfer of the management rights to LOC Holders. Accordingly, the segment pertaining to LOC Holders has formed the National Investment (Unit) Trust-LOC Holders' Fund whereas the segment pertaining to Non-LOC Holders has been retained under National Investment (Unit) Trust. The bank's total holding in units was covered under NI(U)T-LOC Holders' Fund.

In the current year, the GoP communicated a methodology to settle the long outstanding issue of the LOC to NITL in December 2009, the details and draft agreements of which were intimated to the LOC holders and discussed during the Extra Ordinary General Meetings of NI(U)T-LOC Holders' Fund. Subsequent to these deliberations and in line with the methodology approved by the GoP to settle the issue of LOC, an agreement having effective date of December 31, 2009 was executed between the NITL and the bank, by virtue of such agreement it was agreed that:

- All underlying assets and liabilities of the LOC Holders' Fund would be apportioned between the investors of the NI(U)T-LOC Holders' Fund by dividing such net assets into distinct segments according to the ratio of units held by each investor. Each segment would in turn be bifurcated into two distinct asset categories, namely "Strategic Assets" and "Balance Assets".
- The Strategic Assets would comprise of frozen shares of Pakistan State Oil ("PSO") and Sui Northern Gas Pipeline Limited ("SNGPL") and cash and other receivables held in the portfolio of NI(U)T-LOC Holders' Fund. The Balance Assets would essentially constitute the remaining portfolio of NI(U)T-LOC Holders' Fund.
- The Strategic Assets would be transferred to the bank at a rate to be determined and the cash to be paid by the bank to NI(U)T-LOC Holders' Fund would be paid to other LOC holders'.
- The Balance Assets would be transferred in specie to the LOC holders at the market value appearing in the books of the NI(U)T-LOC Holders' Fund. This would constitute the full and final settlement of units held by the LOC holders. The transfer date in relation to the bank was December 31, 2009.
- 5% of the Balance Assets of each segment would be transferred to NITL and 5% of net cash realized pursuant to transfer of Strategic Assets would be paid to NITL. The GoP is being requested by the bank to revise its decision to the extent of this 5% transfer to be made to NITL. Therefore, the transfer of this 5% would be made to NITL, until GoP makes a final decision on this matter.
- Consequent to the implementation of the settlement mechanism outlined above the NI(U)T-LOC Holders' Fund would stand terminated / dissolved.

In accordance with the aforementioned methodology, the bank has recorded the redemption / disposal of 425,242,254 units which were attributable to the Balance Assets and in consideration of those units the bank has recorded its share of Balance Assets. The bank's share of Balance Assets comprise of the shares of both listed and unlisted companies having market value of Rs. 11,283 million as of December 31, 2009. Accordingly there is a capital gain of Rs. 3,875 million on redemption / disposal of units attributable to Balance Assets. Remaining 60,088,918 units are attributable to Strategic Assets and such units are continued to be recognized as investment in NI(U)T-Unit holders Fund as settlement of such units are yet to be finalized.

9.5.2 NIT Market Opportunity Fund

The bank's investment is Rs. 1,530 million (2008: 1,800) in NIT Market Opportunity Fund. The fund was established in the year 2008 as an open end mutual fund for the special purpose of equity market stabilization and is managed by NITL. As of the balance sheet date, the net assets value of the fund's units held by the bank amounted to Rs. 1,807 million (2008: Rs. 1,004 million).

9.6 Investment outside Pakistan - Bank Al-Jazira

The bank holds 17,500,000 (2008: 17,500,000) shares in Bank Al-Jazira (BAJ) incorporated in the Kingdom of Saudi Arabia, representing 5.83% (2008: 5.83%) holding in total equity of BAJ. 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 BBB+ by Capital Intelligence.

Notes to the Financial Statements

For the year ended December 31, 2009

	Number of shares	Percentage of holding	Note	2009 Rupees in '000'	2008
9.7 Investments in associates					
Un-quoted					
Pakistan Emerging Venture Limited	12,500,000	33.33		51,415	51,415
Information System Associates Limited	2,300,000	21.89		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	9.7.4	400,000	400,000
Dadabhoy Energy Supply Company Limited	9,900,000	23.11		32,105	32,105
K-Agricole Limited	5,000	20.00		—	—
New Pak Limited	200,000	20.00		—	—
National Commodity Exchange Company Limited	3,000,000	30.00		30,000	—
Prudential Fund Management	150,000	20.00		—	—
				522,434	492,434
Quoted					
First Credit and Investment Bank Limited	20,000,000	30.77		157,429	157,429
National Fibres Limited	17,119,476	20.19		—	—
Taha Spinning Mills Limited	833,300	20.59		2,501	2,501
Land Mark Spinning Mills Limited	4,193,374	34.58		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
			9.7.1	467,235	467,235
				989,669	959,669
				(402,240)	(402,240)
				587,429	557,429

Less: Provision for diminution in value of investments

9.7.1 Aggregate value of investments in associates (quoted) on the basis of latest available quoted prices amounts to Rs. 551.416 million (2008: Rs. 331.989 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 therefore provision for impairment has been made against the same.

9.7.2 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.

9.7.3 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	December 31, 2008	441
Prudential Fund Management	June 30, 2007	(2,482)
Dadabhoy Energy Supply Company Limited	June 30, 2007	103,952
National Commodity Exchange Limited	June 30, 2009	(136,274)

9.7.4 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 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.

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008
9.8 Investments in joint ventures			
United National Bank Limited (UNBL)	9.8.1	1,244,835	1,244,835
National Fullerton Asset Management Limited (NAFA)	9.8.2	67,500	67,500
		<u>1,312,335</u>	<u>1,312,335</u>

9.8.1 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 UNBL. 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.

9.8.2 The bank is in the process of acquiring holding of NIB Bank Limited in NAFA and subsequent to year end, share purchase agreement has been signed with NIB Bank Limited which will increase bank's post acquisition holding from current holding of 27% to 53%. Further, the bank is in process of obtaining regulatory approvals in this regards.

	Percentage of holding	2009 Rupees in '000'	2008
9.9 Investments in subsidiaries			
NBP Leasing Limited	100.00	500,000	500,000
JSC Subsidiary Bank of NBP in Kazakhstan	100.00	1,006,983	419,488
NBP Exchange Company Limited	100.00	300,000	300,000
NBP Modaraba Management Company Limited	100.00	105,000	105,000
Taurus Securities Limited	58.32	24,725	24,725
National Agriculture Limited	100.00	2,000	2,000
Cast-N-Link Products Limited	76.51	1,245	1,245
		<u>1,939,953</u>	<u>1,352,458</u>
Less: Provision for diminution in value of investments		<u>(3,245)</u>	<u>(3,245)</u>
		<u>1,936,708</u>	<u>1,349,213</u>

9.10 Particulars of provision for diminution in value of investments

Opening balance		1,542,273	1,173,593
Charge for the year		826,588	394,409
Reversals		(220,959)	(21,160)
		605,629	373,249
Amount written off		(6,368)	(4,569)
Closing balance	9.10.1	<u>2,141,534</u>	<u>1,542,273</u>

9.10.1 Particulars of provision in respect of type and segments

Available-for-sale securities

Ordinary shares of listed companies and mutual funds	916,089	394,409
Ordinary shares of unlisted companies	115,514	115,514

Held-to-maturity securities

Debentures, Bonds, Participation Term Certificates, and Term Finance Certificates	704,446	626,865
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Investments in associates

	402,240	402,240
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Investments in subsidiaries

	3,245	3,245
	<u>2,141,534</u>	<u>1,542,273</u>

Notes to the Financial Statements

For the year ended December 31, 2009

	2009	2008
	Rupees in '000'	
9.11 Unrealized gain / (loss) on revaluation of investments classified as held-for-trading		
Ordinary shares of listed companies	430	(4,085)
Federal Government securities	1,925	5,792
	<u>2,355</u>	<u>1,707</u>

9.12 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.

9.13 Provision for diminution (impairment loss) in value of available-for-sale listed equity shares and mutual fund units

Due to unprecedented decline in equity security prices and prevalent financial crisis in previous year, the SBP vide its BSD Circular No. 4 dated February 13, 2009 had allowed that the impairment loss, if any, recognized as on December 31, 2008 due to valuation of listed equity investments held as 'available-for-sale' to quoted market prices, may be shown under the equity and to be transferred to profit and loss account on quarterly basis during the financial year 2009.

In light of the above circular, the impairment loss on equity securities classified as available-for-sale aggregating to Rs. 1,979 million (net of tax Rs. 1,782 million) as on December 31, 2008 had not been recognized as impairment in the profit and loss account for that year in accordance with the option provided by SBP through the aforementioned circular. Had that loss been recognized as impairment in the profit and loss account, the profit before tax and after tax for the year ended December 31, 2008 would have been reduced by the said amounts and earnings per share would have been reduced by Rs. 1.99 per share.

In the current year, the bank recorded total impairment loss of Rs. 509.119 million after making quarterly adjustments. Therefore, the bank did not retain any impairment loss in equity as on December 31, 2009.

	2009	2008
	Rupees in '000'	
10. ADVANCES - net		
Loans, cash credits, running finances, etc.		
In Pakistan	469,366,422	389,997,489
Outside Pakistan	38,669,185	45,145,226
	<u>508,035,607</u>	<u>435,142,715</u>
Bills discounted and purchased (excluding Government treasury bills)		
Payable in Pakistan	2,854,682	2,973,812
Payable outside Pakistan	19,911,141	19,518,940
	<u>22,765,823</u>	<u>22,492,752</u>
Margin Financing / Continuous Funding System Financing	60,963	192,562
Advances - gross	530,862,393	457,828,029
Less: Provision against non-performing advances	55,618,962	44,841,164
Advances - net of provision	<u>475,243,431</u>	<u>412,986,865</u>

10.1 Particulars of advances - gross

10.1.1 In local currency	472,282,067	384,740,056
In foreign currencies	58,580,326	73,087,973
	<u>530,862,393</u>	<u>457,828,029</u>
10.1.2 Short-term (for upto one year)	366,143,638	334,558,974
Long-term (for over one year)	164,718,755	123,269,055
	<u>530,862,393</u>	<u>457,828,029</u>

Notes to the Financial Statements

For the year ended December 31, 2009

- 10.2** Advances include Rs. 70,923 million (2008: Rs. 56,462 million) which have been placed under non-performing status as detailed below:

	2009			2009			2009		
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000'									
Category of Classification									
Other Assets Especially									
Mentioned	748,091	—	748,091	—	—	—	—	—	—
Substandard	6,868,363	2,639	6,871,002	1,497,832	660	1,498,492	1,497,832	660	1,498,492
Doubtful	6,595,335	648,234	7,243,569	2,870,299	324,117	3,194,416	2,870,299	324,117	3,194,416
Loss	54,762,617	1,297,794	56,060,411	48,287,298	623,842	48,911,140	48,287,298	623,842	48,911,140
	<u>68,974,406</u>	<u>1,948,667</u>	<u>70,923,073</u>	<u>52,655,429</u>	<u>948,619</u>	<u>53,604,048</u>	<u>52,655,429</u>	<u>948,619</u>	<u>53,604,048</u>
2008									
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000'									
Category of Classification									
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	1,545,067	14,963	1,560,030
Doubtful	9,760,535	28,682	9,789,217	4,811,887	14,341	4,826,228	4,811,887	14,341	4,826,228
Loss	39,062,987	733,097	39,796,084	36,221,199	122,490	36,343,689	36,221,199	122,490	36,343,689
	<u>55,640,149</u>	<u>821,632</u>	<u>56,461,781</u>	<u>42,578,153</u>	<u>151,794</u>	<u>42,729,947</u>	<u>42,578,153</u>	<u>151,794</u>	<u>42,729,947</u>

- 10.2.1** Classification of overseas non-performing advances and provisions there against has been in accordance with the accounting policy as stated in note 5.7.

10.3 Particulars of provision against non-performing advances

Note	2009			2008		
	Specific	General	Total	Specific	General	Total
Rupees in '000'						
Opening balance	42,729,947	2,111,217	44,841,164	32,351,815	2,061,287	34,413,102
Exchange adjustments	8,975	25,092	34,067	20,507	65,613	86,120
Charge for the year	15,019,725	8,940	15,028,665	12,958,783	85,425	13,044,208
Reversal during the year	(3,854,861)	(130,335)	(3,985,196)	(2,373,121)	(77,522)	(2,450,643)
	11,164,864	(121,395)	11,043,469	10,585,662	7,903	10,593,565
Amounts written off	10.5 (299,738)	—	(299,738)	(590,858)	(23,586)	(614,444)
Other adjustments	—	—	—	362,821	—	362,821
Closing balance	<u>53,604,048</u>	<u>2,014,914</u>	<u>55,618,962</u>	<u>42,729,947</u>	<u>2,111,217</u>	<u>44,841,164</u>

10.4 Particulars of provisions against non-performing advances

	2009			2008		
	Specific	General	Total	Specific	General	Total
Rupees in '000'						
In local currency	52,655,429	1,587,413	54,242,842	42,578,153	1,717,748	44,295,901
In foreign currencies	948,619	427,501	1,376,120	151,794	393,469	545,263
	<u>53,604,048</u>	<u>2,014,914</u>	<u>55,618,962</u>	<u>42,729,947</u>	<u>2,111,217</u>	<u>44,841,164</u>

- 10.4.1** During the year, the SBP vide its BSD Circular No.10 dated October 20, 2009 has amended Prudential Regulations in respect of provisioning against non-performing advances. The revised regulations that are effective from September 30, 2009 has increased the percentage of benefit of Forced Sale Value (FSV) from 30% to 40% for mortgaged residential and commercial properties held as collateral against advances by the bank and aforesaid regulation also allowed the benefit of FSV in respect of mortgaged industrial properties (land and building only). FSV benefit shall be considered in determining provisioning against non-performing advances classified during the last three years.

The aforesaid changes in the computation of provisioning has resulted in reduction of provision against non-performing advances by Rs. 2,068 million and a consequent increase in profit after tax by Rs. 1,344 million.

During the year, total FSV benefit availed by the bank resulted in increase in after tax profit of Rs. 2,700 million (2008: Rs. 315 million). Accordingly, as of December 31, 2009, the accumulated increase in profit after tax of Rs. 2,596 million (2008: Rs. 315 million) shall not be available for payment of cash or stock dividend as required by aforementioned SBP directives.

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008
10.5 Particulars of write offs			
10.5.1 Against provisions	10.3	299,738	614,444
Directly charged to Profit and Loss account		—	—
		<u>299,738</u>	<u>614,444</u>
10.5.2 Write offs of Rs.500,000 and above	10.6	297,597	584,160
Write offs of below Rs.500,000		2,141	30,284
		<u>299,738</u>	<u>614,444</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, 2009 is given in Annexure II.			
		2009 Rupees in '000'	2008
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 the year		17,148,248	14,326,577
Loans granted during the year		6,571,649	6,322,024
Repayments		(4,227,524)	(3,500,353)
Balance at end of year		<u>19,492,373</u>	<u>17,148,248</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 the year		—	199,391
Loans granted during the year		—	—
Repayments / other adjustments		—	(199,391)
Balance at end of year		<u>—</u>	<u>—</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		1,952,228	2,301,502
Loans granted during the year		—	—
Repayments		(88,882)	(349,274)
Balance at end of year		<u>1,863,346</u>	<u>1,952,228</u>
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	1,472,451	1,016,513
Property and equipment	11.2	23,657,211	23,195,217
Intangible assets	11.3	17,530	5,925
		<u>25,147,192</u>	<u>24,217,655</u>
11.1 Capital work-in-progress			
Civil works		864,683	481,881
Equipment		3,088	2,249
Advances to suppliers and contractors		98,787	108,267
License fee for core banking software		505,893	424,116
		<u>1,472,451</u>	<u>1,016,513</u>

Notes to the Financial Statements

For the year ended December 31, 2009

11.2 Property and equipment

	Cost/revalued amount			Accumulated depreciation				Book Value at December 31, 2009	Rate of depreciation	
	At January 1, 2009	Revaluation / transfers / (adjustments)	Additions / (deletions)	At December 31, 2009	At January 1, 2009	Charge for the year / (deletions)	Revaluation / (adjustments)			At December 31, 2009
Rupees in '000'										
Owned										
Land										
- freehold	9,516,046	—	—	9,516,046	—	—	—	9,516,046	Nil	
- leasehold	7,200,877	—	3,179	7,297,134	—	—	—	7,297,134	Nil	
		122,923 *								
		(29,845)								
Buildings on land:										
- freehold	2,446,911	—	57,111	2,442,385	—	124,382	—	124,382	5% on book value	
		(61,637)								
- leasehold	1,929,129	90,195	285,204	2,180,285	—	100,338	—	100,338	5% on book value	
		(122,923) *								
		(1,320)								
Furniture and fixtures	1,459,052	—	221,069 (4,705)	1,675,416	916,727	104,104 (2,871)	—	1,017,960	657,456	10% to 30% on Book Value, 20% on Straight-Line on new Furnishing Limit to Executives & Refurbishment of Branches
Computer and peripheral equipment	1,599,934	—	200,402	1,800,336	1,252,600	163,555	—	1,416,155	384,181	33% on cost
Electrical and office equipment	1,970,961	—	310,832	2,281,793	1,251,397	188,393	—	1,439,790	842,003	20% on book value
Vehicles	740,735	—	155,748	870,334	424,377	112,848	—	514,133	356,201	20% on cost
			(26,149)			(23,092)				
	26,863,645	90,195	1,233,545	28,063,729	3,845,101	793,620	—	4,612,758	23,450,971	
		(92,802)	(30,854)			(25,963)				
Assets held under finance lease										
Vehicles	66,238	—	38,379	101,249	24,963	15,659	—	38,433	62,816	20% on cost
			(3,368)			(2,189)				
Assets given under Ijarah										
	174,016	—	65,961	239,977	38,618	57,935	—	96,553	143,424	25-33% on cost
2009	27,103,899	90,195	1,337,885	28,404,955	3,908,682	867,214	—	4,747,744	23,657,211	
		(92,802)	(34,222)			(28,152)				

Notes to the Financial Statements

For the year ended December 31, 2009

Property and equipment

	Cost/revalued amount			Accumulated depreciation					Book Value at December 31, 2008	Rate of depreciation
	At January 1, 2008	Revaluation / transfers / 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	1,830,776	695,070	27,381	2,446,911	—	101,657	(101,496)	—	2,446,911	5% on book value
		(101,496)	(4,820)			(161)				
- leasehold	1,345,116	499,402	162,290	1,929,129	—	77,215	(76,961)	—	1,929,129	5% on book value
		(76,961)	(718)			(254)				
Furniture and fixtures	1,297,922	—	165,123 (3,993)	1,459,052	855,417	63,453 (2,143)	—	916,727	542,325	10% to 30% on Book Value, 20% on Straight-Line on new Furnishing Limit to Executives & Refurbishment of Branches
Computer and peripheral equipment	1,440,877	—	159,191	1,599,934	1,093,169	159,500	—	1,252,600	347,334	33% on cost
			(134)			(69)				
Electrical and office equipment	1,634,242	—	336,983	1,970,961	1,102,061	149,483	—	1,251,397	719,564	20% on book value
			(264)			(147)				
Vehicles	572,147	—	211,693	740,735	309,131	150,763	—	424,377	316,358	20% on cost
			(43,105)			(35,517)				
	28,677,856	(2,661,419)	1,078,699	26,863,645	3,359,778	702,071	(178,457)	3,845,101	23,018,544	
		(178,457)	(53,034)			(38,291)				
Assets held under finance lease										
Vehicles	58,440	—	7,798	66,238	15,755	9,208	—	24,963	41,275	20% on cost
Assets given under Ijarah										
	95,358	—	78,658	174,016	1,207	37,411	—	38,618	135,398	25-33% on cost
2008	28,831,654	(2,661,419)	1,165,155	27,103,899	3,376,740	748,690	(178,457)	3,908,682	23,195,217	
		(178,457)	(53,034)			(38,291)				

Notes to the Financial Statements

For the year ended December 31, 2009

11.3 Intangible Assets

	Cost			Accumulated Amortization			Rate of amortization
	At January 1, 2009	Additions	At December 31, 2009	At January 1, 2009	Charge for the year	At December 31, 2009	
	Rupees in '000'						
Computer software	16,083	16,205	32,288	10,158	4,600	14,758	33.33 %
	16,083	16,205	32,288	10,158	4,600	14,758	on cost

	Cost			Accumulated Amortization			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	15,851	232	16,083	7,273	2,885	10,158	33.33 %
	15,851	232	16,083	7,273	2,885	10,158	on cost

11.4 Revaluation of Properties

During the year a revaluation of building and construction of Bishkek branch was carried out to ascertain that assets are carried at no more than their recoverable amount. The revaluation was carried out by LLC The Agency of Services "Burana Asia". This has resulted in surplus of Rs. 90.195 million. Had there been no revaluation, the carrying amount of revalued assets at December 31, 2009 would have been as follows:

	Rupees in '000'
Buildings on leasehold land	2,623

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 6 months KIBOR + 1.5% to 2.75% and 3 months KIBOR + 2.5% to 5% (2008: 3 months KIBOR + 3% and 6 months KIBOR + 1.5%).

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	80,534
Later than one year but not later than five years	72,552

Notes to the Financial Statements

For the year ended December 31, 2009

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 respectively, whichever is lower are given below:

Particulars of property and equipment	Original cost	Book value	Sale proceeds	Gain / (loss)	Mode of Disposal	Particulars of Purchaser
Rupees in '000'						
Motor Vehicle	939	355	388	33	As per service rules on retirement	Mrs. Shahida N. Abbasi EVP
Motor Vehicle	969	517	630	113	As per service rules on separation from bank	Mr. Tajammul H. Bokharee EX - EVP
Motor Vehicle	1,506	803	376	(427)	As per service rules on separation from bank	Mr. Masood Karim Shaikh EX - SEVP
Motor Vehicle	3,599	—	2,953	2,953	Auction	Pakistan Auction Mart
Motor Vehicle	1,245	—	655	655	Auction	Pakistan Auction Mart
Motor Vehicle	969	419	769	350	As per service rules on retirement	Mr. M.Riaz Khokar EVP
Motor Vehicle	3,368	1,179	1,179	—	As per service rules on separation from bank	Mr. Masood Karim Shaikh EX - SEVP
Furniture and Fixtures	680	295	295	—	As per service rules on separation from bank	Mr. Masood Karim Shaikh EX - SEVP
Other assets (having book value of less than Rs.250,000 or cost of less than Rs.1,000,000)	20,947	2,502	6,412	3,910		
	34,222	6,070	13,657	7,587		

12. DEFERRED TAX ASSETS - net

Deductible temporary difference on:

Provision for diminution in the value of investments	552,534	357,446
Provision against advances	4,720,840	4,093,904
Other provision	280,000	376,111
Charge against defined benefits plans	927,443	666,181
Provision against off-balance sheet obligation	116,622	116,622
	6,597,439	5,610,264

Taxable temporary differences on:

Excess of accounting book value of leased assets over lease liabilities	(7,065)	(5,600)
Difference between accounting book value of fixed assets and tax base	(222,293)	(169,754)
Revaluation of securities	(2,028,859)	(895,673)
Revaluation of fixed assets	(1,276,951)	(1,334,665)
	(3,535,168)	(2,405,692)
Net deferred tax assets	3,062,271	3,204,572

Note

2009
Rupees in '000'

2008

Notes to the Financial Statements

For the year ended December 31, 2009

12.1 Movement in temporary differences during the year

	January 1, 2008	Recognized in Profit and Loss Account	Recognized in surplus on revaluation of assets	December 31, 2008	Recognized in Profit and Loss Account	Recognized in surplus on revaluation of assets	December 31, 2009
Rupees in '000'							
Deferred tax assets rising in respect of:							
Provision for diminution in the value of investments	228,408	129,038	—	357,446	195,088	—	552,534
Provision against advances	636,600	3,457,304	—	4,093,904	626,936	—	4,720,840
Other provision	103,806	272,305	—	376,111	(96,111)	—	280,000
Charge against defined benefits plans	289,333	376,848	—	666,181	261,262	—	927,443
Provision against off-balance sheet obligations	115,222	1,400	—	116,622	—	—	116,622
	1,373,369	4,236,895	—	5,610,264	987,175	—	6,597,439
Less: Deferred tax (liabilities) arising in respect of:							
Excess of accounting book value of leased assets over lease liabilities	(3,196)	(2,404)	—	(5,600)	(1,465)	—	(7,065)
Difference between accounting book value of fixed assets and tax base	(85,259)	(84,495)	—	(169,754)	(52,539)	—	(222,293)
Revaluation of securities	(5,395,899)	—	4,500,226	(895,673)	—	(1,133,186)	(2,028,859)
Revaluation of fixed assets	(986,846)	70,246	(418,065)	(1,334,665)	66,733	(9,019)	(1,276,951)
	(6,471,200)	(16,653)	4,082,161	(2,405,692)	12,729	(1,142,205)	(3,535,168)
Net deferred tax assets	(5,097,831)	4,220,242	4,082,161	3,204,572	999,904	(1,142,205)	3,062,271

13. OTHER ASSETS

	Note	2009 Rupees in '000'	2008
Income / mark-up accrued in local currency		14,860,525	12,045,837
Income / mark-up accrued in foreign currencies		870,380	1,638,916
Advances, deposits, advance rent and other prepayments	13.1	15,023,537	2,721,269
Advance taxation (payments less provisions)		8,079,322	13,705,894
Income tax refunds receivable	13.5	10,805,291	—
Receivable from GoP	13.2	5,648	283,871
Assets acquired from Corporate and Industrial Restructuring Corporation (CIRC)		497,490	622,857
Branch adjustment account-net		2,308,352	3,194,657
Derivatives:			
Un-realized gain on forward foreign exchange contracts		183,145	2,114,857
Commission receivable		2,755,941	1,821,645
Stationery and stamps on hand		414,620	369,709
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	418,599	417,875
Less: provision		(418,599)	(417,875)
Receivable from pension fund	34.1.2	3,666,344	4,496,943
Prize bonds in hand		235,239	311,109
Others		2,182,029	3,318,802
		62,406,434	47,164,937
Less: provision held against other assets			
Income / mark-up accrued in local currency / foreign currencies		327,081	327,081
Advances, deposits, advance rent and other prepayments		800,000	400,000
Stationery and stamps on hand		51,200	51,200
Barter trade balances		195,399	195,399
Receivable on account of Government transactions	13.3	323,172	323,172
Others	13.6.1	1,393,144	1,317,738
	13.6	3,089,996	2,614,590
		59,316,438	44,550,347

Notes to the Financial Statements

For the year ended December 31, 2009

- 13.1** This includes Rs.13,547 million (2008: 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, full amount has been provided for.
- 13.5** During the year, various appeal effects from Income Tax Appellate Tribunal (ITAT) pertaining to assessment years 1998 - 99 to 2002 - 2003 and tax year 2006 and 2007 were received, which resulted in determined refunds. The Federal Board of Revenue (FBR) will issue bonds in lieu of these determined refunds.

	Note	2009 Rupees in '000'	2008
13.6 Provision against other assets			
Opening balance		2,614,590	1,895,840
Charge for the year		575,161	722,905
Reversals		(99,755)	(4,155)
Closing balance		3,089,996	2,614,590
13.6.1	This includes Rs. 800 million (2008: Rs. 400 million) as provision against Pre-IPO placement of one Term Finance Certificate.		
14. BILLS PAYABLE			
In Pakistan		10,546,471	10,147,427
Outside Pakistan		74,698	71,634
		10,621,169	10,219,061
15. BORROWINGS			
In Pakistan		44,707,396	38,724,616
Outside Pakistan		570,742	1,734,310
	15.1 & 15.2	45,278,138	40,458,926
15.1 Particulars of borrowings with respect to currencies			
In local currency		44,707,396	38,724,616
In foreign currencies		570,742	1,734,310
	15.2	45,278,138	40,458,926
15.2 Details of borrowings			
Secured			
Borrowings from State Bank of Pakistan:			
Under Export Refinance Scheme		7,028,312	4,921,924
Under Long-Term Financing under Export Oriented Project (LTF-EOP)		2,587,196	2,971,599
Under Long-Term Financing Facility (LTFF)		1,436,715	—
Finance to payoff liabilities relating to former MBL		—	188,000
		11,052,223	8,081,523
Repurchase agreement borrowings		25,008,891	23,875,317
		36,061,114	31,956,840
Unsecured			
Call borrowings		9,081,987	8,259,310
Overdrawn nostro accounts	32	64,237	171,976
Others		70,800	70,800
		9,217,024	8,502,086
		45,278,138	40,458,926

Notes to the Financial Statements

For the year ended December 31, 2009

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

- The bank has entered into agreements with 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 7.0% per annum (2008: 7.5% per annum).
- Call borrowings carry interest ranging from 11.25% to 12.65% per annum (2008: 12% to 16.5% per annum).
- Repurchase agreement borrowings carry mark-up at the rate of 9.25% to 12.1% per annum (2008: 8.75% to 15% per annum).
- Unsecured borrowings "Others" carry interest at the rate of 10% per annum (2008: 10% per annum).

15.3 Borrowings from State Bank of Pakistan (SBP) under export oriented projects refinance schemes of SBP are secured by bank's cash and security balances held by SBP.

	Note	2009 Rupees in '000'	2008 Rupees in '000'
16. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		194,731,591	141,949,041
Savings deposits		196,373,780	179,807,400
Current accounts - remunerative		74,133,946	50,893,400
Current accounts - non-remunerative		169,043,847	143,216,221
		634,283,164	515,866,062
Financial Institutions			
Remunerative deposits		48,428,983	38,438,503
Non-remunerative deposits		43,752,678	70,634,451
		92,181,661	109,072,954
	16.1	<u>726,464,825</u>	<u>624,939,016</u>
16.1 Particulars of deposits			
In local currency		575,078,424	470,716,922
In foreign currencies [including deposits of foreign branches of Rs. 116,561 million (2008: Rs. 124,533 million)]		151,386,401	154,222,094
		<u>726,464,825</u>	<u>624,939,016</u>

17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2009			2008		
	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	24,624	5,611	19,013	17,796	2,567	15,229
Later than one year and not later than five years	27,306	3,690	23,616	11,335	1,290	10,045
	<u>51,930</u>	<u>9,301</u>	<u>42,629</u>	<u>29,131</u>	<u>3,857</u>	<u>25,274</u>

The bank 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 KIBOR + 0.9% to KIBOR + 4.00% per annum (2008: 11.59% to 19.65% per annum and KIBOR + 2.25% to KIBOR + 4.00% per annum). At the end of lease term, the bank has option to acquire the assets, subject to adjustment of security deposits.

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		11,993,768	8,810,335
Mark-up / return / interest payable in foreign currencies		564,017	1,019,751
Unearned commission and income on bills discounted		116,045	132,522
Accrued expenses		2,114,932	1,927,588
Advance payments		7,343	11,664
Unclaimed dividends		33,494	23,494
Derivatives:			
Un-realized loss on forward foreign exchange contracts		1,253,135	2,657,506
Un-realized loss on cross currency swaps		2,260,864	2,065,687
Provision against off balance sheet obligations	18.1	450,061	429,824
Employee benefits:			
Post retirement medical benefits	34.1.3	3,407,225	2,946,554
Compensated absences	34.2.1	2,397,308	2,246,752
Benevolent fund	34.1.4	838,123	765,748
Gratuity scheme	34.1.5	123,789	106,270
Staff welfare fund		371,257	424,880
Liabilities relating to:			
Bangladesh (former East Pakistan)		—	227,089
Barter trade agreements		11,657,389	11,001,952
Special separation package		78,422	78,422
Payable to GoP for acquisition of assets from CIRC		232,460	638,772
Others [(including provision of Rs. 246 million (2008: Rs. 246 million) for contingencies)]		4,369,991	4,142,021
		<u>42,269,623</u>	<u>39,656,831</u>
18.1 Provision against off balance sheet obligations			
Opening balance		429,824	425,824
Charge for the year		20,237	4,000
Closing balance	18.1.1	<u>450,061</u>	<u>429,824</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

2008 Number of shares	2009 Number of shares		2009 Rupees in '000'	2008
<u>1,000,000,000</u>	<u>2,500,000,000</u>	Ordinary shares of Rs.10 each	<u>25,000,000</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
756,587,100	935,982,200	Fully paid in cash	9,359,822	7,565,871
<u>896,975,100</u>	<u>1,076,370,200</u>	Issued as fully paid bonus shares	<u>10,763,702</u>	<u>8,969,751</u>

The Federal Government and the SBP held about 75.60 % shares of the bank as at the year ended December 31, 2009 (2008: 75.60%).

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008 Rupees in '000'
20. SURPLUS ON REVALUATION OF ASSETS - net			
Available-for-sale securities	20.1	7,474,058	3,759,057
Fixed assets	20.2	17,290,401	17,333,159
		<u>24,764,459</u>	<u>21,092,216</u>
20.1 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax			
Federal Government securities		(70,166)	(820,863)
Term Finance Certificates		(763,683)	(87,983)
Shares and mutual funds		1,739,784	(438,078)
GoP Foreign Currency Bonds		556,772	(679,108)
National Investment Trust Units		616,024	2,386,570
NIT Market Opportunity Fund Units		360,573	(796,196)
Investment outside Pakistan		7,063,613	5,090,388
		9,502,917	4,654,730
Deferred tax liability recognized	12	(2,028,859)	(895,673)
		<u>7,474,058</u>	<u>3,759,057</u>
20.2 Surplus / (deficit) on revaluation of fixed assets - net of tax			
Surplus on revaluation on January 1, 2009		18,667,824	21,529,945
Net surplus / (deficit) on revaluation of bank's properties during the year		90,195	(2,661,419)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year -net of deferred tax		(123,934)	(130,456)
Related deferred tax liability		(66,733)	(70,246)
		<u>(190,667)</u>	<u>(200,702)</u>
		18,567,352	18,667,824
Less: Related deferred tax liability on:			
Revaluation as at January 1,		1,334,665	986,846
Revaluation of bank's properties during the year		9,019	418,065
Incremental depreciation charged during the year transferred to profit and loss account		(66,733)	(70,246)
	12	<u>1,276,951</u>	<u>1,334,665</u>
Surplus on revaluation on December 31, 2009		<u>17,290,401</u>	<u>17,333,159</u>
21. CONTINGENCIES AND COMMITMENTS			
21.1 Direct credit substitutes			
Includes general guarantee of indebttness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities issued in favour of:			
		2009 Rupees in '000'	2008 Rupees in '000'
- Government		17,443,452	15,444,979
- Financial institutions		4,469,377	5,873,517
- Others		11,214,383	11,762,514
		<u>33,127,212</u>	<u>33,081,010</u>
21.2 Transaction-related contingent liabilities			
Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credits related to particular transactions issued in favour of:			
		2009 Rupees in '000'	2008 Rupees in '000'
- Government		18,524,777	18,660,550
- Financial institutions		4,232,783	5,060
- Others		9,237,363	7,904,339
		<u>31,994,923</u>	<u>26,569,949</u>

Notes to the Financial Statements

For the year ended December 31, 2009

	2009	2008
	Rupees in '000'	
21.3 Trade-related contingent liabilities		
Letters of credit issued in favour of:		
- Government	126,151,618	133,467,937
- Financial institutions	161,208	1,007,327
- Others	38,736,236	36,292,676
	<u>165,049,062</u>	<u>170,767,940</u>

21.4 Other contingencies

21.4.1 Claims against the bank not acknowledged as debts [including SBP liabilities on Bangladesh borrowing and interest thereon amounting to Rs. 175 million (2008: Rs.172 million) and claims relating to former MBL amounting to Rs.965 million (2008: Rs.965 million)].

6,561,411	11,442,569
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21.4.2 Taxation

The income tax returns of the bank for global operations and for Azad Jammu Kashmir have been filed under section 120 and amended by the Taxation Officer under section 122(5A) of the Income Tax Ordinance, 2001 upto the tax year 2009 (accounting year ended December 31, 2008).

During the year, the bank received various appellate decisions from the Income Tax Appellate Tribunal (ITAT) from assessment year 1998-99 through assessment year 2002-2003, in which substantial reliefs were allowed including matters related to interest credited to suspense account. Also appeal effects of such decisions have been obtained from the tax department giving rise to aggregate tax refund of Rs. 10,800 million.

The management has also taken effects of the decisions by bringing the tax provision created in the books of account as at December 31, 2008, equal to the tax demands determined in rectified orders upto the tax year 2009, except on four matters under appeal where management is confident that the appellate decisions will provide necessary relief to the bank. These matters are interest credited to suspense account, allocation of common expenditure between taxable and exempt / low tax rate, disallowance for bad debts on the basis of State Bank of Pakistan certificates and disallowance of loss on Barter Trader Balances.

The aggregate effect of aforementioned contingencies amounts to Rs. 7,368 million (2008: Rs. 14,024 million). No provision has been made against the aforementioned four matters based on the opinion of tax consultants of the bank who expect favourable outcome from the appellate forums where appeals are pending adjudication.

21.4.3 Provident Fund

In 1977, in accordance with the GoP policy, the bank's employees' benefits were changed from the Contributory 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 the year 1980 before 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 petition of the Single Bench, the aggrieved employees filed Inter 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, appeal was 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. Bank's review petition against this judgment of Supreme Court was dismissed.

For the purpose of settlement, interest was 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 was calculated in accordance with Rule 19, i.e. to ex-employees upto the date of retirement or death and upto the date of payment in case of serving employees.

Notes to the Financial Statements

For the year ended December 31, 2009

Some Ex-Employees not being satisfied with the payment filed contempt petition against the bank in 2004. 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 Honourable Court that the payment being made is in accordance with the bank's Provident Fund Rules.

A review petition has been filed by the petitioners against the judgment of Honourable Supreme Court of Pakistan dated May 04, 2009, which has not been admitted so far.

The difference / excess interest amount lying in Provident Fund ledger has been adjusted in bank's books of accounts.

21.4.4 Barter Trade Agreements

In order to reduce pressure on the balance of payment, the GoP had entered into barter trade agreements with various countries and designated the NBP to handle the related transactions on behalf of GoP. Accordingly, NBP executed banking arrangements with the designated banks of these countries and opened accounts in their names. In one of the barter agreement, repayments made to NBP by the GoP could not be utilized due to non-finalization of repayment arrangements after 1994 at Government level, which was required under the relevant barter agreement. The concerned bank is now demanding payment of interest on the balances in its accounts with NBP. Since these balances are maintained in current accounts and there is also no clause for payment of any interest in the relevant banking arrangement, therefore the bank strongly refused such claims.

21.4.5 Golden Handshake (GHS)

In 1997 Golden Handshake Scheme (GHS) was introduced with the cut-off date of October 31, 1997. However, despite the lapse of due date, many GHS optees continued their services till 1998 and 1999. In February 1998, a circular was issued for enhancement in salaries, which was not applicable to GHS optees. In calculating dues of GHS optees, their pensionary benefits were taken uptill the cut-off date of August 10, 1997. Such employees filed suit against the bank in various courts including Federal Services Tribunal and the High Court for enhancement/recalculation of their dues.

In some cases, High Court decided against the bank despite the disclaimer signed by such optees not to claim any more benefits than what the bank had worked out. This disclaimer came up for interpretation before the Supreme Court, which upheld the bank's view that such disclaimer bars / prohibits the optees to claim any excess amount than what they had received.

Lahore and Sindh High Courts, in some cases, decided against the bank, and directed it, to pay additional benefits by calculating upto the actual date of the optees released from the service. In response the bank filed petitions against both Lahore and Sindh High Courts, for leave to appeal, which has been granted to the bank for re-examining the issue afresh.

The previous order of the Supreme Court as mentioned above is conclusive. However, in case a larger bench reverses the earlier decision, the benefits claimed can be payable only to the plaintiffs.

	2009	2008
	Rupees in '000'	
21.5 Commitments in respect of forward exchange contracts		
Purchase	87,829,307	69,361,297
Sale	38,568,464	55,563,737
21.6 Commitments in respect of trading in government securities		
Purchase (reverse repo)	5,000,000	5,200,000
Sale	—	5,200,000
21.7 Commitments for the acquisition of operating fixed assets	1,537,996	490,396
21.8 Other commitments		
Cross currency swap	6,914,649	8,082,780
21.9 Commitments for purchase of NIT Market Opportunity Fund units	—	200,000
21.10 Commitments for investment in NIT State Enterprise Fund	—	7,000,000

Notes to the Financial Statements

For the year ended December 31, 2009

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 18 respectively.

The Asset Liability Committee regularly reviews the bank's risk profile in respect of derivatives. Operational 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 5.5.

22.2 Product Analysis

Counterparties	2009							
	Interest Rate Swaps		Cross Currency Swaps		Forward Rate Agreements		F X Options	
	No. of Contracts	Notional Principal (Rupees in '000')	No. of Contracts	Notional Principal (Rupees in '000')	No. of Contracts	Notional Principal (Rupees in '000')	No. of Contracts	Notional Principal (Rupees in '000')
With other entities for Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	10	6,914,649	-	-	-	-
	-	-	10	6,914,649	-	-	-	-

Counterparties	2008							
	Interest Rate Swaps		Cross Currency Swaps		Forward Rate Agreements		F X Options	
	No. of Contracts	Notional Principal (Rupees in '000')	No. of Contracts	Notional Principal (Rupees in '000')	No. of Contracts	Notional Principal (Rupees in '000')	No. of Contracts	Notional Principal (Rupees in '000')
With other entities for Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	10	8,082,780	-	-	-	-
	-	-	10	8,082,780	-	-	-	-

22.3 Maturity Analysis

Cross Currency Swaps

Remaining Maturity	2009				
	Rupees in '000				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
3 to 5 Years	10	6,914,649	8,786,137	6,525,273	(2,260,864)

Remaining Maturity	2008				
	Rupees in '000				
	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
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)

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008
23. MARK-UP / RETURN / INTEREST EARNED			
On loans and advances to:			
Customers		53,355,661	42,322,522
Financial institutions		1,250,474	726,789
		<u>54,606,135</u>	<u>43,049,311</u>
On investments in:			
Held-for-trading securities		2,578,487	1,306,934
Available-for-sale securities		16,319,426	9,737,215
Held-to-maturity securities		907,729	2,280,984
		<u>19,805,642</u>	<u>13,325,133</u>
On deposits with financial institutions		1,667,333	2,899,814
On securities purchased under resale agreements		1,868,587	1,546,488
On derivative financial instruments		—	122,052
		<u>77,947,697</u>	<u>60,942,798</u>
24. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		36,418,364	22,478,225
Securities sold under repurchase agreements		1,864,800	811,333
Short-term borrowings		1,206,485	495,710
On derivative financial instruments		—	99,500
		<u>39,489,649</u>	<u>23,884,768</u>
25. GAIN ON SALE AND REDEMPTION OF SECURITIES - net			
Federal government securities			
Market Treasury Bills		236,871	41,987
Pakistan Investment Bonds		25,139	(32,861)
		<u>262,010</u>	<u>9,126</u>
Gain on Redemption of NIT Units-LOC Holders' Fund	9.5.1	3,875,309	—
Shares and Mutual Funds		270,427	381,836
Gain on Sale of Foreign Government/Corporate Securities		184,148	—
Ijarah Sukuk		—	4,465
		<u>4,591,894</u>	<u>395,427</u>
26. OTHER INCOME			
Rent on property		40,048	24,467
Gain on sale of property and equipment	11.6	7,587	7,289
Others	26.1	504,581	1,213,613
		<u>552,216</u>	<u>1,245,369</u>

26.1 This includes Rs. Nil (2008: Rs. 988 million) for compensation of delayed refunds determined under Section 121 of Income Tax Ordinance 2001.

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008
27. ADMINISTRATIVE EXPENSES			
Salaries and allowances		13,227,825	11,294,744
Charge for defined benefit plans	27.3	2,396,124	1,014,601
Non-executive directors' fee, allowances and other expenses	35	17,994	8,476
Rent, taxes, insurance, electricity, etc.		1,277,598	1,004,921
Legal and professional charges		242,886	208,056
Communications		397,460	466,687
Repairs and maintenance		326,013	258,615
Financial charges on leased assets		10,072	10,750
Stationery and printing		827,177	578,491
Advertisement, sponsorship and publicity		239,025	171,093
Donations / Contributions	27.1	102,950	33,440
Auditors' remuneration	27.2	97,861	70,964
Depreciation	11.2	867,214	748,690
Amortization	11.3	4,600	2,885
Conveyance		109,676	112,549
Entertainment		40,336	34,299
Travelling		248,244	230,279
Security services		908,928	747,916
Outsourcing		141,121	284,337
Others		1,088,366	889,405
		<u>22,571,470</u>	<u>18,171,198</u>

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

Quaid-e-Azam Academy	250	—
Poor Patients Aid Society Civil Hospital	100	—
Institute of Business Administration	50,000	—
Armed forces Institute of Cardiology, NIHD	500	—
Marie Adelaide Leprosy Centre	2,000	—
Agha Khan Hospital & Medical College Foundation	100	—
Chief Minister (NWFP) Fund for Internally Displaced Persons	10,000	—
Prime Minister Fund for Internally Displaced Persons	40,000	—
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>102,950</u>	<u>33,440</u>

None of the directors / executives or their spouses have any interest in the donee, except Mr. Tariq Kirmani who is the member Board of the Governors' in Marie Adelaide Leprosy Centre.

Notes to the Financial Statements

For the year ended December 31, 2009

27.2 Auditors' remuneration

	M.Yousuf Adil Saleem & Co.	Anjum Asim Shahid Rahman	2009 Total	2008 Total
Rupees in '000'				
Audit fee	5,660	5,660	11,320	5,708
Review of interim financial statements	1,980	1,980	3,960	3,168
Fee for audit of domestic branches	4,600	4,600	9,200	7,980
Fee for taxation, special certifications and sundry advisory services	6,313	15,657	21,970	4,720
Fee for audit of overseas branches including advisory services and out-of-pocket expenses	—	—	47,411	46,388
Out-of-pocket expenses	2,000	2,000	4,000	3,000
	<u>20,553</u>	<u>29,897</u>	<u>97,861</u>	<u>70,964</u>

27.3 This includes Rs 1,416 million (2008: Nil) additional charge for pension fund due to revision in pension factor.

	Note	2009 Rupees in '000'	2008
28. OTHER CHARGES			
Penalties imposed by SBP		321,647	562,535
Others		—	20,826
		<u>321,647</u>	<u>583,361</u>
29. TAXATION			
For the year			
Current	29.1	9,221,513	11,762,650
Deferred		(999,904)	(4,220,242)
	29.2	<u>8,221,609</u>	<u>7,542,408</u>
For prior year			
Current		(4,133,282)	—
		<u>4,088,327</u>	<u>7,542,408</u>

29.1 Current taxation includes Rs. 611 million (2008: Rs. 612 million) of overseas branches.

29.2 Relationship between tax expense and accounting profit

Accounting profit before tax	<u>22,300,173</u>	<u>23,000,998</u>
Income tax at statutory rate @ 35% (2008: 35%)	7,805,061	8,050,349
Increase / (decrease) in taxes resulting from:		
Inadmissible differences	242,052	233,416
Income taxed at reduced rate	(1,458,958)	(826,357)
Timing differences no more available	1,623,454	—
Overseas taxation	10,000	85,000
Prior year tax effects	(4,133,282)	—
Tax charge for current year	<u>4,088,327</u>	<u>7,542,408</u>

Notes to the Financial Statements

For the year ended December 31, 2009

		2009	2008
30. BASIC EARNINGS PER SHARE			
Profit after tax for the year	Rupees in '000'	<u>18,211,846</u>	<u>15,458,590</u>
Weighted average number of ordinary shares	Numbers in '000'	<u>1,076,370</u>	<u>1,076,370</u>
Basic earnings per share	Rupees	<u>16.92</u>	<u>14.36</u>

30.1 Earnings per share for the year 2008 has been restated for the effect of bonus shares issued during the year.

31. DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are same.

	Note	2009 Rupees in '000'	2008 Rupees in '000'
32. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	115,827,868	106,503,756
Balances with other banks	7	28,405,564	38,344,608
Overdrawn nostros	15.2	<u>(64,237)</u>	<u>(171,976)</u>
		<u>144,169,195</u>	<u>144,676,388</u>

		2009 Number	2008 Number
33. STAFF STRENGTH			
Permanent		14,796	14,408
Temporary / on contractual basis		<u>1,452</u>	<u>1,033</u>
Bank's total staff strength at the end of the year		<u>16,248</u>	<u>15,441</u>

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 6,406 (2008: 6,010).

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 5.10 to the financial statements.

Principal actuarial assumption

The financial assumptions used in actuarial valuation at December 31, 2009 of pension fund, post retirement medical benefits, benevolent fund and gratuity scheme are as follows:

	2009	2008
Salary increase	14% per annum	14% per annum
Discount rate	14% per annum	14% per annum
Expected rate of return on plan assets	14% per annum	14% per annum
Pension indexation rate	10% per annum	10% per annum
Rate of inflation in the cost of medical benefits	10% per annum	10% per annum
Exposure inflation rate	3% per annum	3% per annum
Number of employees covered under retirement benefit plan	14,565	14,344

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008
34.1.2 Reconciliation of recoverable from pension fund			
Present value of defined benefit obligations		19,523,049	15,011,555
Fair value of plan assets		(19,781,585)	(17,738,992)
Net actuarial losses not recognized		(2,625,022)	(1,587,558)
Past Service Cost - Non Vested		(782,786)	(181,948)
	13	<u>(3,666,344)</u>	<u>(4,496,943)</u>

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	(4,496,943)	(3,676,345)
Charge / (reversal) for the year	1,462,139	(157,789)
Contribution to the fund made during the year	(631,540)	(662,809)
	<u>(3,666,344)</u>	<u>(4,496,943)</u>

Charge for pension fund

Current service cost	412,018	342,649
Interest cost	2,101,618	1,270,405
Expected return on plan assets	(2,483,459)	(1,950,339)
Actuarial gains recognized	—	(106,605)
Past Service Cost-Vested	1,431,962	286,101
	<u>1,462,139</u>	<u>(157,789)</u>

Actual return on plan assets

<u>2,295,198</u>	<u>1,870,261</u>
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34.1.2.1 Components of fair value of plan assets as a percentage of total fair value of plan assets

	2009 %	2008 %
Bonds	85.93	58.25
Equities	12.02	19.54
Cash and net current assets	2.05	22.21

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

	2009	2008	2007	2006	2005
	Rupees in '000'				
Present value of defined benefit obligations	19,523,049	15,011,555	12,704,049	12,069,249	10,085,072
Fair value of plan assets	(19,781,585)	(17,738,992)	(19,503,391)	(17,333,982)	(13,615,308)
Net actuarial (losses) / gains not recognized	(2,625,022)	(1,587,558)	3,122,997	2,312,800	1,006,568
Past Service Cost - Non Vested	(782,786)	(181,948)	—	—	—
	<u>(3,666,344)</u>	<u>(4,496,943)</u>	<u>(3,676,345)</u>	<u>(2,951,933)</u>	<u>(2,523,668)</u>

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008
34.1.3 Reconciliation of payable to medical benefit plan			
Present value of defined benefit obligations		3,432,771	2,909,308
Fair value of plan assets		—	—
Net actuarial (gains)/ losses not recognized		(25,546)	37,246
	18	<u>3,407,225</u>	<u>2,946,554</u>
Movement in net liability recognized			
Opening net liability		2,946,554	2,582,476
Charge for the year		522,657	380,084
Benefits paid		(61,986)	(16,006)
		<u>3,407,225</u>	<u>2,946,554</u>
Charge for medical benefit plan			
Current service cost		115,354	107,422
Interest cost		407,303	272,662
		<u>522,657</u>	<u>380,084</u>

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

	2009	2008	2007	2006	2005
 Rupees in '000'				
Present value of defined benefit obligations	3,432,771	2,909,308	2,726,617	2,595,291	2,303,706
Net actuarial (losses) / gains not recognized	(25,546)	37,246	(144,141)	(318,705)	(301,957)
	<u>3,407,225</u>	<u>2,946,554</u>	<u>2,582,476</u>	<u>2,276,586</u>	<u>2,001,749</u>

Effect of 1% movement in assumed medical cost trend rate

	2009		2008	
	Increase	Decrease	Increase	Decrease
 Rupees in '000'			
Impact on obligations	371,037	(270,479)	111,540	(86,842)
Impact on cost	120,367	(9,830)	22,685	(17,403)

	Note	2009 Rupees in '000'	2008
34.1.4 Movement in net liability recognized for benevolent fund			
Opening net liability		765,748	759,957
Charge for the year		114,022	53,256
Benefits paid		(41,647)	(47,465)
	18	<u>838,123</u>	<u>765,748</u>
Charge for benevolent fund			
Current service cost		13,317	18,592
Interest cost		107,205	75,996
Actuarial gains recognized		(6,500)	(41,332)
		<u>114,022</u>	<u>53,256</u>

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

	2009	2008	2007	2006	2005
 Rupees in '000'				
Opening net liability	765,748	759,957	802,937	729,725	733,572
Net charge for the year	114,022	53,256	22,756	129,185	56,242
Benefits paid	(41,647)	(47,465)	(65,736)	(55,973)	(60,089)
	<u>838,123</u>	<u>765,748</u>	<u>759,957</u>	<u>802,937</u>	<u>729,725</u>

Notes to the Financial Statements

For the year ended December 31, 2009

	Note	2009 Rupees in '000'	2008
34.1.5 Reconciliation of payable to gratuity benefit plan			
Present value of defined benefit obligations		136,211	116,216
Net actuarial losses not recognized		(12,422)	(9,946)
	18	<u>123,789</u>	<u>106,270</u>
Movement in net liability recognized			
Opening liability		106,270	66,708
Charge for the year		41,419	42,424
Benefits paid		(23,900)	(2,862)
		<u>123,789</u>	<u>106,270</u>
Charge for gratuity benefit plan			
Current service cost		25,149	23,133
Interest cost		16,270	8,210
Past service cost to be recognized		—	11,081
		<u>41,419</u>	<u>42,424</u>

34.2 Other employee benefits

34.2.1 Movement in net liability recognized for compensated absences			
Opening net liability		2,246,752	1,662,930
Charge for the year		255,887	696,627
Benefits paid during the year		(105,331)	(112,805)
	18	<u>2,397,308</u>	<u>2,246,752</u>

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

	2009	2008	2007	2006	2005
..... Rupees in '000'					
Opening net liability	2,246,752	1,662,930	1,639,708	1,521,326	1,219,566
Net charge for the year	150,556	583,822	23,222	118,382	301,760
	<u>2,397,308</u>	<u>2,246,752</u>	<u>1,662,930</u>	<u>1,639,708</u>	<u>1,521,326</u>

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

	2010			
	Pension funds	Benevolent Scheme	Medical Scheme	Gratuity Scheme
..... Rupees in '000'				
Contributions to be paid	695,262	131,279	589,042	52,554

Notes to the Financial Statements

For the year ended December 31, 2009

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President		Directors		Executives	
	2009	2008	2009	2008	2009	2008
	Rupees in '000'					
Fees	—	—	17,994	8,476	—	—
Managerial remuneration	10,200	8,760	—	—	381,504	307,313
Charge for defined benefit plan	—	—	—	—	247,812	63,157
Rent and house maintenance	6,840	5,616	—	—	190,388	153,659
Utilities	1,228	1,593	—	—	45,998	36,965
Medical	153	222	—	—	48,149	35,015
Conveyance	—	—	—	—	102,529	84,701
Leave fare assistance	10,200	7,440	—	—	—	—
Bonus and others	29,516	28,441	—	—	287,546	220,694
	<u>58,137</u>	<u>52,072</u>	<u>17,994</u>	<u>8,476</u>	<u>1,303,926</u>	<u>901,504</u>
Number of persons	<u>1</u>	<u>1</u>	<u>6</u>	<u>6</u>	<u>507</u>	<u>377</u>

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

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, and have been disclosed in note 9.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.7.

The maturity and re-pricing profile and effective rates are stated in notes 41.4.1 and 41.3.3 respectively.

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

Notes to the Financial Statements

For the year ended December 31, 2009

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
	Rupees in '000'					
2009						
Total income	479,695	925,435	16,231,209	34,144,722	1,698,986	4,003,358
Total expenses	575	59,476	11,461,074	19,887,565	1,254,884	2,519,658
Net income	479,120	865,959	4,770,135	14,257,157	444,102	1,483,700
Segment Assets (Gross)	—	2,378,930	147,407,072	794,446,761	—	—
Segment Non Performing Loans	—	—	7,369,750	63,553,323	—	—
Segment Provision Required	—	—	5,118,050	50,500,912	—	—
Segment Liabilities (Gross)	—	—	223,617,290	601,059,095	—	—
Segment Return on net Assets (ROA) (%)	0.00%	4.67%	3.22%	1.63%	0.00%	0.00%
Segment Cost of funds (%)	0.00%	0.00%	5.21%	4.09%	0.00%	0.00%
2008						
Total income	324,911	1,268,816	15,466,851	31,538,681	1,712,732	3,161,901
Total expenses	596	130,078	9,399,935	17,751,203	1,156,361	2,034,721
Net income	324,315	1,138,738	6,066,916	13,787,478	556,371	1,127,180
Segment Assets (Gross)	—	1,007,496	121,089,466	695,661,364	—	—
Segment Non Performing Loans	—	—	7,580,770	48,881,011	—	—
Segment Provision Required	—	—	4,892,091	39,949,073	—	—
Segment Liabilities	—	—	161,463,413	553,835,694	—	—
Segment Return on net Assets (ROA) (%)	0.00%	14.11%	3.80%	2.30%	0.00%	0.00%
Segment Cost of funds (%)	0.00%	0.00%	3.13%	4.11%	0.00%	0.00%

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 1,430 million (2008: 1,500 million) shares with market value of Rs. 55,472 million (2008: Rs. 45,570 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.38,130 million on December 31, 2009 (2008: Rs. 40,000 million).

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 August 7, 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 and UBL 25% each, MCB 17.5% and ABL 7.5%).

The amount of the fund in investments stands at Rs. 583 million as at December 31, 2009 (2008: Rs. 737 million).

Notes to the Financial Statements

For the year ended December 31, 2009

39. RELATED PARTY TRANSACTIONS

The bank has related party relationship with its associated undertakings, subsidiary companies, 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, provident fund and loan given to NBP Exchange Company Limited, 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 approved in respect of staff retirement and other benefit plans are disclosed in note 34 to these financial statements. Remuneration to the executive and disposal of vehicles are disclosed in notes 35 and 11.6 respectively to the financial statements.

	2009	2008
	Rupees in '000'	
Balance outstanding at year end		
Advances to:		
Subsidiaries	575,404	682,730
Associates	1,287,942	1,269,498
Key management executives *	97,439	95,931
Placements with:		
Subsidiary	10	—
Joint venture	451,588	420,535
Associates / subsidiaries	25,881	25,881
Lendings to:		
Subsidiary	—	113,983

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

	2009	2008
	Rupees in '000'	
Deposits from:		
Subsidiaries		
Opening balance	167,224	255,952
Received/ (repaid) during the year	92,394	(88,728)
Closing Balance	259,618	167,224
Pension fund - current account		
Opening balance	3,940,161	2,088,976
Received during the year	12,791,620	12,055,094
Repaid during the year	(16,326,430)	(10,203,909)
Closing Balance	405,351	3,940,161
Pension fund - fixed deposit account		
Opening balance	5,900,000	—
Received during the year - net	4,800,000	5,900,000
Repaid during the year - net	(3,400,000)	—
Closing balance	7,300,000	5,900,000
Provident fund		
Opening balance	8,507,300	8,078,395
Received during the year	3,548,530	1,351,602
Repaid during the year	(3,607,729)	(922,697)
Closing Balance	8,448,101	8,507,300
Borrowing from:		
Subsidiary	450,000	414,635

Notes to the Financial Statements

For the year ended December 31, 2009

	2009	2008
	Rupees in '000'	
Income for the year		
On advances / placements with:		
Subsidiaries	4,695	10,950
Associates	—	12,841
Joint venture	2,387	3,045
Expenses for the year		
Remuneration to key management executives	247,234	201,402
Charge for defined benefit plan	46,914	6,738
On deposits of:		
Subsidiaries	2,791	218
Provident fund	1,493,505	946,446
Pension fund	1,295,079	142,685
On Repo / call borrowing	46,816	41,476
Commission paid to subsidiaries	1,061	1,687
Other receivables	40,801	32,195
Other payables	—	11,594

39.1 Although the Federal Government and the SBP held about 75.60% shares of the bank (2008: 75.60%), the transactions with these entities have not been treated as related party transactions for the purpose of this disclosure.

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:

- o To comply with the capital requirements set by the regulators of the banking markets where the bank operates;
- o 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
- o To maintain a strong capital base to support the development of its business.

According to the BSD Circular No 7 dated 15th April, 2009, minimum paid up capital requirement have been revised as follows:

Minimum Paid up Capital (Net of losses) - Rs. in '000'	Dead line by which to be increased
6,000,000	31-12-2009
7,000,000	31-12-2010
8,000,000	31-12-2011
9,000,000	31-12-2012
10,000,000	31-12-2013

The paid-up capital of the bank for the year ended December 31, 2009 stood at Rs. 10.763 billion and is in compliance with the SBP requirement for the said year. In addition the bank has maintained minimum Capital Adequacy Ratio (CAR) of 16.88 %.

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

- o 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.
- o Tier II capital, which includes general reserve for loan losses, revaluation reserves, exchange translation reserves and subordinated debts.
- o 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.

Notes to the Financial Statements

For the year ended December 31, 2009

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 counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet exposures, 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.

	2009	2008
	Rupees in '000'	
40.2 Tier I Capital		
Fully paid-up capital	10,763,702	8,969,751
General reserves	15,774,856	13,953,671
Unappropriated profits	61,346,510	52,456,204
	<u>87,885,068</u>	<u>75,379,626</u>
Deductions:		
Book value of intangibles	514,805	—
50% of the investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	1,903,236	1,609,489
Total eligible Tier I Capital	<u>85,467,027</u>	<u>73,770,137</u>
Supplementary Capital		
Tier II Capital		
General Provisions subject to 1.25% of Total Risk Weighted Assets	1,913,403	2,111,217
Revaluation Reserve (upto 45%)	12,842,106	9,963,386
Foreign exchange translation reserve	6,906,851	5,987,376
	<u>21,662,360</u>	<u>18,061,979</u>
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	1,903,236	1,609,489
Total eligible Tier II Capital	<u>19,759,124</u>	<u>16,452,490</u>
Tier III Capital	—	—
Eligible Tier III Capital	—	—
Total eligible Capital	<u><u>105,226,151</u></u>	<u><u>90,222,627</u></u>

Notes to the Financial Statements

For the year ended December 31, 2009

40.3 Capital Adequacy Ratio

		2009	2008	2009	2008
		Capital Requirements		Risk Weighted Assets	
Note		Rupees in '000'			
Credit Risk					
Claims on:					
Public sector entities		1,236,955	498,884	12,369,548	5,543,161
Claims on other sovereigns		895,815	—	8,958,147	—
Banks		823,269	868,922	8,232,685	9,654,693
Corporates		20,878,102	18,398,158	208,781,015	204,423,975
Retail portfolio		5,998,571	5,663,301	59,985,712	62,925,571
Loans secured by residential property		643,262	608,970	6,432,618	6,766,331
Past due loans		1,951,915	1,087,289	19,519,150	12,080,993
Investment in fixed assets		2,463,239	2,179,589	24,632,387	24,217,655
Other assets		2,649,929	3,353,199	26,499,288	37,257,766
Off balance sheet - non-market related exposure		5,102,593	5,419,943	51,025,933	60,221,586
Off balance sheet - market related exposure		46,098	58,515	460,976	650,170
Equity exposure risk held in the banking book		3,190,395	226,564	31,903,952	2,517,377
		45,880,141	38,363,335	458,801,411	426,259,278
Market Risk					
Interest rate risk		252,500	311,277	2,524,996	3,458,631
Equity position risk		3,133,888	614	31,338,884	6,822
Foreign exchange risk		3,627,588	2,390,298	36,275,883	26,558,870
		7,0013,976	2,702,189	70,139,763	30,024,323
Operational Risk					
		9,435,491	7,823,774	94,354,910	86,930,821
Total		<u>62,329,608</u>	<u>48,889,298</u>	<u>623,296,084</u>	<u>543,214,422</u>
Capital Adequacy Ratio					
Total eligible regulatory capital held	(a)	40.2	<u>105,226,151</u>	<u>90,222,627</u>	
Total Risk Weighted Assets	(b)	40.3	<u>623,296,084</u>	<u>543,214,422</u>	
Capital Adequacy Ratio	(a) / (b)		16.88%	16.61%	

Notes to the Financial Statements

For the year ended December 31, 2009

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	2009	
	JCR - VIS	PACRA
Corporates	✓	✓
Banks	✓	✓
Sovereigns	✗	✗
SME's	✗	✗
Securitisation	N/A	N/A
Others	N/A	N/A

40.5 Credit Exposures subject to Standardised Approach

Exposures	Rating Category #	2009			2008		
		Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Deduction CRM	Net Amount
		Rupees in '000'					
Cash and Cash Equivalents	-	8,971,972	-	8,971,972	8,259,467	-	8,259,467
Claims on Government of Pakistan	-	238,531,187	-	238,531,187	257,615,538	-	257,615,538
Foreign Currency claims on SBP	-	23,730,560	-	23,730,560	45,608,256	-	45,608,256
Claims on other sovereigns and on GoP	1	25,651,277	-	25,651,277	30,664,369	-	30,664,369
Claims on other sovereigns and on GoP	2,3,4, 5	10,021,636	-	10,021,636	-	-	-
Claims on other sovereigns and on GoP	Unrated	2,355,966	-	2,355,966	-	-	-
PSE's	1	14,321,869	583,950	13,737,919	12,373,662	-	12,373,662
PSE's	Unrated	128,855,820	109,611,891	19,243,929	6,136,857	-	6,136,857
Banks	1,2,3,4, 5	30,404,630	2,386,823	28,017,807	49,421,509	5,968,243	43,453,266
Banks	-	17,588,110	12,334,328	5,253,782	-	-	-
Corporates	1	1,602,261	-	1,602,261	4,228,253	734,028	3,494,225
Corporates	2,3,4	1,211,603	-	1,211,603	250,836	37,303	213,533
Corporates	Unrated	216,282,452	8,885,000	207,397,452	209,443,322	6,347,821	203,095,501
Retail portfolio	Unrated	102,447,635	22,466,686	79,980,949	90,656,761	6,756,000	83,900,761
Secured by residential property	-	18,378,909	-	18,378,909	19,332,375	-	19,332,375
Past due loans	-	17,208,192	-	17,208,192	13,731,834	-	13,731,834
Listed Equity investments - banks	-	30,872,552	-	30,872,552	1,615,733	-	1,615,733
Unlisted equity investments	-	687,600	-	687,600	601,096	-	601,096
Investments in fixed assets	-	24,632,387	-	24,632,387	24,217,655	-	24,217,655
Other assets	-	26,499,288	-	26,499,288	37,257,766	-	37,257,766
		940,255,906	156,268,678	783,987,228	811,415,289	19,843,395	791,571,894

Notes to the Financial Statements

For the year ended December 31, 2009

41. RISK MANAGEMENT

41.1 Credit risk

The bank is exposed to credit risk from the possibility that a borrower or counterparty 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 bank. The goal of credit risk management is to maintain a healthy asset portfolio. In order to achieve this, the bank 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 details approved credit exposure, are reviewed by the risk management division and approved by the Risk Management Committee and the Board of Directors.

Credit Risk Management Wing (CRMW) of the bank formulates risk management tools such as risk rating for various portfolios and devises credit appraisal formats for use by the businesses while initiating credit process. It also provides support related to Basel-II and Risk Management initiatives in the bank. CRMW also Performs portfolio reviews and elevates its findings to the senior management and Board's Risk Management Committee (BRC) in addition to product and policy reviews and risk profile reporting of sectoral, concentration, peer group, top party analysis etc.

The bank 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 (CMG), within the controlling parameters of the SBP's Prudential Regulations. The bank's credit risk policies for loans also apply to credit substitutes. The bank 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. In addition, all loans and advances are secured by acceptable form of collateral to mitigate credit risk.

Bank's primary rating tool is 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 quantitative 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 granting a new loan. Typically, the bank performs an annual credit review of each loan customer and updates the review during the course of the year as circumstances warrant.

Special Assets Management Group (SAMG) is responsible for monitoring the stuck up advances. It negotiates with the borrowers and takes legal actions against the delinquent borrowers. CMG has also established Asset Rehabilitation Unit to proactively manage and revive cases, which show signs of weaknesses, in a timely manner.

Notes to the Financial Statements

For the year ended December 31, 2009

41.1.1 SEGMENTAL INFORMATION

41.1.1.1 Segment by class of business

	2009					
	Advances (Gross)		Deposits		Contingencies & Commitments	
	Rupees in '000'	Percentage %	Rupees in '000'	Percentage %	Rupees in '000'	Percentage %
Chemical and pharmaceuticals	3,155,858	0.59	4,383,462	0.60	883,289	0.38
Agri business	19,982,117	3.76	16,595,353	2.28	181,668	0.08
Textile	71,667,650	13.50	1,852,286	0.25	5,671,852	2.46
Cement	8,935,953	1.68	111,720	0.02	3,091,333	1.34
Sugar	8,897,751	1.68	247,445	0.03	2,570	0.00
Flour	725,523	0.14	95,296	0.01	—	0.00
Rice processing	8,128,369	1.53	570,629	0.08	21,600	0.01
Shoes & leather garments	832,986	0.16	168,712	0.02	77,704	0.03
Automobile and transportation equipment	3,664,429	0.69	2,382,753	0.33	349,284	0.15
Financial	12,557,114	2.37	92,181,661	12.69	13,069,436	5.68
Insurance	—	0.00	2,733,418	0.38	2,755	0.00
Transportation	18,356,185	3.46	3,284,011	0.45	2,028,624	0.88
Real estate construction	7,892,728	1.49	4,841,190	0.67	3,697,647	1.61
Electronics and electrical appliances	7,268,051	1.37	382,878	0.05	2,964,338	1.29
Production and transmission of energy	62,870,800	11.84	7,003,722	0.96	18,725,246	8.14
Food and tobacco	1,581,158	0.30	287,706	0.04	152,677	0.07
Fertilizer	14,460,812	2.72	3,107,764	0.43	2,624,879	1.14
Metal products	16,578,768	3.12	2,143,022	0.29	3,758,002	1.63
Oil, gas, petroleum and energy	23,240,013	4.38	28,292,520	3.89	9,224,722	4.01
Telecommunication	6,468,174	1.22	22,152,846	3.05	4,291,987	1.86
Hotel and services	14,207,851	2.68	24,265,879	3.34	682,960	0.30
Public sector commodity operations	71,800,414	13.53	11,362,613	1.56	6,154,786	2.67
Individuals	83,793,870	15.78	322,648,569	44.41	5,685,090	2.47
General traders	18,422,056	3.47	16,907,841	2.33	1,979,523	0.86
Others	45,373,763	8.54	158,461,529	21.84	144,849,225	62.94
	<u>530,862,393</u>	<u>100.00</u>	<u>726,464,825</u>	<u>100.00</u>	<u>230,171,197</u>	<u>100.00</u>

41.1.1.2 Segment by sector

	2009					
	Advances (Gross)		Deposits		Contingencies & Commitments	
	Rupees in '000'	Percentage %	Rupees in '000'	Percentage %	Rupees in '000'	Percentage %
Public / Government	152,316,629	28.69	268,065,035	36.90	173,094,932	75.20
Private	378,545,764	71.31	458,399,790	63.10	57,076,265	24.80
	<u>530,862,393</u>	<u>100.00</u>	<u>726,464,825</u>	<u>100.00</u>	<u>230,171,197</u>	<u>100.00</u>

Notes to the Financial Statements

For the year ended December 31, 2009

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

	2009		2008	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	Rupees in '000'			
Chemical and Pharmaceuticals	3,800,732	3,659,814	3,883,528	2,793,899
Agri business	2,219,527	846,133	1,601,920	540,640
Textile	22,977,338	19,172,192	17,964,960	15,613,360
Cement	5,125,240	3,798,340	2,505,630	2,205,630
Sugar	2,831,761	1,818,357	1,720,970	1,363,230
Flour	243,413	171,952	179,670	176,500
Rice processing	1,869,188	1,655,499	1,805,700	1,488,930
Shoes & Leather garments	215,215	210,081	264,430	205,260
Automobile and transportation equipment	892,961	868,440	934,510	593,860
Financial	529,021	286,242	105,200	30,200
Transportation/Karobar	2,291,111	1,727,097	1,550,295	925,953
Real estate construction	908,204	493,835	376,188	277,618
Electronics and electrical appliances	2,426,504	1,812,932	1,455,852	819,057
Production & Transmission of Energy	1,685,132	1,452,565	1,147,674	1,119,902
Food and Tobacco	1,291,534	1,122,445	1,074,529	959,330
Fertilizer	379,901	215,508	256,320	251,670
Metal products	1,468,240	312,535	1,402,845	214,262
Hotel and Services	787,130	367,499	531,286	245,691
Telecommunications	1,106,197	107,951	1,014,366	7,792
Individuals	3,013,421	1,466,663	2,358,410	1,332,585
General traders	4,775,725	3,622,476	3,769,805	3,263,592
Others	10,085,578	8,415,492	10,557,693	8,300,986
	<u>70,923,073</u>	<u>53,604,048</u>	<u>56,461,781</u>	<u>42,729,947</u>

41.1.1.4 Details of non-performing advances and specific provision by sector

Public / Government	3,761,716	1,123,449	2,919,805	855,805
Private	67,161,357	52,480,599	53,541,976	41,874,142
	<u>70,923,073</u>	<u>53,604,048</u>	<u>56,461,781</u>	<u>42,729,947</u>

41.1.1.5 Geographical segment analysis

	2009				
	Profit before taxation	Total Advances	Total assets employed	Net assets employed	Contingencies & commitments
	Rupees in '000'				
Pakistan	20,627,152	486,243,638	805,832,422	105,287,439	213,560,716
Asia Pacific (including South Asia)	626,905	21,580,867	38,899,019	8,349,848	8,285,996
Europe	(36,523)	2,038,005	18,950,816	3,161,343	3,520,929
United States of America	290,757	2,788,917	21,943,052	1,857,961	4,744,619
Middle East	791,882	18,210,966	58,607,453	899,787	58,937
	<u>22,300,173</u>	<u>530,862,393</u>	<u>944,232,762</u>	<u>119,556,378</u>	<u>230,171,197</u>

Notes to the Financial Statements

For the year ended December 31, 2009

41.2 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 risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The key objectives of operational risk measurement and management include:

- o Ensuring continued solvency of the bank through capital adequacy and enhanced understanding and management of significant operational risk exposures.
- o Ensuring that customer impact is minimized through proactive and focused risk management practices.
- o Ensuring timely elevation of significant operational risk exposure areas requiring risk mitigation to senior management.

In compliance with the Risk Management Guidelines, issued by SBP, an Operational Risk Management Wing has been established within Risk Management Division (RMD), which directly reports to Head of RMD. The unit has been strengthened by recruiting skilled resources for Operational Risk Management and imparting adequate training to the existing resources.

The bank has developed Operational Risk Management Policy which is incorporated in the Risk Management Policy of the bank duly approved by the Board. An operational risk awareness culture is being encouraged by communicating the principles of risk management through orientation programs for the managers and employees across the bank.

In order to reach compliance with the Operational Risk component of SBP's Minimum Capital Requirement, NBP has adopted the Basic Indicator Approach (BIA). However, the bank intends to gradually migrate from the BIA to the Standardized Approach (TSA) as and when the qualifying criteria is met.

An Operational Loss Database, Risk & Control Self Assessment (RCSA) exercise and Key Risk Indicators (KRIs) are being developed and will subsequently be implemented.

41.3 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 correlation. 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.

Market Risk Management Policy approved by Board covers equity trading, foreign exchange, money market, assets liability Management & Liquidity Risk. Bank's Assets Liability Committee (ALCO) and Credit Committee approve different exposure limits and these limits are implemented by respective business units. Market Risk Wing monitors Market Risk Exposure and Market Risk activities on day to day basis. Currently market risk is focusing on monitoring Net Open Positions, Interest Rate Risk, Revaluation Limits, Mark to Market Limit, Contract Limit, Settlement Limit, Money Market Call Limit, Money Market Reverse Repo Limit, Foreign Currency wise Exposure and Gap Limit.

41.3.1 Foreign Exchange Risk

	2009			Net foreign currency exposure
	Assets	Liabilities	Off-balance sheet items	
	Rupees in '000'			
Pakistan Rupee	776,342,539	650,992,990	(42,346,194)	83,250,068
United States Dollar	106,322,375	121,106,676	19,504,659	4,443,218
Great Britain Pound	8,044,282	11,153,165	3,691,113	582,230
Japanese Yen	8,980,502	8,929,229	(75,391)	(24,118)
Euro	15,111,196	20,044,079	19,225,813	14,292,930
Other currencies	29,431,868	12,450,245	—	16,981,623
	167,890,223	173,683,394	42,346,194	36,275,883
	<u>944,232,762</u>	<u>824,676,384</u>	<u>—</u>	<u>119,525,951</u>

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.

Notes to the Financial Statements

For the year ended December 31, 2009

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.

41.3.2 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:

- o 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.
- o 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.
- o Fluctuation in the shares' prices resulting from their dependence on market sentiment, speculative activity, supply and demand of shares and liquidity in the market.
- o 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.
- o Any government or court order restraining payment of dividend by a company to its shareholders.

The bank mitigates the aforesaid risk as follows:

- o 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.
- o Compliances with the SECP Corporate Governance Rules by the investee company prudent investing practices (focus on dividend payout history).
- o 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.
- o The bank follows a delivery versus payment settlement system thereby minimizing risk in relation to settlement risk.

Notes to the Financial Statements

For the year ended December 31, 2009

41.3.3

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 mark-up / interest rates. The bank 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 bank manages this risk by matching / re-pricing of assets and liabilities. The bank 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 bank monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the bank.

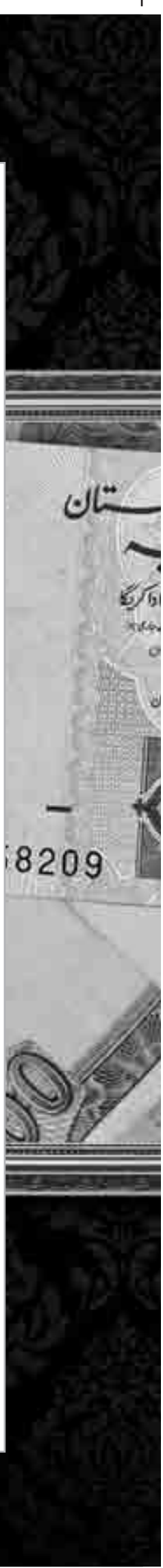
Management of interest rate risk is one of the critical components of market risk management in banks. The bank's net interest income or net interest margin is dependent on the movement of interest rates and mismatches in the cash flows or re-pricing dates. Interest rate risk management includes establishing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

As part of the 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.

2009

	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	0.44%	115,827,868	19,899,677	16,848,820	—	—	—	—	—	—	79,079,371
Balances with other banks	4.09%	28,405,564	12,675,538	7,432,536	1,368,954	1,600	—	—	—	—	4,070,616
Lending to financial Institutions - net	14.99%	19,587,176	17,130,657	475,613	1,980,906	—	—	—	—	—	—
Investments - net	10.38%	217,642,822	11,523,622	27,288,492	45,603,794	7,119,147	10,313,071	3,737,548	13,184,515	19,894,366	32,369,059
Advances - net	12.79%	475,243,431	87,346,814	69,448,579	75,644,502	30,007,513	53,829,524	29,663,448	35,117,203	16,101,067	—
Other assets	0.00%	22,741,983	—	—	—	—	—	—	—	—	22,741,983
		879,448,844	148,576,308	121,494,040	127,090,935	125,057,530	37,128,260	33,400,996	64,142,595	48,301,718	138,261,029
Liabilities											
Bills payable	0.00%	10,621,169	—	—	—	—	—	—	—	—	10,621,169
Borrowings	6.80%	45,278,138	26,890,422	2,698,619	175,334	8,217,846	1,034	2,069	766,883	—	—
Deposits and other accounts	5.60%	726,464,824	356,847,518	52,563,652	55,264,253	1,570,828	8,392,160	1,686,453	9,821	—	212,796,525
Sub-ordinated loans	0.00%	—	—	—	—	—	—	—	—	—	—
Liabilities against assets subject to finance lease	17.10%	42,629	2,379	4,219	8,268	14,386	—	7,835	—	—	—
Other liabilities	0.00%	27,807,595	—	—	—	—	—	—	—	—	27,807,595
		810,214,355	383,740,319	55,266,490	55,447,855	9,803,060	8,393,194	1,696,357	766,883	9,821	251,225,280
		69,234,489	(235,164,011)	66,227,550	69,609,675	27,325,200	55,749,401	31,704,639	47,534,835	35,985,612	(112,964,260)
On-balance sheet gap											
Off-balance sheet financial instruments											
Gross currency swaps		6,914,649	389,377	389,377	778,752	1,557,507	1,852,752	1,557,507	—	—	—
Forward purchase of foreign exchange		87,829,307	42,944,877	39,283,879	88,880	—	—	—	—	—	—
Forward sale of foreign exchange		38,568,464	25,565,502	9,314,702	—	—	—	—	—	—	—
		133,312,420	68,899,756	48,987,958	867,632	1,557,507	1,852,752	1,557,507	—	—	—
Total Yield / Interest Risk Sensitivity Gap		202,546,909	(166,264,255)	115,215,508	92,815,156	70,477,307	57,602,153	33,262,146	47,534,835	35,985,612	(112,964,260)
Cumulative Yield / Interest Risk Sensitivity Gap			(166,264,255)	(51,048,747)	41,766,409	112,243,716	141,126,423	174,388,569	279,525,557	315,511,169	202,546,909

Rupees in '000'



Notes to the Financial Statements

For the year ended December 31, 2009

2008

Effective Yield / Interest rate	Exposed to Yield / Interest risk										Non-interest bearing financial instruments
	Total	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	Above 10 Years	
On-balance sheet financial instruments											
Assets											
1.57%	106,503,756	30,466,388	23,741,430	29	—	—	—	—	—	—	52,295,909
7.35%	38,344,608	20,314,183	11,591,669	2,440,321	673,906	—	—	—	—	—	3,324,529
10.92%	17,128,032	11,479,090	2,748,942	—	2,900,000	8,814,513	4,098,962	9,146,462	3,536,650	583,413	21,536,508
10.55%	170,822,491	43,971,045	64,715,061	11,738,347	2,681,530	6,020,019	12,322,873	3,464,011	104,653	6,414,591	—
11.44%	412,986,865	128,439,703	97,710,479	65,501,295	93,009,241	—	—	—	—	—	—
0.00%	22,414,965	—	—	—	—	—	—	—	—	—	22,414,965
	768,200,717	234,670,409	200,507,581	79,679,992	99,264,677	14,834,532	16,421,835	12,610,473	3,641,303	6,998,004	99,571,911
Liabilities											
0.00%	10,219,061	—	—	—	—	—	—	—	—	—	10,219,061
5.40%	40,458,926	23,620,251	16,224,270	—	183,629	216,819	974,000	70,800	—	—	359,976
3.86%	624,939,016	304,725,549	22,587,557	38,627,748	39,471,223	—	—	3,985,448	500,000	—	213,850,672
10.15%	25,274	—	—	25,274	—	—	—	—	—	—	—
0.00%	29,451,859	—	—	—	—	—	—	—	—	—	29,451,859
	705,094,136	328,345,800	38,811,827	38,653,022	39,654,852	216,819	974,000	4,056,248	500,000	—	253,881,568
On-balance sheet gap											
	63,106,581	(93,675,391)	161,695,754	41,026,970	59,609,825	14,617,713	15,447,835	8,554,225	3,141,303	6,998,004	(154,309,657)
Off-balance sheet financial instruments											
	8,082,780	—	—	—	—	—	—	1,475,890	6,606,890	—	—
	69,361,297	33,665,071	28,050,570	3,258,961	4,386,695	—	—	—	—	—	—
	55,563,737	20,141,567	25,393,431	8,429,125	1,599,614	—	—	—	—	—	—
Off-balance sheet gap											
	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											
	196,114,395	(39,868,753)	215,139,755	52,715,056	65,596,134	14,617,713	15,447,835	10,030,115	9,748,193	6,998,004	(154,309,657)
Cumulative Yield / Interest Risk Sensitivity Gap											
		(39,868,753)	175,271,002	227,986,058	293,582,192	308,199,905	323,647,740	333,677,855	343,426,048	350,424,052	196,114,395

Rupees in '000'

For the year ended December 31, 2009

Liquidity risk is the risk that the bank 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 maintains statutory deposits with central banks inside and outside Pakistan.

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

2009

Notes to the Financial Statements

For the year ended December 31, 2009

2008

	Total	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	Above 10 Years
Assets										
Cash and balances with treasury banks	106,503,756	82,762,297	23,741,430	29	—	—	—	—	—	—
Balances with other banks	38,344,608	23,638,712	11,591,669	2,440,321	673,906	—	—	—	—	—
Lending to financial institutions - net	17,128,032	11,479,091	2,748,941	—	2,900,000	—	—	—	—	—
Investments - net	170,822,491	45,513,318	49,551,424	4,552,586	7,953,849	21,132,154	13,945,026	20,368,725	4,627,948	3,177,461
Advances - net	412,986,865	76,906,008	69,289,869	49,825,748	93,692,185	23,945,962	24,592,275	39,904,633	28,541,411	6,284,774
Operating fixed assets	24,217,655	—	—	—	—	—	—	—	—	24,217,655
Deferred tax assets - net	3,204,572	—	—	—	—	—	—	1,336,227	1,868,345	—
Other assets	44,550,347	12,551,883	8,705,557	4,333,590	120,727	4,572,125	13,830,465	436,000	—	—
	817,758,326	252,851,309	165,628,890	61,156,274	105,340,667	49,650,241	52,367,766	62,045,585	35,037,704	33,679,890
Liabilities										
Bills payable	10,219,061	10,219,061	—	—	—	—	—	—	—	—
Borrowings	40,458,926	24,287,339	11,745,400	758,666	617,883	2,973,667	2,068	73,903	—	—
Deposits and other accounts	624,939,016	474,243,390	43,435,302	59,730,435	37,129,732	1,086,513	2,158,990	6,461,373	671,501	21,780
Sub-ordinated loans	—	—	—	—	—	—	—	—	—	—
Liabilities against assets subject to finance lease	25,274	—	4,762	4,042	7,713	5,841	1,281	1,635	—	—
Deferred tax liabilities - net	—	—	—	—	—	—	—	—	—	—
Other liabilities	39,656,831	17,222,606	—	3,499,130	—	12,637,269	338,772	—	—	5,959,054
	715,299,108	525,972,396	55,185,464	63,992,273	37,755,328	16,703,290	2,501,111	6,536,911	671,501	5,980,834
Net assets	102,459,218	(273,121,087)	110,443,426	(2,835,999)	67,585,339	32,946,951	49,866,655	55,508,674	34,366,203	27,699,056
Share capital	8,969,751									
Reserves	19,941,047									
Unappropriated profit	52,456,204									
Surplus on revaluation of assets - net	21,092,216									
	102,459,218									

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

Notes to the Financial Statements

For the year ended December 31, 2009

42. SUBSEQUENT EVENT

The Board of Directors has proposed a cash dividend of Rs.7.5 per share (2008: Rs. 6.5 per share) amounting to Rs. 8,073 million (2008: Rs. 5,830 million) and bonus shares in the proportion of 25 ordinary shares per 100 ordinary shares held (2008: 20) amounting to Rs. 2,691 million (2008: Rs. 1,794 million) at its meeting held on March 4, 2010 for approval of the members at the annual general meeting to be held on March 31, 2010. These financial statements do not reflect this appropriation as explained in note 5.16.

43. GENERAL

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

44. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on March 4, 2010 by the Board of Directors of the bank.

Chairman & President

Director

Director

Director

