

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

### 1. STATUS AND NATURE OF BUSINESS

Allied Bank Limited (the Bank), incorporated in Pakistan, is a scheduled Bank, engaged in commercial banking and related services. The Bank is listed on all stock exchanges in Pakistan. The Bank operates a total of 766 (2007: 757) branches in Pakistan including the Karachi Export Processing Zone Branch (overseas business unit). The long term credit rating of the Bank assigned by The Pakistan Credit Rating Agency Limited (PACRA) is 'AA'. Short term rating of the Bank is 'A1+'. The Bank is a holding company of ABL Asset Management Company Limited.

The registered office of the Bank is situated in Lahore whereas the principal office is situated at Khayaban-e-Iqbal, Main Clifton Road, Bath Island, Karachi.

### 2. (a) BASIS OF PRESENTATION

- These unconsolidated financial statements represent separate financial statements of the Bank. The consolidated financial statements of the Bank and its subsidiary company are being issued separately.
- In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these unconsolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- For the purpose of translation of US Dollar, the rates of Rs. 79.08 per US Dollar have been used for December 31, 2008.
- The unconsolidated financial statements are presented in Pakistan Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to nearest thousand.

### (b) BASIS OF MEASUREMENT

These unconsolidated financial statements have been prepared under the historical cost convention except that certain assets are stated at revalued amounts/ fair values as disclosed in their respective notes.

### 3. STATEMENT OF COMPLIANCE

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

3.2 The SBP, vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these unconsolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars.

3.3 The following new / revised standards, amendments and interpretations of approved accounting standards are applicable in Pakistan from the dates mentioned below against the respective standard of amendment.

	<b>Effective date (accounting periods beginning on or after)</b>
(i) IAS-1 (Revised) Presentation of Financial Statements *	January 01, 2009
(ii) IAS-23 (Revised) Borrowing Costs	January 01, 2009
(iii) IAS-27 - Consolidated and Separate Financial Statements	January 01, 2009
(iv) IAS-41 - Agriculture	January 01, 2009
(v) IFRS-3 - Business Combinations (Revised)	July 01, 2009
(vi) IFRS-8 - Operating Segments	January 01, 2009
(vii) IFRIC-13 - Customer Loyalty Programs	July 01, 2008
(viii) IFRIC-15 - Agreements for the Construction of Real Estate	January 01, 2009
(ix) IFRIC-16 - Hedges of Net Investment in a Foreign Operation	July 01, 2009
(x) IFRIC-17 - Distributions of Non Cash Assets to Owners	July 01, 2009
(xi) IFRIC-18 - Transfers of Assets from Customers	July 01, 2009

\* Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The change will be effected once enforced by regulators.

The above standards, amendments and interpretations of approved accounting standards effective for accounting period beginning on or after January 1, 2009 are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's unconsolidated financial statements other than certain increased disclosures in certain cases.

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates, judgments and assumptions that effect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the Bank's accounting policies, management has made the following estimates and judgments which are significant to the financial statements.

- (a) classification of investments (Note 5.3)
- (b) valuation of derivatives (Note 5.15.2)
- (c) impairment (Note 5.11)
- (d) recognition of taxation and deferred tax (Note 5.6)
- (e) provisions (Note 5.3, 5.4, 5.12 and 9.3.2)
- (f) accounting for post employment benefits (Note 5.7 and 35); and
- (g) calculation of depreciation, amortization and revaluation of operating fixed assets (Note 5.5)

#### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these unconsolidated financial statements are the same as those applied in the preparation of the unconsolidated financial statements of the Bank for the year ended December 31, 2007 and are enumerated as follows:

##### 5.1 Cash and cash equivalents

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

##### 5.2 Lendings to/borrowings from financial institutions

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

###### (a) Sale under re-purchase agreements

Securities sold subject to a re-purchase agreement are retained in the financial statements as investments and the counter party liability is included in borrowings from financial institutions. The differential in sale and re-purchase value is accrued on a prorata basis and recorded as interest expense.

###### (b) Purchase under resale agreements

Securities purchased under agreement to resell (reverse re-purchase) are included in lendings to financial institutions. The differential between the contracted price and resale price is amortised over the period of the contract and recorded as interest income.

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

##### 5.3 Investments

The Bank at the time of purchase classifies its investment portfolio into the following categories, which are initially recognized at cost, being the fair value of the consideration given including the acquisition cost except the held for trading investments.

###### (a) Held for trading

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

###### (b) Held to maturity

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

###### (c) Available for sale

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

In accordance with the requirements of the SBP, quoted securities, other than those classified as held to maturity and investments in subsidiaries, are carried at market value. Investments classified as held to maturity are required to be carried at amortized cost whereas investments in subsidiaries are carried at cost less impairment losses, if any.

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

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

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

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying value are credited/charged to profit and loss account. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

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

Associates as defined under local statutes but not under IAS are accounted for as ordinary investments.

All "regular way" purchases and sales of investments are recognized on the trade date, i.e., the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of investments that require delivery of assets within the time frame generally established by regulation or convention in the market place.

### 5.4 Advances (including net investment in finance lease)

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

Leases, where the Bank transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessee are classified as finance leases. A receivable is recognized at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Finance lease receivables are included in advances to the customers.

Advances are written off when there are no realistic prospects of recovery.

### 5.5 Operating fixed assets and depreciation

#### Tangible assets

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

Depreciation is calculated using the straight line method, except buildings which are depreciated using the reducing balance method, to write down the cost of property and equipment to their residual values over their estimated useful lives. The rates at which the fixed assets are depreciated are disclosed in note 11.2. The residual values, useful lives and depreciation methods are reviewed and changes, if any, are treated as change in accounting estimates, at each balance sheet date.

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

Surplus arising on revaluation of fixed assets is credited to surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above mentioned surplus account as allowed under the provisions of the Companies Ordinance, 1984. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets, is transferred directly to unappropriated profit (net of deferred tax).

Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from their fair value.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in the profit and loss account in the year the asset is derecognized, except that the related surplus on revaluation of fixed assets (net of deferred tax) is transferred directly to unappropriated profit.

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

#### Intangible assets

Intangible assets are carried at cost less any accumulated amortization and impairment losses, if any. The cost of intangible assets is amortized over their estimated useful lives, using the straight line method. Amortization is charged from the month the assets are available for use at the rate stated in note 11.3. The useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

#### Capital work-in-progress

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

## 5.6 Taxation

### Current

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

### Deferred

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

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

The Bank also recognizes a deferred tax asset/liability on deficit/surplus on revaluation of fixed assets and securities which is adjusted against the related deficit/surplus in accordance with the requirements of IAS-12 "Income Taxes".

## 5.7 Staff retirement and other benefits

### 5.7.1 Staff retirement schemes

#### a) For employees who opted for the new scheme introduced by the management:

An approved pension scheme (defined benefit scheme) under which the benefits on the basis of frozen basic salary service and age as on June 30, 2002 are payable to all employees whose date of joining the Bank is on or before July 01, 1992, i.e., who have completed 10 years of service as on June 30, 2002; and

An approved gratuity scheme (defined benefit scheme) under which the benefits are payable as under:

- i) For members whose date of joining the Bank is on or before July 01, 1992, their services would be calculated starting from July 01, 2002 for gratuity benefit purposes.
- ii) For members whose date of joining the Bank is after July 01, 1992 their services would be taken at actual for the purpose of calculating the gratuity benefit.

A Contributory Provident Fund scheme with the Bank making equal contribution to that made by employees (defined contribution scheme).

#### b) For employees who did not opt for the new scheme, the Bank continues to operate the following:

An approved pension scheme (defined benefit scheme) under which the benefits on the basis of frozen basic salary as on June 30, 2002 are payable to all employees opting continuation of the previous scheme and whose date of joining the Bank is on or before July 01, 1992, i.e., who had completed ten years of service as on June 30, 2002; and

A contributory benevolent fund for all its employees (defined benefit scheme).

#### c) Post retirement medical benefits

The Bank provides post retirement medical benefits to eligible retired employees. Provision is made annually to meet the cost of such medical benefits on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

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

### 5.7.2 Other benefits

#### a) Employees' compensated absences

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

## 5.8 Assets acquired in satisfaction of claims

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

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

### 5.9 Deposits

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

### 5.10 Subordinated loans

Subordinated loans are initially recorded at the amount of proceeds received. Markup accrued on these loans is recognized separately as part of other liabilities and is charged to the profit and loss account on a time proportion basis.

### 5.11 Impairment

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

### 5.12 Provisions

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

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

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

### 5.13 Dividend distributed or appropriated

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

### 5.14 Foreign currencies

#### a) Foreign currency transactions

Transactions in foreign currencies (other than the results of operations of foreign operations discussed in note 5.14.b) are translated into rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at forward rates applicable to their respective maturities.

#### b) Foreign operation

The assets and liabilities of a foreign branch are translated to rupees at exchange rates prevailing at the balance sheet date.

The results of operations of foreign branch are translated to rupees at the average rate of exchange for the year.

#### c) Translation gains and losses

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

#### d) Commitments

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

### 5.15 Financial instruments

#### 5.15.1 Financial assets and liabilities

Financial instruments carried on the balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain receivables, bills payable, borrowings from financial institutions, deposits, sub-ordinated loan and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

#### 5.15.2 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is 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 financial instruments is taken to the profit and loss account.

**5.16 Off setting**

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

**5.17 Revenue recognition**

Revenue is recognized to the extent that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following recognition criteria must also be met before revenue is recognized.

**a) Advances and investments**

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

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

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

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

**b) Lease financing**

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

Gains/losses on termination of lease contracts and other lease income are recognized when realized.

**c) Fees, brokerage and commission**

Fees, brokerage and commission on letters of credit/guarantee are recognized on an accrual basis. Account maintenance and service charges are recognized when realized.

**5.18 Segment reporting**

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

**5.18.1 Business segments**

**a) Corporate finance**

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

**b) Trading and sales**

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

**c) Retail banking**

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

**d) Commercial banking**

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

**e) Payment and settlement**

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

**5.18.2 Geographical segments**

The Bank conducts all its operations, including the operations of EPZ Karachi branch, in Pakistan.

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

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	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>6. CASH AND BALANCES WITH TREASURY BANKS</b>			
<b>In hand</b>			
Local currency		5,230,889	5,532,495
Foreign currencies		530,383	347,435
<b>Remittances in transit</b>		761,989	692,499
<b>With State Bank of Pakistan (SBP) in</b>	6.1		
Local currency current accounts		10,432,813	19,151,260
Foreign currency current account	6.2	1,792	3,055
Foreign currency deposit accounts			
- Non remunerative		851,495	620,930
- Remunerative	6.3	2,554,486	620,930
<b>With National Bank of Pakistan in</b>			
Local currency current accounts		3,251,073	2,726,301
<b>National Prize Bonds</b>		38,834	44,952
		<u>23,653,754</u>	<u>29,739,857</u>

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

6.2 This represents US Dollar Settlement Account maintained with SBP.

6.3 This represents special cash reserve maintained with the SBP. The special cash reserve carries mark-up at the rate of 0.90% (2007: 3.71% and 4.72%) per annum.

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>7. BALANCES WITH OTHER BANKS</b>			
<b>In Pakistan</b>			
On current accounts		284	284
<b>Outside Pakistan</b>			
On current accounts	7.1	2,096,495	668,165
		<u>2,096,779</u>	<u>668,449</u>

7.1 Included in nostro accounts are balances, aggregating to Rs. 372.416 million (2007: Rs. 86.82 million), representing balances held with a related party outside Pakistan.

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>8. LENDINGS TO FINANCIAL INSTITUTIONS</b>			
Call money lendings	8.1	100,000	1,500,000
Letters of placement	8.2	736,000	1,850,000
Repurchase agreement lendings (Reverse Repo)	8.3 & 8.5	14,957,183	12,924,241
Certificates of investment		-	2,145,000
		<u>15,793,183</u>	<u>18,419,241</u>

8.1 This is an unsecured lending to Financial Institution, carrying mark-up at the rate of 15.40% (2007: 10.00% to 12.00%) per annum and will mature on January 02, 2009.

8.2 These are clean placements with Non-Banking Finance Companies, carrying mark-up at rates, ranging between 18.90% and 20.00% (2007: 9.75% and 10.30%) per annum and will mature on various dates, latest by February 02, 2009.

8.3 These are short-term lendings to various financial institutions against the government securities shown in note 8.5 below. These carry mark-up at rates ranging between 10.00 % and 14.90 % (2007: 9.10% and 9.40%) per annum and will mature on various dates, latest by January 31, 2009.

	December 31, 2008	December 31, 2007
	Rupees in '000	
<b>8.4 Particulars of lending</b>		
In local currency	15,793,183	18,419,241
In foreign currencies	-	-
	15,793,183	18,419,241

**8.5 Securities held as collateral against lending to financial institutions**

	December 31, 2008			December 31, 2007		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees in '000					
Market Treasury Bills	14,957,183	-	14,957,183	12,924,241	-	12,924,241

**9. INVESTMENTS**

	December 31, 2008			December 31, 2007		
Note	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
	Rupees in '000					
<b>9.1 Investments by types</b>						
<b>Held-for-trading securities</b>						
Ordinary shares of listed companies	-	-	-	33,860	-	33,860
<b>Available-for-sale securities</b>						
Market Treasury Bills	26,512,476	8,197,541	34,710,017	24,936,479	12,543,383	37,479,862
Pakistan Investment Bonds	445,580	-	445,580	444,758	-	444,758
Ordinary shares/certificates of listed companies	6,672,140	-	6,672,140	1,601,605	-	1,601,605
Preference shares of listed companies	250,000	-	250,000	275,000	-	275,000
Units of open end mutual funds	12,761,149	-	12,761,149	19,606,845	-	19,606,845
Ordinary shares of unlisted companies	544,822	-	544,822	82,099	-	82,099
Ordinary shares of unlisted companies - (related parties)	447,853	-	447,853	451,219	-	451,219
Pre IPO investments	35,000	-	35,000	2,514,900	-	2,514,900
Privately placed investments	-	-	-	1,890,918	-	1,890,918
Sukuk Bonds	2,686,250	-	2,686,250	2,420,000	-	2,420,000
Term finance certificates (TFCs)	7,603,733	-	7,603,733	736,636	-	736,636
	57,959,003	8,197,541	66,156,544	54,960,459	12,543,383	67,503,842
<b>Held-to-maturity securities</b>						
Pakistan Investment Bonds	9,084,116	-	9,084,116	11,108,762	-	11,108,762
Foreign Currency Bonds (US\$)	137,767	-	137,767	160,010	-	160,010
TFCs, Debentures, Bonds and Participation Term Certificates (PTCs)	10,682,356	-	10,682,356	4,903,356	-	4,903,356
	19,904,239	-	19,904,239	16,172,128	-	16,172,128
<b>Subsidiary</b>						
ABL Asset Management Company Limited	500,000	-	500,000	500,000	-	500,000
<b>Investment at cost</b>	78,363,242	8,197,541	86,560,783	71,666,447	12,543,383	84,209,830
<b>Less: Provision for diminution in value of investments</b>	9.3 (1,955,903)	-	(1,955,903)	(192,290)	-	(192,290)
<b>Investments (Net of Provisions)</b>	76,407,339	8,197,541	84,604,880	71,474,157	12,543,383	84,017,540
Unrealized loss on revaluation of Held-for-trading securities	9.5 -	-	-	(1,463)	-	(1,463)
(Deficit) / surplus on revaluation of Available-for-sale securities	9.3.2 & 21.2 (1,973,799)	37	(1,973,762)	(40,628)	(16,986)	(57,614)
	74,433,540	8,197,578	82,631,118	71,432,066	12,526,397	83,958,463

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>9.2. INVESTMENTS BY SEGMENTS:</b>			
<b>Federal Government Securities:</b>			
- Market Treasury Bills	9.2.1& 9.2.2	34,710,017	37,479,862
- Pakistan Investment Bonds		9,529,696	11,553,520
- Foreign Currency Bonds (US\$)		137,767	160,010
- Ijara Sukuk Bonds		100,000	-
<b>Fully Paid up Ordinary Shares:</b>			
- Listed Companies		6,672,140	1,635,465
- Unlisted Companies		992,675	533,318
<b>Units of Open End Mutual Funds</b>		12,761,149	19,606,845
<b>Fully paid up Preference Shares</b>	9.2.3	250,000	275,000
<b>Pre IPO Investments</b>		35,000	2,514,900
<b>Privately placed Investments</b>		-	1,890,918
<b>Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:</b>			
Term Finance Certificates			
-Listed		2,192,350	1,013,140
-Unlisted		12,029,344	1,744,476
Debentures		63,479	65,184
Bonds - Government guaranteed		410,280	410,280
- Others(Sukuk)		6,171,250	4,820,000
Participation Term Certificates		5,636	6,912
<b>Subsidiary</b>		500,000	500,000
<b>Total investments at cost</b>		86,560,783	84,209,830
Less: Provision for diminution in the value of investment	9.3	(1,955,903)	(192,290)
<b>Investments (Net of Provisions)</b>		84,604,880	84,017,540
Unrealized loss on revaluation of Held-for-trading securities	9.5	-	(1,463)
Deficit on revaluation of Available-for-sale securities	9.3.2 & 21.2	(1,973,762)	(57,614)
		82,631,118	83,958,463

**9.2.1** Included herein are Market Treasury Bills having a book value of Rs. 7,866.140 million (2007: Rs.12,231.580 million), given as collateral against repurchase agreement borrowings from financial institutions.

**9.2.2** Included herein are Market Treasury Bills having a face value of Rs.339.800 million (2007: Rs. 339.800 million), held by the SBP and National Bank of Pakistan against Demand Loan and TT/DD discounting facilities sanctioned to the Bank.

**9.2.3** These represent 17,500,000 (2007: 20,000,000) KIBOR plus 2% Cumulative Preference Shares of Masood Textile Mills Limited, with Call Option available to the issuer and Conversion Option available to the Bank, after completion of four years from the date of issue, i.e., June 29, 2005 and 7,500,000 (2007: 7,500,000) KIBOR plus 2.5% Cumulative Preference Shares of Fazal Cloth Mills Limited having redemption term within 60 days after completion of 5 years from the date of issue, i.e., May 13, 2006.

**9.2.4** Information relating to investments in shares of listed and unlisted companies, redeemable capital, debentures and bonds, required to be disclosed as part of the financial statements under SBP's BSD Circular No. 4 dated February 17, 2006, is given in Annexure "F".

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>9.3. Particulars of Provision</b>			
Opening balance		192,290	203,038
Charge for the year	9.3.2	1,783,279	9,130
Reversals		(2,169)	(8,411)
Net charge		1,781,110	719
Amounts written off		(17,497)	(11,467)
Closing balance	9.3.1	1,955,903	192,290

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>9.3.1 Particulars of Provision in respect of Type and Segment</b>			
<b>By Type</b>			
<b>Available-for-sale securities</b>			
Ordinary shares/certificates of listed companies	9.3.2	1,746,173	59,543
Ordinary shares of unlisted companies		48,017	13,873
		1,794,190	73,416
<b>Held-to-maturity securities</b>			
TFCs, Debentures, Bonds and PTCs		161,713	118,874
		1,955,903	192,290
<b>By Segment</b>			
<b>Fully Paid up Ordinary Shares/Certificates:</b>			
- Listed companies		1,746,173	59,543
- Unlisted companies		48,017	13,873
		1,794,190	73,416
<b>Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:</b>			
Bonds		50,000	-
Term Finance Certificates		42,598	46,778
Debentures		63,479	65,184
Participation Term Certificates		5,636	6,912
		161,713	118,874
		1,955,903	192,290

**9.3.2** The Karachi Stock Exchange (Guarantee) Limited ("KSE") placed a "Floor Mechanism" on the market value of securities based on the closing prices of securities prevailing as on August 27, 2008. Under the "Floor Mechanism, the individual security price of equity securities could vary within normal circuit breaker limit, but not below the floor price level. The mechanism was effective from August 28, 2008 and remained in place until December 15, 2008. Consequent to the introduction of "Floor Mechanism" by KSE, the market volume declined significantly during the period from August 27, 2008 to December 15, 2008. There were lower floors on a number of securities at December 31, 2008. The equity securities have been valued at prices quoted on the KSE on December 31, 2008 without any adjustment as allowed by the State Bank of Pakistan (SBP) BSD Circular Letter No. 2 dated January 27, 2009.

Furthermore, SBP BSD Circular No. 4 dated February 13, 2009 has allowed to follow Securities and Exchange Commission of Pakistan (SECP) notification vide SRO 150 (1)/2009 dated February 13, 2009 allowing 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. The amount taken to equity including any adjustment/effect for price movements shall be taken to Profit and Loss Account on quarterly basis during the year ending December 31, 2009.

The amount taken to equity at December 31, 2008 shall be treated as a charge to Profit and Loss Account for the purposes of distribution as dividend.

The impairment loss based on market values as at December 31, 2008 has been determined at Rs. 3,545.891 million. In view of the "Floor Mechanism" as explained above and current economic conditions in the country, the management believes that these are "rare circumstances" and the plunge in equity markets cannot be considered to be a fair reflection of equity values. Since full recognition of impairment for 'Available for Sale' equity securities through Profit and Loss account will not reflect the correct financial performance of the Bank, therefore the management on the basis of their estimates and prudence has made a provision of Rs. 1,686.635 million against the above amount.

The recognition of impairment loss based on the market values as at December 31, 2008 would have had the following effect on these financial statements:

	December 31, 2008
Rupees in '000	
Increase in 'Impairment Loss' in Profit and Loss Account	1,859,256
Decrease in tax charge for the year	650,740
Decrease in profit for the year - after tax	1,208,516
	<b>Rupees</b>
Decrease in earnings per share -after tax (basic and diluted)	1.87
	<b>Rupees '000</b>
Decrease in deficit on revaluation of available for sale securities	1,859,256
Decrease in unappropriated profit	1,208,516

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

### 9.4 Quality of Available for Sale Securities

Information relating to quality of available for sale securities required to be disclosed as part of the financial statements under SBP's BSD Circular No. 4 dated February 17, 2006, is given in Annexure "I".

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>9.5. Unrealized loss on revaluation of investments classified as held for trading</b>			
Ordinary shares of listed companies		-	(1,463)
<b>10. ADVANCES</b>			
Loans, cash credits, running finances, etc. - in Pakistan		215,733,161	170,743,654
Net investment in finance lease - in Pakistan	10.2	768,173	741,148
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,738,019	1,455,922
Payable outside Pakistan		5,400,424	3,256,536
		7,138,443	4,712,458
Financing in respect of continuous funding system (CFS)	10.3	223,639,777	176,197,260
		-	2,327,097
Advances - gross		223,639,777	178,524,357
Provision for non-performing advances	10.5.1	(10,657,709)	(10,103,954)
General provision for consumer financing	10.5.2	(10,060)	(13,123)
Advances - net of provision		212,972,008	168,407,280
<b>10.1 Particulars of advances (Gross)</b>			
<b>10.1.1 In local currency</b>		222,088,283	173,222,434
In foreign currencies		1,551,494	5,301,923
		223,639,777	178,524,357
<b>10.1.2 Short term (for upto one year)</b>		158,648,132	122,134,447
Long term (for over one year)		64,991,645	56,389,910
		223,639,777	178,524,357

### 10.2 Net investment in finance lease

	December 31, 2008				December 31, 2007			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
Rupees in '000								
Lease rentals receivable	339,039	435,861	-	774,900	332,529	374,697	-	707,226
Residual value	34,938	110,452	-	145,390	33,341	108,030	-	141,371
Minimum lease payments	373,977	546,313	-	920,290	365,870	482,727	-	848,597
Financial charges for future periods	(67,925)	(84,192)	-	(152,117)	(63,243)	(44,206)	-	(107,449)
Present value of minimum lease payments	306,052	462,121	-	768,173	302,627	438,521	-	741,148

**10.3** This represents secured financing in respect of purchase of shares from the CFS market. CFS financing is Nil as at December 31, 2008.

- 10.4 Advances include Rs. 13,771.895 million (2007: Rs. 11,354.923 million) which have been placed under non-performing status as detailed below:-

Category of Classification	December 31, 2008								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Other Assets Especially Mentioned *	40,689	-	40,689	-	-	-	-	-	-
Substandard	3,805,228	-	3,805,228	950,134	-	950,134	950,134	-	950,134
Doubtful	722,223	-	722,223	361,111	-	361,111	361,111	-	361,111
Loss	9,203,755	-	9,203,755	9,201,191	-	9,201,191	9,201,191	-	9,201,191
	13,771,895	-	13,771,895	10,512,436	-	10,512,436	10,512,436	-	10,512,436

Category of Classification	December 31, 2007								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Other Assets Especially Mentioned *	32,765	-	32,765	-	-	-	-	-	-
Substandard	1,311,832	-	1,311,832	327,091	-	327,091	327,091	-	327,091
Doubtful	532,967	-	532,967	265,960	-	265,960	265,960	-	265,960
Loss	9,477,359	-	9,477,359	9,365,630	-	9,365,630	9,365,630	-	9,365,630
	11,354,923	-	11,354,923	9,958,681	-	9,958,681	9,958,681	-	9,958,681

\* This represents non-performing portfolio of agricultural financing classified as Other Assets Especially Mentioned as per the requirements of the Prudential Regulation for Agricultural Financing issued by SBP.

#### 10.5 Particulars of provision against non-performing advances

- 10.5.1 This represents provision against non-performing advances amounting to Rs. 10,512.436 million and a provision of Rs. 145.273 million made against Japan Power Generation Limited without changing its status to non-performing as per SBP Directive No. BID (Insp)/722/71-02-2007 dated March 14, 2007.

#### 10.5.2

	Note	December 31, 2008			December 31, 2007		
		Specific	General	Total	Specific	General	Total
		Rupees in '000					
Opening balance		9,958,681	13,123	9,971,804	7,657,737	14,047	7,671,784
Charge for the year		2,246,227	-	2,246,227	3,277,330	-	3,277,330
Reversals		(871,009)	(3,063)	(874,072)	(708,743)	(924)	(709,667)
Charged to profit and loss account		1,375,218	(3,063)	1,372,155	2,568,587	(924)	2,567,663
Amounts written off	10.6.1	(821,463)	-	(821,463)	(267,643)	-	(267,643)
Closing balance		10,512,436	10,060	10,522,496	9,958,681	13,123	9,971,804

#### 10.5.3 Particulars of provisions against non-performing advances

	December 31, 2008			December 31, 2007		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
In local currency	10,512,436	10,060	10,522,496	9,958,681	13,123	9,971,804
In foreign currencies	-	-	-	-	-	-
	10,512,436	10,060	10,522,496	9,958,681	13,123	9,971,804

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>10.6</b>	<b>Particulars of write offs</b>		
<b>10.6.1</b>	Against provisions	821,463	267,643
	Directly charged to Profit and Loss account	2,736	1,187
		824,199	268,830
<b>10.6.2</b>	Write Offs of Rs. 500,000 and above	764,958	193,851
	Write Offs of Below Rs 500,000	59,241	74,979
		824,199	268,830

### 10.7 Details of loan write off of rs. 500,000/- and above

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees and above allowed to a person(s) during the year ended December 31, 2008 is given in Annexure "II". However, this write off does not affect the Bank's right to recover debts from these customers.

		December 31, 2008	December 31, 2007
Rupees in '000			
<b>10.8</b>	<b>Particulars of loans and advances to directors, related parties, etc.</b>		
	Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons		
	Balance at beginning of the year	4,237,006	4,200,854
	Loans granted during the year	1,012,361	791,123
	Repayments	(319,896)	(754,971)
	Balance at end of the year	4,929,471	4,237,006

Details of loans and advances to associates, subsidiary and other related parties are given in note 40.

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>11.</b>	<b>OPERATING FIXED ASSETS</b>		
	Capital work-in-progress	1,544,443	831,962
	Property and equipment	9,483,087	6,678,658
	Intangible assets	106,906	38,008
		11,134,436	7,548,628
<b>11.1</b>	<b>Capital work-in-progress</b>		
	Civil works	975,109	464,465
	Equipment	213,490	81,610
	Advances to suppliers and contractors	355,844	285,887
		1,544,443	831,962

11.2 Property and equipment

Depreciation	Note	Cost/Revaluation			Accumulated Depreciation						Annual rate of depreciation %			
		At January 1, 2008	Additions/ (deletions)	Revaluation Surplus	Write-off	At December 31, 2008	At January 1, 2008	Charge for the year/ adjustment/ (depreciation on deletion)	Revaluation Surplus	Write-off		At December 31, 2008	Net book value at December 31, 2008	
Rupees in ' 000														
Land-Freehold	11.4	3,128,041	567,671	580,263	-	4,275,975	-	-	-	-	4,275,975	-		
Land-Leasehold	11.4	910,161	64,729	449,508	-	1,424,398	-	-	-	-	1,424,398	-		
Buildings-Freehold	11.4	626,545	197,097	-	-	823,642	74,143	31,652	(56,712)	-	49,083	774,559		
Buildings-Leasehold	11.4	1,184,099	207,036	234,835	-	1,625,970	139,889	51,506	(191,395)	-	-	1,625,970		
Furniture and fixtures		386,792	36,678	-	(93,757)	279,013	287,506	20,340	(45,720)	-	(85,947)	176,179	102,834	
Electrical, office and computer equipment		1,500,487	618,733	-	(90,497)	1,920,561	849,179	240,531	(98,524)	-	(90,466)	900,720	1,019,841	14.28 - 50
Vehicles		347,539	103,875	-	(13,310)	234,246	137,226	40,219	(73,992)	-	(10,580)	92,873	141,373	20
Building improvements (rented premises)		111,070	70,270	-	(24,705)	153,915	28,133	23,824	(1,614)	-	(14,565)	35,778	118,137	20
Total		8,194,734	1,866,089	1,264,606	(222,269)	10,737,720	1,516,076	408,072	(248,107)	(201,558)	1,254,633	9,483,087		
			(365,440)					(219,850)						

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

Depreciation	Cost/Revaluation				Accumulated Depreciation				Annual rate of depreciation %			
	At January 1, 2007	Additions/ (deletions)	Revaluation Surplus	Write-off	At December 31, 2007	At January 1, 2007	Charge for the year/ adjustment/ (depreciation on deletion)	Revaluation Surplus		Write-off	At December 31, 2007	Net book value at December 31, 2007
	Rupees in ' 000											
Land-Freehold	2,801,396	341,098 (14,453)	-	-	3,128,041	-	-	-	-	-	3,128,041	-
Land-Leasehold	902,771	7,390	-	-	910,161	-	-	-	-	-	910,161	-
Buildings-Freehold	585,004	41,541	-	-	626,545	42,105	32,038	-	-	74,143	552,402	5
Buildings-Leasehold	953,378	230,721	-	-	1,184,099	94,488	45,401	-	-	139,889	1,044,210	5
Furniture and fixtures	361,256	36,533 (10,997)	-	-	386,792	275,286	20,824 (8,604)	-	-	287,506	99,286	10
Electrical, office and computer equipment	1,149,681	367,850 (17,044)	-	-	1,500,487	703,797	162,299 (16,917)	-	-	849,179	651,308	14.28 - 50
Vehicles	348,509	76,854 (77,824)	-	-	347,539	125,708	57,591 (46,073)	-	-	137,226	210,313	20
Building improvements (rented premises)	52,095	58,975	-	-	111,070	13,320	14,813	-	-	28,133	82,937	20
Total	7,154,090	1,160,962 (120,318)	-	-	8,194,734	1,254,704	332,966 (71,594)	-	-	1,516,076	6,678,658	

### 11.3 Intangible assets

Description	Cost		Accumulated Amortization		Rate of amortization %
	At January 1, 2008	At December 31, 2008	At January 1, 2008 (amortization on deletions)	At December 31, 2008	
Computer software	73,640	81,068	12,170	47,802	14.28
	(Rupees in ' 000)				
	73,640	154,708	35,632	106,906	14.28
Description	Cost		Accumulated Amortization		Rate of amortization %
	At January 1, 2007	At December 31, 2007	At January 1, 2007 (amortization on deletions)	At December 31, 2007	
Computer software	56,890	73,640	27,212	35,632	14.28
	(Rupees in ' 000)				
	56,890	73,640	8,690 (270)	38,008	14.28

- 11.4** As at December 31, 2008, the Bank arranged for valuation of properties from five independent valuers (Akbani & Javed Associates, Progressive Architects & Engineers, Jasper & Jasper, Hasib Associates (Pvt.) Ltd. and Consultancy Support & Services). The revalued amounts of properties have been determined on the basis of Fair Value Model. The revaluation resulted in net increase in the carrying values of the properties by Rs. 1,512.713 million, as at December 31, 2008. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

	December 31, 2008	December 31, 2007
	Rupees in '000	
- Land	3,515,042	1,647,571
- Building	1,332,304	477,795

For information regarding location of revalued properties, refer Annexure III.

- 11.5** Fair value of property and equipment including land and buildings is not materially different from their carrying amount. Land and Buildings were revalued as at December 31, 2008 and are carried at market value.

	Note	December 31, 2008	December 31, 2007
		Rupees in '000	
<b>11.6</b> Effect in the current year on profit and loss account of surplus arising on revaluation of buildings carried out in the year 2005	21.1	26,987	28,408
<b>11.7</b> Restriction/discrepancy in the title of property having a net book value of		71,975	26,311
<b>11.8</b> Carrying amount of temporarily idle property and equipment		24,438	46,978
<b>11.9</b> The gross carrying amount of fully depreciated/amortized assets that are still in use			
Furniture and fixtures		92,172	153,850
Electrical, office and computer equipment		406,480	556,370
Vehicles		12,989	36,799
Intangible assets - software		17,752	4,668
<b>11.10</b> The carrying amount of property and equipment that have retired from active use and are held for disposal		-	134
<b>11.11</b> Fixed assets include a plot at carrying value of Rs. 31 million, which is acquired with the funds of the Bank and held in the name of Mohammad Waseem Mukhtar, a Director of the Bank.			
<b>11.12</b> The details of disposals of assets whose original cost or book value exceeds rupees one million or two hundred and fifty thousand rupees respectively, whichever is lower, are given in Annexure "III".			
<b>11.13</b> Information relating to sale of fixed assets (otherwise than through a regular auction) made to chief executive or a director or an executive or a shareholder holding not less than ten percent of the voting shares of the Bank or any related party, as required by SBP's BSD circular no. 4 dated February 17, 2006, is given in Annexure "III".			

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

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	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>12. DEFERRED TAX ASSETS - NET</b>			
<b>Deferred debits arising in respect of</b>			
Compensated leave absences		244,254	306,312
Provision against:			
Investments		82,293	67,302
Other assets		310,498	246,236
Off balance sheet obligations		169,525	102,736
Post retirement medical benefits		351,653	411,520
Deficit on revaluation of investments	21.2	690,817	20,165
		1,849,040	1,154,271
<b>Deferred credits arising due to</b>			
Surplus on revaluation of fixed assets	21.1	(348,590)	(189,006)
Accelerated tax depreciation / amortization		(423,791)	(219,275)
Excess of investment in finance lease over written down value of leased assets		(47,436)	(83,559)
		(819,817)	(491,840)
		1,029,223	662,431

### 12.1 Reconciliation of deferred tax

	Balance as at January 01, 2007	Recognised in Profit and Loss Account	Recognised in Equity	Balance as at December 31, 2007	Recognised in Profit and Loss Account	Recognised in Equity	Balance as at December 31, 2008
<b>Deferred debits arising in respect of</b>							
Compensated leave absences	323,887	(17,575)	-	306,312	(62,058)	-	244,254
Provision against:							
Investments	48,209	19,093	-	67,302	14,991	-	82,293
Other assets	208,276	37,960	-	246,236	64,262	-	310,498
Off balance sheet obligations	88,804	13,932	-	102,736	66,789	-	169,525
Post retirement medical benefits	368,539	42,981	-	411,520	(59,867)	-	351,653
Deficit on revaluation of investments	6,284	-	13,881	20,165	-	670,652	690,817
	1,043,999	96,391	13,881	1,154,271	24,117	670,652	1,849,040
<b>Deferred credits arising due to</b>							
Surplus on revaluation of fixed assets	(198,948)	9,942	-	(189,006)	9,446	(169,030)	(348,590)
Accelerated tax depreciation/amortization	(109,239)	(110,036)	-	(219,275)	(204,516)	-	(423,791)
Excess of investment in finance lease over written down value of leased assets	(97,643)	14,084	-	(83,559)	36,123	-	(47,436)
	(405,830)	(86,010)	-	(491,840)	(158,947)	(169,030)	(819,817)
	638,169	10,381	13,881	662,431	(134,830)	501,622	1,029,223

**12.2** Through Finance Act 2007, a new section 100A read with the 7th Schedule (the Schedule) was inserted in the Income Tax Ordinance, 2001 for the taxation of banking companies. The Schedule seeks to simplify the taxation of banking companies and is applicable from the tax year 2009 (financial year ending on December 31, 2008).

The 7th Schedule does not contain transitory provisions to deal with the disallowances made upto the year ended December 31, 2007. This issue has been taken up with the tax authorities through Pakistan Bankers Association for formulation of transitory provisions to deal with the items which were previously treated differently under the then applicable provisions.

The deferred tax asset on the deductible temporary differences disallowed as a deduction in the past up to December 31, 2007 is being kept as an asset as the Bank is confident that transitory provisions would be introduced to set out the mechanism of claiming where benefit of these allowances can be claimed.

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>13. OTHER ASSETS</b>			
Income/Mark-up accrued on advances, investments and lendings to financial institutions:			
- in local currency		8,139,139	4,011,197
- in foreign currencies		47,459	88,620
Advances, deposits, advance rent and other prepayments		1,413,853	717,618
Advance taxation (payments less provisions)		6,214,911	4,508,847
Stationery and stamps on hand		36,857	48,038
Prepaid exchange risk fee		-	24
Due from the employees' retirement benefit schemes	35.4	1,500,476	1,278,200
Unrealized gain on forward foreign exchange contracts		-	53,995
Excise duty		11	11
Receivable from SBP - customers encashments		214,858	58,497
Non banking assets acquired in satisfaction of claims	13.1	83,342	-
Suspense account		512,096	622,568
Others		93,827	21,289
		18,256,829	11,408,904
Less: Provision held against other assets	13.2	(887,138)	(703,530)
Other assets (net of provision)		17,369,691	10,705,374
<b>13.1</b>		96,523	-
Market value of non banking assets acquired in satisfaction of claims			
<b>13.2</b>			
<b>Provision against other assets</b>			
Opening balance		703,530	595,075
Charge for the year		214,284	458,206
Reversals		-	(338,627)
Net charge		214,284	119,579
Written off		(30,676)	(11,124)
Closing balance		887,138	703,530
<b>14. CONTINGENT ASSETS</b>			
There were no contingent assets of the Bank as at December 31, 2008 and December 31, 2007.			
<b>15. BILLS PAYABLE</b>			
In Pakistan		2,948,435	3,490,329
Outside Pakistan		4,055	4,055
		2,952,490	3,494,384
<b>16. BORROWINGS</b>			
In Pakistan		27,645,245	22,878,061
Outside Pakistan		132,906	55,595
		27,778,151	22,933,656
<b>16.1 Particulars of borrowings with respect to Currencies</b>			
In local currency		27,645,245	22,878,061
In foreign currencies		132,906	55,595
		27,778,151	22,933,656

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>16.2</b>	<b>Details of borrowings (Secured/Unsecured)</b>		
	<i>Secured</i>		
	Borrowings from financial institutions	-	15,000
	Borrowings from State Bank of Pakistan		
	Under export refinance scheme	7,446,616	4,509,834
	LTF - EOP	3,800,535	4,021,644
		11,247,151	8,531,478
	Repurchase agreement borrowings	7,798,094	12,231,583
	<i>Unsecured</i>		
	Call borrowings	8,600,000	2,100,000
	Overdrawn nostro accounts	132,906	55,595
		8,732,906	2,155,595
		27,778,151	22,933,656

**16.3** The Bank has entered into various agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per agreements, the Bank has granted the SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with the SBP. These carry interest at the rate of 7.5% (2007: 6.5%) per annum. These borrowings are repayable within six months from the deal date.

**16.4** This represents Long Term Financing against Export Oriented Projects (LTF-EOP) availed by the Bank for further extending the same to its customers for export oriented projects, for a maximum period of 7.5 years. The loan repayments to SBP correspond the respective repayment from customers. The loan carries mark-up at the rate of 7% (2007: ranging between 4% and 5%) per annum.

**16.5** These represent funds borrowed from the local interbank market against government securities, carrying mark-up at rates, ranging between 9% and 14% (2007: 9.35% and 10.00%) per annum maturing on various dates, latest by January 13, 2009.

**16.6** These represent unsecured borrowings from the local interbank market, carrying mark-up at rates, ranging between 13.5% and 16.5% (2007: 9.30% and 10.25%) per annum maturing on various dates, latest by April 01, 2009.

	December 31, 2008	December 31, 2007
Rupees in '000		
<b>17.</b>	<b>DEPOSITS AND OTHER ACCOUNTS</b>	
	<b>Customers</b>	
	Fixed deposits	105,939,618
	Savings deposits	72,448,664
	Current accounts - Remunerative	37,830,504
	- Non-remunerative	77,755,031
		293,973,817
	<b>Financial Institutions</b>	
	Remunerative deposits	3,501,504
		9,711,263
		297,475,321
		254,261,119
		263,972,382
<b>17.1</b>	<b>Particulars of deposits</b>	
	In local currency	278,187,770
	In foreign currencies	19,287,551
		297,475,321
		250,079,804
		13,892,578
		263,972,382

	December 31, 2008	December 31, 2007
	Rupees in '000	
<b>18. SUB-ORDINATED LOANS</b>		
Term Finance Certificates - Unsecured	2,498,000	2,499,000

The Bank has issued unsecured sub-ordinated Term Finance Certificates, which will contribute towards Tier II capital for minimum capital requirements (MCR) as per guidelines set by the SBP, under BSD Circular No. 12, dated August 24, 2004, to support the Bank's growth. All the regulatory approvals were obtained in December 2006. Liability to the TFC holders is subordinated to and rank inferior to all other debts of the Bank including deposits and is not redeemable before maturity without prior approval of the SBP. The rate of return is based on the Karachi Interbank Offer Rate (KIBOR) prevailing on the last working day before the beginning of each semi annual redemption period plus 1.9% (no floor, no cap). 0.24% of the principal shall be redeemed in the first 72 months and the remaining principal shall be redeemed in 4 equal semi-annual installments of 24.94% each of the Issue amount respectively, starting from the 78th month.

Other salient features of the issue are as follows:

Total issue :	Rs. 2,500 million
Rating :	A
Listing :	Karachi Stock Exchange (Guarantee) Ltd.
Repayment :	8 Years (2007 – 2014)
Profit payment :	Semi annually in arrears (365 day basis)

	Note	December 31, 2008	December 31, 2007
		Rupees in '000	
<b>19. OTHER LIABILITIES</b>			
Mark-up/Return/Interest payable in local currency		3,670,058	1,226,480
Mark-up/Return/Interest payable in foreign currency		14,180	12,323
Accrued expenses		433,596	366,323
Branch adjustment account		1,393,662	1,807,988
Payable on account of purchase of investments		431,150	251,174
Unrealized loss on forward foreign exchange contracts		179,800	-
Provision for:			
gratuity	35.4	90,845	90,845
employees' medical benefits	35.4	1,277,755	1,175,772
employees' compensated absences	35.12	832,215	875,178
Unclaimed dividends		49,435	25,369
Dividend payable		5,961	6,497
Provision against off-balance sheet obligations	19.1	484,356	293,532
Retention money payable		63,817	35,930
Security deposits against lease		153,910	144,881
Pre IPO proceeds	19.2	3,000,000	-
Others		1,539,876	1,019,767
		<u>13,620,616</u>	<u>7,332,059</u>
<b>19.1 Provision against off-balance sheet obligations</b>			
Opening balance		293,532	253,727
Charge for the year		216,776	41,853
Reversals		(25,952)	(2,048)
Net charge		190,824	39,805
Closing balance		<u>484,356</u>	<u>293,532</u>

The above provision has been made against letters of guarantee issued by the Bank.

**19.2** The Bank is in the process to issue second TFC amounting to Rs. 4 billion out of which, Rs. 3 billion had been raised through Pre IPO and Rs. 1 billion will be offered for subscription through IPO for which SECP approval is awaited. As of December 31, 2008 Rs. 3 billion has been received as Pre IPO proceeds and are included in other liabilities.

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

### 20. SHARE CAPITAL

#### 20.1 Authorized capital

December 31, 2008	December 31, 2007		December 31, 2008	December 31, 2007
No. of shares			Rupees in '000	
1,000,000,000	1,000,000,000	Ordinary shares of Rs.10/- each	10,000,000	10,000,000

#### 20.2 Issued, subscribed and paid-up capital

Fully paid-up Ordinary shares of Rs. 10/- each

December 31, 2008	December 31, 2007	Ordinary shares	December 31, 2008	December 31, 2007
No. of shares			Rupees in '000	
406,780,094	406,780,094	Fully paid in cash	4,067,801	4,067,801
222,035,681	114,308,294	Issued as bonus shares	2,220,357	1,143,083
628,815,775	521,088,388		6,288,158	5,210,884
9,148,550	9,148,550	18,348,550 Ordinary shares of Rs. 10 each, determined pursuant to the Scheme of Amalgamation in accordance with the swap ratio stipulated therein less 9,200,000 Ordinary shares of Rs. 10 each, held by Ibrahim Leasing Limited on the cut-off date (September 30, 2004)	91,486	91,486
8,400,000	8,400,000	8,400,000 Ordinary shares of Rs. 10 each, determined pursuant to the Scheme of Amalgamation of First Allied Bank Modaraba with Allied Bank Limited in accordance with the share swap ratio stipulated therein	84,000	84,000
646,364,325	538,636,938		6,463,644	5,386,370

Ibrahim Fibres Limited and Ibrahim Agencies (Private) Limited, related parties of the Bank, held 261,526,088 (40.46%) and 58,968,382 (9.12%) [(December 31, 2007: 170,379,240 (31.63%) and 47,473,652 (8.81%)] Ordinary shares of Rs.10 each, respectively, as at December 31, 2008.

	Note	December 31, 2008	December 31, 2007
		Rupees in '000	
<b>21. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX</b>			
Surplus/(deficit) arising on revaluation of:			
- fixed assets	21.1	2,833,442	1,507,300
- securities	21.2	(1,282,945)	(37,449)
Surplus on revaluation of assets - net of tax		1,550,497	1,469,851
<b>21.1 Surplus on revaluation of Fixed Assets</b>			
Surplus on revaluation of fixed assets as at January 1		1,696,306	1,738,949
Surplus on revaluation of properties recorded during the year		1,512,713	-
Surplus realized on disposal of revalued properties		-	(14,235)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(17,541)	(18,466)
Related deferred tax liability		(9,446)	(9,942)
	11.6	(26,987)	(28,408)
Surplus on revaluation of fixed assets as at December 31		3,182,032	1,696,306
Less: Related deferred tax liability on :			
Revaluation as at January 1		189,006	198,948
Charge on revaluation during the year		169,030	-
Incremental depreciation charged during the year transferred to profit and loss account		(9,446)	(9,942)
		348,590	189,006
		2,833,442	1,507,300



## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

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### 22.14 Other Contingencies

**22.14.1** The Income tax assessments of the Bank have been finalized up to and including Tax Year 2008 for local operations and Azad Kashmir Operations.

- a) While finalizing income tax assessments up to the assessment year 2000-2001, the Income Tax Authorities made certain add backs with a tax impact of Rs. 219 million. As a result of appeals filed by the Bank before the Appellate Authorities, these add-backs were set-aside with a tax impact of Rs. 125 million. The appeal effect orders with regard to the above matters are pending.
- b) While finalizing income tax assessments from Assessment Year 2001-2002 to Tax Year 2006, the Income Tax Authorities made certain add backs with tax impact amounting to Rs. 6,500 million. As a result of appeals filed by the Bank before the Appellate Authorities, these add-backs were deleted and set-aside, by Appellate Authorities, with tax impact of Rs. 4,102 million and Rs. 2,398 million respectively. The appeal effect orders with regard to the above matters are pending.
- c) The assessment for Tax Year 2007 and 2008 have been finalized with net additional tax liability of Rs. 2,798 million. The Bank has filed appeals against the orders before the Appellate Authority.

Pending the finalization of the above-referred matters, no provision has been made by the Bank in an aggregate sum of Rs. 7,448 million in these unconsolidated financial statements. This sum includes tax liability, aggregating to Rs. 4,102 million, already deleted by the Appellate Authorities. Against most of the deleted and set-aside issues Income Department is in appeal before higher appellate authorities. The management is hopeful that the outcome of these appeals will be in favor of the Bank.

**22.14.2** As a result of a compromise decree granted by the Honourable High Court of Sindh in August 2002, Fateh Textile Mills Limited pledged 16,376,106 shares of ABL with the Bank as security consequent to the default by Fateh Textile Mills Limited on the terms of the decree. The Bank published a notice on June 23, 2004 in accordance with the requirements of section 19(3) of the Financial Institutions (Recovery of Finances) Ordinance, 2001 and invited sealed bids from interested parties to purchase the pledged shares. The bidding process was scheduled for July 23, 2004 and the Bank had fixed a reserve price of Rs. 25 per share. On the bid date, the highest offer for these shares was received at a rate of Rs. 25.51 per share. The bid was approved and the successful bidder had deposited an amount of Rs. 417.75 million with the Bank.

Fateh Textile Mills Limited had filed a suit against the Bank in the High Court of Sindh challenging the sale of the above shares. The High Court had not granted a stay order on the process of sale of shares. However, the matter is still pending in the Court.

### 23. DERIVATIVE INSTRUMENTS

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

- Forward Exchange Contracts
- Foreign Exchange Swaps
- Equity Futures

#### Forward Exchange Contracts (with Importers and Exporters)

Forward Exchange Contract (FEC) is a product which is offered to the obligor who transact internationally. These traders use this product to hedge themselves from unfavorable movements in a foreign currency, however, by agreeing to fix the exchange rate, they do not benefit from favorable movements in that currency.

An FEC is a contract between the Obligor and the Bank in which both agree to exchange an amount of one currency for another currency at an agreed forward exchange rate for settlement more than two business days after the FEC is entered into (the day on which settlement occurs is called the value date). FEC is entered with those Obligors whose credit worthiness has already been assessed.

If the relevant exchange rate moves un-favourably, the Bank will lose money, and Obligor will benefit from that movement because the Bank must exchange currencies at the FEC rate. In order to mitigate this risk of adverse exchange rate movement, the Bank hedges its exposure by taking forward position in inter-bank FX.

#### Foreign Exchange Swaps

A Foreign Exchange Swap (FX Swap) is used by the Bank if it has a need to exchange one currency for another currency on one day and then re-exchange those currencies at a later date. Exchange rates and forward margins are determined in the "interbank" market and fluctuate according to supply and demand.

An FX Swap prevents the Bank from gaining any benefit resulting from a favourable exchange rate movement in the relevant currency pair between the time Bank enters into the transaction deal and when settlement occurs. Cancellation of the swap may also result in exposure to market movements. The key advantage of an FX swap is that it provides the Bank with protection against unfavourable currency movements between the time it enters into the transaction and settlement. The term and amounts for FX Swap can also be tailored to suit the Bank's particular needs.

### Equity Futures

An equity futures contract is a standardized contract, traded on a futures counter of the stock exchange, to buy or sell a certain underlying scrip at a certain date in the future, at a specified price.

The Bank uses equity futures as a hedging instrument to hedge its equity portfolio, in both held for trading and available for sale, against equity price risk. Only selected shares are allowed to be traded on futures exchange. Equity futures give flexibility to the Bank either to take delivery on the future settlement date or to settle it by adjusting the notional value of the contract based on the current market rates. Maximum exposure limit to the equity futures is 10% of Tier I Capital of the Bank.

The accounting policies used to recognize and disclose derivatives are given in note 5.15.2. The risk management framework of derivative instruments is given in note 42.

	December 31, 2008	December 31, 2007
	Rupees in '000	
<b>24. MARK-UP/RETURN/INTEREST EARNED</b>		
On loans and advances	21,942,061	14,471,070
<b>On investments in:</b>		
Available for sale securities	5,176,612	3,332,119
Held to maturity securities	1,442,152	1,465,451
On deposits with financial institutions	6,618,764	4,797,570
On securities purchased under resale agreements	64,456	122,037
On certificates of investment	1,526,640	1,114,717
On letters of placement	45,362	296,385
On call money lending	108,600	205,119
	264,657	194,524
	<u>30,570,540</u>	<u>21,201,422</u>
<b>25. MARK-UP/RETURN/INTEREST EXPENDED</b>		
Deposits	13,978,000	8,673,391
Long term borrowing	202,962	48,289
Securities sold under repurchase agreements	599,629	583,467
Other short term borrowings	1,074,941	408,912
Brokerage and commission	130,467	74,006
Markup on Term Finance Certificates	346,275	304,945
Markup on Pre - IPO proceeds	227,532	-
	<u>16,559,806</u>	<u>10,093,010</u>
<b>26. FEE, COMMISSION AND BROKERAGE INCOME</b>		
Core fees, commission and brokerage	1,977,709	1,654,654
Account maintenance charges	313,750	408,023
	<u>2,291,459</u>	<u>2,062,677</u>
<b>27. GAIN ON SALE OF SECURITIES</b>		
Federal Government Securities		
Market Treasury Bills	-	83
Shares - Listed	42,618	624,782
Shares - Unlisted	-	83,413
Open End Mutual Funds	100,513	720,256
Term Finance Certificates	7,937	10,853
	<u>151,068</u>	<u>1,439,387</u>
<b>28. OTHER INCOME</b>		
Gain on sale of operating fixed assets	9,889	14,297
Miscellaneous	49,265	63,138
	<u>59,154</u>	<u>77,435</u>

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

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	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>29. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, etc.	29.1	4,870,236	3,506,475
Charge for defined benefit plan		2,701	97,778
Contribution to defined contribution plan - provident fund		136,353	128,359
Non-executive directors' fees, allowances and other expenses		1,750	515
Rent, taxes, insurance, electricity, etc.		733,076	599,371
Legal and professional charges		111,181	64,006
Communications		325,706	237,858
Repairs and maintenance		247,748	114,188
Stationery and printing		205,324	131,194
Advertisement and publicity		141,124	157,641
Auditors' remuneration	29.2	9,520	9,277
Depreciation/Amortization	11.2 & 11.3	420,242	341,656
Security service charges		273,423	143,797
Travelling, conveyance and fuel expenses		173,540	139,680
Entertainment		68,420	51,684
Computer expenses		174,832	145,158
Subscription		77,376	21,562
Donations	29.3	81,890	27,698
Others		35,471	26,443
		8,089,913	5,944,340

**29.1** During the year, the Bank offered Voluntary Retirement Scheme (VRS) to its employees. 318 employees of the Bank opted for retirement under this scheme. Total liability for these employees under this scheme for pension, gratuity, leave encashment, medical, benevolent and salary compensation benefits is worked out to Rs. 1,170 million. As a result the Bank has incurred Rs.486 million which is provided by the Bank during the year and is included in salaries, allowances etc.

### 29.2 Auditors' remuneration

	December 31, 2008			December 31, 2007		
	KPMG Taseer Hadi & Co.	M. Yousuf Adil Saleem & Co.	Total	M. Yousuf Adil Saleem & Co.	Ford Rhodes Sidat Hyder & Co.	Total
Rupees in '000						
Audit fee	2,600	2,600	5,200	1,650	1,650	3,300
Special certifications, half yearly reviews and sundry miscellaneous services	1,550	1,980	3,530	2,725	2,230	4,955
Out-of-pocket expenses	156	634	790	558	464	1,022
	4,306	5,214	9,520	4,933	4,344	9,277

**29.3** None of the directors, executives and their spouses had any interest in the donations disbursed during the year except for donation to National Management Foundation where one of the Bank's director is also member of Board of Governors of the organization. Donations paid in excess of Rs. 100,000 to a single party during the year are as follows:

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
The Karachi Education Initiative		40,000	-
National Management Foundation		20,000	20,000
Capital City Police Force		13,990	-
Book group and Zindagi Trust		2,500	-
Care Foundation		1,000	200
Liver Foundation Trust		1,000	2,500
Agha Khan Hospital and Medical College Foundation		1,000	-
Abdus Sattar Edhi Foundation		500	-
Tamir Welfare Organization		500	248
M/s Lahore business Association		500	-
Ms.Mahwish Khan		300	-
Khoj Society for People's Education		250	-
M/s Tehzeeb Social Welfare		250	-
Shaukat Khanum Memorial Cancer Hospital and Research Centre		-	2,500
DHQ Hospital Dera Ghazi Khan		-	2,000
<b>30. OTHER CHARGES</b>			
Penalties imposed by SBP		215,641	256,869
Charge for workers' welfare fund		125,060	-
Education cess		7,000	-
Fixed assets written off		20,711	-
Other assets written off		14,299	-
Investments written off		8,166	-
		<u>390,877</u>	<u>256,869</u>
<b>31. TAXATION</b>			
Current - for the year		1,829,425	1,887,299
- for prior years		-	-
		<u>1,829,425</u>	<u>1,887,299</u>
Deferred		134,829	(10,381)
		<u>1,964,254</u>	<u>1,876,918</u>
<b>31.1 Relationship between tax expense and accounting profit</b>			
Accounting profit for the current year		6,120,940	5,953,076
Tax on income @ 35% (2007 : 35%)		2,142,329	2,083,577
Effect of permanent differences		145,474	170,404
Effect of exempt income		-	(298,268)
Adjustments in respect of tax at reduced rates		(387,161)	(18,824)
Others		63,612	(59,971)
Tax charge for the current year		<u>1,964,254</u>	<u>1,876,918</u>
<b>32. EARNINGS PER SHARE - BASIC AND DILUTED</b>			
		<b>Rupees in '000</b>	
Profit after taxation		4,156,686	4,076,158
		<b>Number of Shares</b>	
Weighted average number of ordinary shares outstanding during the year	32.1	646,364,325	646,364,325
		<b>Rupees</b>	
Earnings per share - basic and diluted		6.43	6.31
There is no dilution effect on basic earnings per share.			
<b>32.1</b>		The comparative figure of weighted average number of shares outstanding has been restated to include the effect of bonus shares issued by the Bank during the year.	

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

	Note	December 31, 2008	December 31, 2007
Rupees in '000			
<b>33. CASH AND CASH EQUIVALENTS</b>			
Cash and balances with treasury banks	6	23,653,754	29,739,857
Balances with other banks	7	2,096,779	668,449
Overdrawn nostro accounts	16	(132,906)	(55,595)
		25,617,627	30,352,711
<b>34. STAFF STRENGTH</b>			
Permanent		8,325	8,181
Temporary/on contractual basis/trainee		102	55
Bank's own staff strength at the end of the year		8,427	8,236
Outsourced		2,681	2,061
Total staff strength		11,108	10,297

### 35. DEFINED BENEFIT PLANS

#### 35.1 General description

The Bank operates a funded gratuity scheme for all employees who opted for the new staff retirement benefit scheme introduced by the management with effect from July 1, 2002. For those employees who did not opt for the new scheme, the Bank continues to operate a funded pension scheme.

The Bank also operates a contributory benevolent fund (defined benefit scheme - funded) and provides post retirement medical benefits (unfunded scheme) to eligible retired employees.

#### 35.2 Number of Employees under the schemes

The number of employees covered under the following defined benefit scheme/plans are:

	December 31, 2008	December 31, 2007
Number		
- Gratuity fund	8,427	8,224
- Pension fund	3,226	3,743
- Benevolent fund	8,215	8,164
- Employees' compensated absences	8,325	8,164
- Post retirement medical benefits	8,325	8,164

#### 35.3 Principal actuarial assumptions

The actuarial valuations were carried out on December 31, 2008 based on the Projected Unit Credit Method, using the following significant assumptions:

	December 31, 2008	December 31, 2007	Sources of estimation
Discount rate	14.00%	10.00%	Yield on investments in Government Bonds
Expected rate of return on plan assets:			
Pension fund	14.00%	12.40%	Yield on investments in Government Bonds
Gratuity fund	14.00%	11.80%	
Benevolent fund	14.00%	11.90%	
Expected rate of salary increase	12.00%	8.00%	Rate of salary increase
Pension indexation rate	7.00%	3.00%	
Medical inflation rate	10.00%	7.00%	
Exposure inflation rate	3.00%	2.00%	

**35.4 Reconciliation of (receivable from) / payable to defined benefit plans**

		December 31, 2008			
Note	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	
Rupees in '000					
Present value of defined benefit obligations	35.6	3,400,000	557,547	474,679	1,521,833
Fair value of plan/scheme's assets	35.7	(4,319,903)	(304,031)	(617,643)	-
Net actuarial (losses) not recognized		(438,865)	(162,671)	(140,452)	(244,078)
		(1,358,768)	90,845	(283,416)	1,277,755
Benefit of the surplus not available to the Bank		-	-	141,708	-
		(1,358,768)	90,845	(141,708)	1,277,755
		December 31, 2007			
Note	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	
Rupees in '000					
Present value of defined benefit obligations	35.6	3,461,993	574,685	557,296	1,624,176
Fair value of plan/scheme's assets	35.7	(5,738,722)	(475,357)	(692,158)	-
Net actuarial gains/(losses) not recognized		1,107,236	(8,483)	(82,552)	(448,404)
		(1,169,493)	90,845	(217,414)	1,175,772
Benefit of the surplus not available to the Bank		-	-	108,707	-
		(1,169,493)	90,845	(108,707)	1,175,772

**35.4.1** The latest actuarial valuation of Benevolent Fund, carried out as at December 31, 2008 highlighted a surplus amounting to Rs. 141.708 million attributable to the Bank. The Bank has maintained 100% provision against it.

**35.4.2** The effect of increase of one percentage point and the effect of decrease of one percentage point in the medical trend rates on the present value of medical obligation as at December 31, 2008 would be Rs. 102.309 million (2007: Rs. 105.745 million) and Rs. 79.223 million (2007: Rs. 88.026 million) respectively.

**35.5 Movement in (receivable from) / payable to defined benefit plans**

		December 31, 2008			
Note	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	
Rupees in '000					
Opening balance		(1,169,493)	90,845	(108,707)	1,175,772
Charge/(reversal) for the year	35.9	(409,849)	97,259	(9,518)	234,041
Contribution to the fund made during the year					
Bank's contribution		-	(109,399)	(34,590)	-
Benefits paid		-	-	-	(171,049)
VRS loss		220,574	12,140	11,107	38,991
		(1,358,768)	90,845	(141,708)	1,277,755

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

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	Note	December 31, 2007			
		Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
		Rupees in '000			
Opening balance		(953,292)	112,570	(78,772)	1,052,971
Charge/(reversal) for the year	35.9	(216,201)	84,299	6,345	208,814
Contribution to the fund made during the year					
Bank's contribution		-	(106,024)	(36,280)	-
Benefits paid		-	-	-	(86,013)
VRS loss		-	-	-	-
Closing balance		(1,169,493)	90,845	(108,707)	1,175,772

### 35.6 Reconciliation of present value of defined benefit obligations

	December 31, 2008			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	Rupees in '000			
Opening balance	3,461,993	574,685	557,296	1,624,176
Current service cost	-	95,882	17,597	47,791
Interest cost	346,199	57,469	55,730	162,418
Benefits paid	(865,854)	(120,150)	(72,261)	(171,049)
VRS loss	340,427	10,140	11,107	11,991
Actuarial (gains) / losses	117,235	(60,479)	(94,790)	(153,494)
Closing balance	3,400,000	557,547	474,679	1,521,833

	December 31, 2007			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	Rupees in '000			
Opening balance	3,295,249	463,564	532,218	1,458,865
Current service cost	-	77,343	19,174	42,926
Interest cost	329,525	46,356	53,222	145,887
Benefits paid	(381,960)	(35,388)	(45,894)	(86,013)
VRS loss	-	-	-	-
Actuarial (gains) / losses	219,179	22,810	(1,424)	62,511
Closing balance	3,461,993	574,685	557,296	1,624,176

### 35.7 Reconciliation of fair value of plan assets

	December 31, 2008			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	Rupees in '000			
Opening balance	5,738,722	475,357	692,158	-
Expected return on plan assets	711,602	56,092	82,367	-
Bank's contribution	-	109,399	34,590	-
Employees' contribution	-	-	34,590	-
Benefits paid	(865,854)	(120,150)	(72,261)	-
Actuarial gains / (losses)	(1,264,567)	(216,667)	(153,801)	-
Closing balance	4,319,903	304,031	617,643	-

	December 31, 2007			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	Rupees in '000			
Opening balance	5,155,897	393,999	610,811	-
Expected return on plan assets	515,590	39,400	61,081	-
Bank's contribution	-	106,024	36,280	-
Employees' contribution	-	-	36,280	-
Benefits paid	(381,960)	(35,388)	(45,894)	-
Actuarial gains / (losses)	449,195	(28,678)	(6,400)	-
Closing balance	5,738,722	475,357	692,158	-

**35.8 Composition of fair value of plan assets**

	December 31, 2008			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	Rupees in '000			
Government securities	1,868,887	14,931	291,113	-
Open end mutual funds	404,796	-	-	-
Listed shares *	495,167	107,871	73,576	-
Bank balances *	1,551,053	181,229	252,984	-
	4,319,903	304,031	617,673	-
* Fair value of Bank's financial instruments included in plan assets				
Shares of ABL	234,419	74,555	6,577	-
Bank balances with ABL	1,551,053	181,229	252,984	-
	1,785,472	255,784	259,561	-

	December 31, 2007			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	Rupees in '000			
Government securities	3,447,938	19,492	335,540	-
Open end mutual funds	-	-	-	-
Listed shares *	1,344,419	166,671	160,354	-
Bank balances *	946,365	289,194	196,264	-
	5,738,722	475,357	692,158	-
* Fair value of Bank's financial instruments included in plan assets				
Shares of ABL	524,607	25,601	-	-
Bank balances with ABL	946,365	289,194	196,264	-
	1,470,972	314,795	196,264	-

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

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### 35.9 Charge for defined benefit plan

	December 31, 2008			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	Rupees in '000			
Current service cost	-	95,882	17,597	47,791
Interest cost	346,199	57,469	55,730	162,418
Expected return on plan assets	(711,602)	(56,092)	(82,367)	-
Actuarial (gains)/losses	(44,446)	-	1,111	23,832
Contributions - employee	-	-	(34,590)	-
Benefit of the surplus not available to the Bank	-	-	33,001	-
	(409,849)	97,259	(9,518)	234,041

  

	December 31, 2007			
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	Rupees in '000			
Current service cost	-	77,343	19,174	42,926
Interest cost	329,525	46,356	53,222	145,887
Expected return on plan assets	(515,590)	(39,400)	(61,081)	-
Actuarial (gains)/losses	(30,136)	-	1,375	20,001
Contributions - employee	-	-	(36,280)	-
Benefit of the surplus not available to the Bank	-	-	29,935	-
	(216,201)	84,299	6,345	208,814

**35.9.1** The effect of increase of one percentage point and the effect of decrease of one percentage point in the medical trend rates on the aggregate of the current service cost and interest cost components of net period post-employment medical costs would be Rs. 9.589 million (2007: Rs. 10.575 million) and Rs. 8.099 million (2007: Rs. 8.803 million) respectively.

	December 31, 2008	December 31, 2007
	Rupees in '000	
<b>35.10 Actual return on plan assets</b>		
- Pension fund	(552,965)	964,785
- Gratuity fund	(160,575)	10,722
- Benevolent fund	(71,434)	54,681

### 35.11 Five year data of defined benefit plan and experience adjustments

	Pension fund				
	2008	2007	2006	2005	2004
	Rupees in '000				
Present value of defined benefit obligation	3,400,000	3,461,993	3,295,249	3,244,547	3,862,879
Fair value of plan assets	(4,319,903)	(5,738,722)	(5,155,897)	(5,475,648)	(5,635,568)
Surplus	(919,903)	(2,276,729)	(1,860,648)	(2,231,101)	(1,772,689)
<i>Experience adjustments on plan obligations / assets</i>					
Actuarial gain / (loss) on obligation	(117,235)	(219,179)	(63,723)	636,805	428,741
Actuarial gain / (loss) on assets	(1,264,567)	449,195	(529,840)	(360,464)	310,488

	Gratuity fund				
	2008	2007	2006	2005	2004
	Rupees in '000				
Present value of defined benefit obligation	557,547	574,685	463,564	376,520	294,852
Fair value of plan assets	(304,031)	(475,357)	(393,999)	(286,159)	(211,816)
Deficit	253,516	99,328	69,565	90,361	83,036
<i>Experience adjustments on plan obligations / assets</i>					
Actuarial gain / (loss) on obligation	60,479	(22,810)	1,848	1,362	101,325
Actuarial gain / (loss) on assets	(216,667)	(28,678)	19,193	(1,362)	7,318
	Benevolent fund				
	2008	2007	2006	2005	2004
	Rupees in '000				
Present value of defined benefit obligation	474,679	557,296	532,218	559,397	545,574
Fair value of plan assets	(617,643)	(692,158)	(610,811)	(563,483)	(504,731)
(Surplus) / deficit	(142,964)	(134,862)	(78,593)	(4,086)	40,843
<i>Experience adjustments on plan obligations / assets</i>					
Actuarial gain / (loss) on obligation	94,790	1,424	51,450	(2,126)	50,519
Actuarial gain / (loss) on assets	(153,801)	(6,400)	(27,417)	2,126	(49,592)
	Post retirement medical				
	2008	2007	2006	2005	2004
	Rupees in '000				
Present value of defined benefit obligation	1,521,833	1,624,176	1,458,865	1,292,221	1,224,870
Fair value of plan assets	-	-	-	-	-
Deficit	1,521,833	1,624,176	1,458,865	1,292,221	1,224,870
<i>Experience adjustments on plan obligations</i>					
Actuarial gain / (loss) on obligation	153,494	(62,511)	(68,312)	-	1,398

### 35.12 Employees' compensated absences

The liability of the Bank in respect of long-term employees' compensated absences is determined, based on actuarial valuation, carried out using the Projected Unit Credit Method. The liability of the Bank as at December 31, 2008, as per the latest actuarial valuation carried out as at December 31, 2008 which, after considering the estimated liability for the current year, amounted to Rs. 832.215 million (2007: Rs. 875.178 million). A charge of Rs. 90.768 million (2007: Rs. 14.521 million) has been provided during the current year.

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

The Bank contributes to the gratuity fund as per actuarial's expected charge for the next one year. Contribution to the benevolent fund is made by the Bank as per rates set out in the benevolent scheme. No contributions are being made to pension fund due to large amount of surplus of fair value of plan's assets over present value of defined obligation. Based on actuarial advice, management estimates that the charge / reversal in respect of defined benefit plans for the year ending December 31, 2009 would be as follows:

	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical
	Rupees in '000			
Expected (reversal) / charge for the next year	(128,161)	151,466	4,062	277,527

### 36. DEFINED CONTRIBUTION PLAN

The Bank operates a contributory provident fund scheme for employees who are covered under the new gratuity scheme. The employer and employee both contribute 8.33% of the basic salaries to the funded scheme every month. Number of employees covered under this plan are 6,776 (2007: 6,745) as on December 31, 2008. During the year, employees made a contribution of Rs. 136.353 (2007: Rs. 128.359) million to the fund. The Bank has also made a contribution of equal amount to the fund.

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

### 37. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Note	President/Chief Executive		Directors		Executives	
		December 31, 2008	December 31 2007	December 31, 2008	December 31 2007	December 31, 2008	December 31, 2007
<b>Rupees in '000</b>							
Fees	37.1	-	-	1,750	515	-	-
Managerial remuneration		12,581	20,570	-	-	300,628	350,120
Charge for defined benefit plans		647	944	-	-	65,874	56,962
Contribution to defined contribution plan		1,048	1,714	-	-	25,042	29,165
Rent and house maintenance		5,661	-	-	-	120,067	151,602
Utilities		1,701	1,555	-	-	29,339	37,111
Medical		640	292	-	-	36,779	45,875
Bonus		1,290	10,161	-	-	165,238	266,227
Conveyance and others		880	733	-	-	40,883	50,863
		<u>24,448</u>	<u>35,969</u>	<u>1,750</u>	<u>515</u>	<u>783,850</u>	<u>987,925</u>
Number of persons	37.2	<u>1</u>	<u>2</u>	<u>11</u>	<u>11</u>	<u>332</u>	<u>436</u>

**37.1** This represents remuneration paid to each director including the outgoing director for attending meetings of the Board of Directors, Audit Committee and other committees held during the year. Each director was paid Rs.25,000 during the year for each meeting attended.

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

### 38. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for securities classified by the Bank as held to maturity. Fair value of unquoted equity investments is determined on the basis of lower of cost and break up value of these investments as per the latest available audited accounts.

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 5.4.

The maturity and repricing profile and effective rates are stated in notes 42.3.1 and 42.2.4 respectively.

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

39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	December 31, 2008				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
	Rupees in '000				
Total Income	299,034	2,009,934	16,148,132	26,717,331	358,691
Total Expenses	(167,616)	(1,914,129)	(13,964,870)	(25,104,215)	(225,606)
Net Income	131,418	95,805	2,183,262	1,613,116	133,085
Segment Assets (Gross)	390,294	16,244,953	98,600,711	264,578,928	376,119
Segment Non Performing Loans	-	-	5,689,068	8,082,827	-
Segment Provision Required	-	-	4,680,643	8,830,170	-
Segment Liabilities	299,451	17,414,760	237,204,188	86,152,876	3,253,303
Segment Return on net Assets (ROA) (%)*	33.67%	0.59%	2.32%	0.63%	35.38%
Segment Cost of Funds (%)*	0.00%	9.55%	7.16%	9.98%	0.00%

	December 31, 2007				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
	Rupees in '000				
Total Income	241,543	1,961,690	9,700,956	19,129,996	190,844
Total Expenses	(123,631)	(1,719,213)	(7,598,087)	(17,591,464)	(116,476)
Net Income	117,912	242,477	2,102,869	1,538,532	74,368
Segment Assets (Gross)	275,683	19,152,721	75,048,673	236,481,289	164,254
Segment Non Performing Loans	-	-	3,643,515	7,711,408	-
Segment Provision Required	-	-	4,172,680	6,840,217	-
Segment Liabilities	177,137	15,070,717	195,095,581	86,283,417	3,604,629
Segment Return on net Assets (ROA) (%)*	42.77%	1.27%	2.97%	0.67%	45.28%
Segment Cost of Funds (%)*	0.00%	7.64%	3.79%	8.41%	0.00%

\*The segment return on net assets and cost of funds are based on average assets and average liabilities for the year.

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

### 40. RELATED PARTY TRANSACTIONS

The Bank has related party relationships with its subsidiary, companies with common directorship, directors and employee benefit plans.

Banking transactions with related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk (i.e., under the comparable uncontrolled price method).

Contributions to the accounts in respect of staff retirement benefits are made in accordance with actuarial valuation (terms of contribution plan).

Details of transactions with related parties except those under the terms of employment and balances with them as at the year end were as follows:

	December 31, 2008					December 31, 2007				
	Directors	Associated Companies	Subsidiary	Key management personnel	Other related parties	Directors	Associated Companies	Subsidiary	Key management personnel	Other related parties
Rupees in '000										
<b>Nature of related party transactions</b>										
<b>Loans</b>										
Loans at the beginning of the year	11,783	-	-	75,899	2,053,508	386	-	-	43,490	-
Loans given during the year	25,612	-	-	152,113	8,907,741	17,686	-	-	42,846	-
Loans repaid during the year	(10,355)	-	-	(22,151)	(7,163,460)	(6,289)	-	-	(10,437)	-
Loans at the end of the year	27,040	-	-	205,861	3,797,789	11,783	-	-	75,899	-
<b>Deposits</b>										
Deposits at the beginning of the year	3,763	87,452	502,788	19,976	2,953	1,701	58,082	-	3,790	-
Deposits received during the year	1,005,141	2,490,881	3,316,103	208,653	5,810,587	4,978,161	1,163,102	1,004,609	139,731	-
Deposits repaid during the year	(1,004,059)	(2,523,251)	(3,818,113)	(216,320)	(5,688,539)	(4,976,099)	(1,133,732)	(501,821)	(123,545)	-
Deposits at the end of the year	4,845	55,082	778	12,309	125,001	3,763	87,452	502,788	19,976	-
Other receivables	-	-	1,140	-	-	-	-	5,740	-	-
Net receivable from										
staff retirement benefit funds	-	-	-	-	1,393,710	-	-	-	-	1,153,044
Staff retirement fund deposits	-	-	-	-	3,317,336	-	-	-	-	1,863,389
Investments in Shares	-	235,969	500,000	-	211,884	-	235,969	500,000	-	47,527
Nostro Balances	-	372,416	-	-	-	-	86,820	-	-	-
Mark-up earned on loans	857	-	-	9,535	410,286	-	-	-	3,152	-
Income on placements	-	1,110	-	-	-	-	-	-	-	-
Income on lendings	-	116	-	-	-	-	-	-	-	-
Dividend income	-	-	-	-	9,855	-	-	-	-	-
Sales commission	-	-	1,140	-	-	-	-	-	-	-
Mark-up expense on deposits	37	-	10,205	170	312,998	67	185	14,690	102	26,003
Interest expense on borrowings	-	468	-	-	-	-	1,374	-	-	-
Directors' meeting fee	1,750	-	-	-	-	515	-	-	-	-
NIFT charges	-	-	-	-	60,662	-	-	-	-	52,213
Bank Charges Levied	-	-	1	5	-	-	-	1	-	-
Charge / (reversal) in respect of staff retirement benefit funds	-	-	-	-	(185,754)	-	-	-	-	2,802

The other balances, held with related parties, outstanding at the end of the current year and transactions made during the year are included in notes 7.1, 20.2 and 37 to these unconsolidated financial statements.

### 41. CAPITAL ASSESSMENT AND ADEQUACY

#### 41.1 Scope of Applications

The Basel II Framework is applicable to the Bank both at the consolidated level (comprising of wholly owned subsidiary - ABL Asset Management Company Limited) and also on a stand alone basis.

#### 41.2 Capital Structure

Banks regulatory capital is analyzed into two tiers:

Tier 1 capital, which includes fully issued, subscribed and paid up capital, balance in share premium account, reserve for bonus issue, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for investments in the equity of subsidiary companies engaged in banking and financial activities and deficit on revaluation of available for sale investments.

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

The Bank has issued unsecured subordinated Term Finance Certificates, which contributes towards Tier II capital for minimum capital requirements (MCR) to support the Bank's growth. All the regulatory approvals were obtained in December 2006. Liability to the TFC holders is subordinated to and ranked inferior to all other debts of the bank including deposits and is not redeemable before maturity without prior approval of the SBP. The rate of return is based on Karachi Interbank Offer Rate (KIBOR) prevailing on the last working day before the beginning of each semi annual redemption period plus 1.9% (no floor, no cap) 0.24% of the principal shall be redeemable in the first 72 months and the remaining principal shall be redeemable in 4 equal semi-annual installments of 24.49% each of the issue amount respectively, starting from the 78th month.

Other salient features of the issue are as follows:

Total Issue	Rs 2,500 million
Rating	A
Listing	Karachi Stock Exchange (Guarantee) Ltd
Repayment	8 years (2007 – 2014)
Profit payment	Semi annually in arrears (365 day basis)

The Bank is in the process of issuing second TFC amounting to Rs. 4 billion out of which, Rs. 3. billion had been raised through the IPO and Rs. 1 billion will be offered for subscription through IPO for which SECP approval is awaited. As of December 31, 2008 Rs. 3 billion was received as Pre IPO proceeds and are included in other liabilities.

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

The required capital is achieved by the Bank through:

- enhancement in the risk profile of asset mix at the existing volume level;
- ensuring better recovery management; and
- maintain acceptable profit margins.

Detail of the Bank's eligible capital (on an unconsolidated basis) is as follows:

	December 31, 2008	December 31, 2007
	Rupees in '000	
	Audited	Un-Audited
<b><i>Tier I Capital</i></b>		
Shareholders' equity /Assigned Capital	6,463,644	5,386,370
Share premium	2,341,322	3,418,596
Reserves	3,463,454	2,632,117
Unappropriated profits (Net of Losses)	8,536,697	6,971,308
Less: Book value of intangibles	(106,906)	(38,008)
Shortfall in provisions required against classified assets irrespective of relaxation allowed	(172,512)	-
Other deductions (represents 50% of investment in subsidiary)	(250,000)	(250,000)
	(529,418)	(288,008)
<b><i>Total Tier I Capital</i></b>	<b>20,275,699</b>	<b>18,120,383</b>
<b><i>Tier II Capital</i></b>		
Subordinated Debt (upto 50% of total Tier 1 Capital)	2,498,000	2,499,000
General Provisions subject to 1.25% of Total Risk Weighted Assets	10,060	13,123
Revaluation Reserve (upto 45%)	533,706	688,593
Less: Investment in a subsidiary company (50%)	(250,000)	(250,000)
<b><i>Total Tier II Capital</i></b>	<b>2,791,766</b>	<b>2,950,716</b>
<b><i>Eligible Tier III Capital</i></b>	-	-
<b>Total Regulatory Capital Base</b>	<b>23,067,465</b>	<b>21,071,099</b>

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

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### 41.3 Capital Adequacy

#### Objectives of Managing Capital

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

Bank's capital management seeks:

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

#### Externally Imposed Capital Requirements

In order to strengthen the solvency of Banks / Development Financial Institutions (DFI), SBP through its BSD Circular No. 19 of 2008 dated September 05, 2008 has asked the Banks to raise their minimum paid up capital to Rs. 5 billion by the end of financial year 2008.

Capital requirement of Rs. 5 billion has to be raised to Rs. 6 billion by the end of financial year 2009. The Banks are expected to increase their minimum paid up capital to Rs 23 billion in a phased manner by the end of financial year 2013.

SBP through its BSD Circular No. 30 dated November 25, 2008 has asked Banks to achieve the minimum Capital Adequacy Ratio (CAR) of 9% on standalone as well as on consolidated basis latest by December 31, 2008. Banks are expected to raise their minimum Capital Adequacy Ratio (CAR) of 9% to 10% by December 31, 2009.

The paid up capital and CAR of the Bank stands at Rs. 6.464 billion and 10.90% of its risk weighted exposure as at December 31, 2008.

The Bank has complied with all externally imposed capital requirements throughout the period.

### 41.4 Risk Weighted Exposures

	Capital Requirements		Risk Weighted Assets	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	Rupees in '000			
	Audited	Un-Audited	Audited	Un-Audited
<b>Credit Risk</b>				
Portfolios subject to standardized approach (Simple or Comprehensive)				
On- Balance Sheet				
(a) Cash and Cash Equivalents	6,562,095	6,617,381	-	-
(b) Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR	84,672,778	85,593,452	-	-
(c) Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan	3,405,981	1,241,860	-	-
(d) Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR	141,964	164,089	141,964	164,089
(e) Claims on Bank for International Settlements, International Monetary Fund, European Central Bank, and European Community	-	-	-	-
(f) Claims on Multilateral Development Banks	-	-	-	-
(g) Claims on Public Sector Entities in Pakistan	26,834,934	11,053,910	4,836,284	3,721,804
(h) Claims on Banks	3,251,356	2,726,585	650,356	545,402
(i) Claims, denominated in foreign currency, on banks with original maturity of 3 months or less	2,096,496	668,165	419,299	133,633
(j) Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR	15,369,450	18,244,047	680,741	1,580,804
(k) Claims on Corporates (excluding equity exposures)	143,535,014	123,966,733	99,465,502	105,842,719
(l) Claims categorized as retail portfolio	50,301,199	29,422,167	36,815,220	20,746,279
(m) Claims fully secured by residential property	4,635,961	4,376,075	1,622,586	1,531,626
(n) Past Due loans:				
1. The unsecured portion of any claim (other than loans and claims secured against eligible residential mortgages as defined in section 2.1 of circular 8 of 2006) that is past due for more than 90 days and/or impaired:				

	Capital Requirements		Risk Weighted Assets	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	Rupees in '000			
	Audited	Un-Audited	Audited	Un-Audited
1.1 where specific provisions are less than 20 per cent of the outstanding amount of the past due claim.	40,689	32,765	61,034	49,148
1.2 where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim.	3,682,715	1,730,531	3,682,715	1,730,531
1.3 where specific provisions are more than 50 per cent of the outstanding amount of the past due claim.	2,564	109,165	1,282	54,583
2. Loans and claims fully secured against eligible residential mortgages that are past due for more than 90 days and/or impaired	-	-	-	-
3. Loans and claims fully secured against eligible residential mortgage that are past due by 90 days and /or impaired and specific provision held thereagainst is more than 20% of outstanding amount	23,788	14,078	11,894	7,039
(o) Listed Equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in the banking book.	4,838,034	22,899,182	4,838,034	22,899,182
(p) Unlisted equity investments (other than that deducted from capital) held in banking book	1,022,387	916,063	1,533,581	1,374,094
(q) Investments in venture capital	-	-	-	-
(r) Investments in premises, plant and equipment and all other fixed assets	11,027,530	7,548,628	11,027,530	7,548,628
(s) Claims on all fixed assets under operating lease	-	-	-	-
(t) All other assets	4,638,410	2,765,572	4,638,410	2,765,572
	<b>366,083,345</b>	<b>320,090,448</b>	<b>170,426,432</b>	<b>170,695,133</b>
Off- Balance Sheet - Non Market related Exposures				
Direct Credit Substitutes/ Lending of securities or posting of securities as collateral	13,352,386	12,271,071	9,796,023	6,871,188
Trade Related contingencies/Other Commitments with original maturity of one year or less	75,991,802	83,037,690	8,757,607	9,759,882
	89,344,188	95,308,761	18,553,630	16,631,070
<b>Equity Exposure Risk in the Banking Book</b>				
Equity portfolio subject to market-based approaches				
Under simple risk weight method	21,915,013	15,762,222	180,523	150,121
<b>Total Credit Risk (A)</b>	<b>477,342,546</b>	<b>431,161,431</b>	<b>189,160,585</b>	<b>187,476,324</b>
<b>Market Risk</b>				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	-	-	-	-
Equity position risk etc.	-	5,184	-	64,800
	-	5,184	-	64,800
Capital Requirement for portfolios subject to Internal Models Approach				
Interest rate risk	10,405	9,309	130,060	116,361
Foreign exchange risk etc.	10,405	9,309	130,060	116,361
<b>Total Market Risk (B)</b>	<b>10,405</b>	<b>14,493</b>	<b>130,060</b>	<b>181,161</b>
<b>Operational Risk</b>				
Basic Indicator Approach-Total of operational risk (C)	1,792,020	1,413,190	22,400,253	17,664,875
<b>TOTAL of A + B + C</b>	<b>479,144,971</b>	<b>432,589,114</b>	<b>211,690,898</b>	<b>205,322,360</b>
			<b>December 31, 2008</b>	<b>December 31, 2007</b>
			<b>Audited</b>	<b>Un-Audited</b>
<b>Capital Adequacy Ratio</b>				
Total eligible regulatory capital held (Note 41.2)	(a)		23,067,465	21,071,099
Total Risk Weighted Assets (Note 41.3)	(b)		211,690,898	205,322,360
Capital Adequacy Ratio	(a) / (b)		10.90%	10.26%

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

### 42. RISK MANAGEMENT

The Risk Management Framework (the Framework) provides principles for identifying, assessing, and monitoring risk within the Bank. The Framework specifies the key elements of the risk management process in order to maximise opportunities, to minimise adversity and to achieve improved outcomes and outputs based on informed decision making.

#### Categories of Risk

The Bank generates most of its revenues by accepting Credit, Country, Liquidity and Market Risk. Effective management of these four risks is the decisive factor in our profitability. In addition, the Bank is subject to certain consequential risks that are common to all business undertakings. These risks are grouped under two headings: Operational and Reputational Risk. The Framework is organized with reference to these five risk categories, as detailed below:

#### Credit Risk

This risk is defined as the possibility of loss due to unexpected default or a deterioration of credit worthiness of a business partner.

Credit Risk includes Country Risk i.e., the risks that counterparty is unable to meet its foreign currency obligations as a result of adverse economic conditions or actions taken by governments in the relevant country.

#### Market Risk

The risk of loss generated by adverse changes in the price of assets or contracts currently held by the Bank (this risk is also known as price risk).

#### Liquidity Risk

The risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn; the consequences of which may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

#### Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. The definition excludes reputational risk.

#### Reputational Risk

The risk of failing to meet the standards of performance or behavior required or expected by stakeholders in commercial activities or the way in which business is conducted.

#### Risk Responsibilities

- The Board of Directors is accountable for overall supervision of the risk management process. This is discharged by distributing responsibilities at Board level for their management and determining the manner in which risk authorities are set. The Board is also responsible for approval of all risk policies and ensuring that these are properly implemented. Further, the Board shall also seek appointment of senior management personnel capable of managing the risk activities conducted by the Bank.
- The Board Risk Management Committee (BRMC) is responsible for ensuring that the overall risk strategy and appetite of the Bank is appropriately defined in the Strategic Plan and recommend the same to the Board of Directors.
- The BRMC recommends for approval to the Board of Directors the policies proposed by MANCO (Management Committee of the Bank) which discharges various responsibilities assigned to it by the BRMC.
- The CEO and Group Chiefs are accountable for the management of risk collectively through their membership of risk committees, i.e., Management Committee and the Asset & Liability Committee. Independent supervision of risk management activities is provided by the Audit Committee.
- The Risk Management Group is headed by a Group Chief responsible to set-up and implement the Framework of the Bank.

#### Risk Management Group Organization

Risk management functions have been segregated by business specialization, i.e., Credit Risk, Credit Administration, Risk Architecture, Risk Analytics, Operational Risk and Market Risk. All these functions are operating in tandem to improve and maintain the health of assets and liabilities.

### 42.1 Credit Risk

Credit risk, the potential default of one or more debtors, is the largest source of risk for the Bank. The Bank is exposed to credit risk through its lending and investment activities. The Bank's credit risk function is divided into Corporate and Financial Institutions Risk, Commercial and Retail Risk, and Consumer Risk. The functions operate within an integrated framework of credit policies, guidelines and processes. The credit risk management activities are governed by the Credit Risk Framework of the Bank that defines the respective roles and responsibilities, the credit risk management principles and the Bank's credit risk strategy. Further Credit Risk Management is supported by a detailed Credit Policy and Procedural Manual.

- The Bank manages 3 principal sources of credit risk:
- i) Sovereign credit risk on its public sector advances
  - ii) Non-sovereign credit risk on its private sector advances
  - iii) Counterparty credit risk on interbank limits

#### **Sovereign Credit Risk**

When the Bank lends to public sector borrowers, it prefers obtaining a full sovereign guarantee or the equivalent from the Government of Pakistan (GOP). However, certain public sector enterprises have a well defined cash flow stream and appropriate business model, based on which the lending is secured through collaterals other than GOP guarantee.

#### **Non-Sovereign Credit Risk**

When the Bank lends to private sector borrowers it does not benefit from sovereign guarantees or the equivalent. Consequently, each borrower's credit worthiness is analyzed on the Credit Application Package that incorporates a formalized and structured approach for credit analysis and directs the focus of evaluation towards a balanced assessment of credit risk with identification of proper mitigates. These risks include Industry Risk, Business Risk, Financial Risk, Security Risk and Account Performance Risk. Financial analysis is further strengthened through use of separate financial spreadsheet templates that have been designed for manufacturing/trading concerns, financial institutions and insurance companies.

#### **Counter Party Credit Risk on Interbank Limits**

In the normal course of its business, the Bank's Treasury utilizes products such as Reverse REPO and call lending to meet the needs of the borrowers and manage its exposure to fluctuations in market, interest and currency rates and to temporarily invest its liquidity prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty in the transaction may be unable to meet its obligation to the Bank.

Reflecting a preference for minimizing exposure to counterparty credit risk, the Bank maintains eligibility criteria that link the exposure limits to counterparty credit ratings by external rating agencies. For example, the minimum rating for counterparties to be eligible for a banking relationship with the Bank is BBB.

#### **Country Risk**

The Bank has in place a Country Risk Management Policy which has been approved by the Board. This policy focuses on international exposure undertaken by the Bank. The Bank utilizes country risk rating assessment reports published by Dun & Bradstreet Limited (an international credit rating agency) which use political, commercial, macroeconomic and external risk factors in assigning a country risk rating. The country risk limits used by the Bank are linked to the Dun & Bradstreet ratings and FID is responsible for monitoring of country exposure limits.

#### **Credit Administration**

Credit Administration is involved in minimizing losses that could arise due to security and documentation deficiencies. The Credit Administration Division constantly monitors the security and documentation risks inherent in the existing credit portfolio through six regional credit administration departments located all over the country.

#### **Risk Analytics**

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within a framework of Borrower, Group and Sector exposure limits and risk profile benchmarks.

#### **Internal Risk Rating Models**

The Bank has developed internal risk rating models to assign credit risk ratings to its Corporate and Institutional borrowers. These models are based on expert judgment, comprising of both quantitative and qualitative factors. The ratings are assigned at Risk Analytic's Level and are given due weightage while extending credit to these asset classes. The Bank intends to comply with the requirements of Foundation Internal Ratings Based approach for credit risk measurement under Basel II, for which services of a consultant have been solicited to assist the Bank in carrying out statistical testing and validation of the rating models.

#### **Stress Testing**

The Bank is also conducting stress testing of its existing portfolio, which includes all assets, i.e., advances as well as investments. This exercise is conducted on a semi-annual basis through assigning shocks to all assets of the Bank and assessing its resulting affect on capital adequacy.

#### **Early Warning System**

In order to ensure that monitoring of the regular lending portfolio focuses on problem recognition, an early warning system in the form of a 'Watch-List' category has been instituted to cover the gap between Regular and Substandard categories. Identification of an account on the said 'Watch-List' influences the lending branch to carry out an assessment of the borrower's ability to rectify the identified problem / weakness within a reasonable time-frame, consider tighter structuring of facilities, confirm that there are no critical deficiencies in the existing security position and, if possible, arrange for strengthening of the same through obtaining additional collateral. It should however, be noted that the Watch-List category of accounts is part of the Bank's Regular portfolio and does not require any provisioning.

In some cases, an account may even be downgraded directly from a Regular to Sub-Standard or worse on subjective basis based on the severity of the trigger involved.

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

### Management of Non Performing Loans

The Bank has a Special Asset Management Group (SAM), which is responsible for management of non performing loans. SAM undertakes restructuring / rescheduling of problem loans, as well as litigation both civil and criminal for collection of debt.

For the non-performing loan portfolio, the Bank makes a specific provision based on an assessment of the credit impairment of each loan. At the end of 2008, the average specific provisioning rate was 76.33% of the non-performing loan portfolio.

The accounting policies and methods used to determine specific and general provision are given in the note numbers 5 and 10 to these financial statements. The movement in specific and general provision held is given in note 10.5 to these financial statements.

### Portfolio Diversification

During the year 2008, the advances grew by 25.27%, while concomitantly maintaining healthy Advances to Deposit Ratio and Capital Adequacy Ratio.

While expanding the advances portfolio, efficient portfolio diversification has been a key consideration. The diversification takes into account the volatility of various sectors by placing concentration limits on lending to these sectors thereby ensuring a diversified advances portfolio. Composition of the Bank's advance's portfolio is significantly diversified. Textile, Cement, Agriculture and Electric Generation are major contributors to the advances portfolio. These sectors are considered to be the biggest contributors towards country's GDP as well.

#### 42.1.1 Segmental Information

##### 42.1.1.1 Segments by class of business

	December 31, 2008					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture	21,816,521	9.76	15,900,662	5.35	169,426	0.13
Cement/clay/ceramics	13,173,582	5.89	1,991,781	0.67	442,219	0.35
Electric generation	29,926,356	13.38	10,338,890	3.48	547,640	0.43
Financial institutions	5,523,694	2.47	569,571	0.19	25,905,623	20.55
Food manufacturing	17,144,935	7.67	7,192,695	2.42	-	-
Individuals	5,453,112	2.44	76,943,516	25.87	1,237,277	0.98
Iron steel	3,182,380	1.42	5,417,184	1.82	1,828,282	1.45
Oil and gas etc.	10,570,349	4.73	16,072,777	5.40	41,796,605	33.16
Sugar	4,385,709	1.96	1,607,156	0.54	82,220	0.07
Textile	45,225,877	20.22	11,405,959	3.83	2,226,772	1.77
Transport, storage and communication	8,091,774	3.62	3,303,211	1.11	10,799	0.01
Wholesale and retail trade	10,600,915	4.74	19,983,812	6.72	1,739,037	1.38
Others	48,544,573	21.70	126,748,107	42.60	50,074,878	39.72
	<u>223,639,777</u>	<u>100.00</u>	<u>297,475,321</u>	<u>100.00</u>	<u>126,060,778</u>	<u>100.00</u>

##### 42.1.1.2 Segments by sector

	December 31, 2008					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	37,408,776	16.73	34,483,785	11.59	5,299,893	4.20
Private	186,231,001	83.27	262,991,536	88.41	120,760,885	95.80
	<u>223,639,777</u>	<u>100.00</u>	<u>297,475,321</u>	<u>100.00</u>	<u>126,060,778</u>	<u>100.00</u>

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

	December 31, 2008		December 31, 2007	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Rupees in '000				
Agriculture	260,493	193,047	334,558	281,122
Chemical	152,525	152,525	192,307	188,119
Food manufacturing	310,768	276,518	351,984	350,784
Individuals	158,040	154,736	189,258	179,645
Textile	2,147,402	1,478,023	1,590,827	1,121,628
Transport, storage and communication	1,103,752	988,150	945,536	732,655
Wholesale and retail trade	745,859	622,120	624,336	575,361
Others	8,893,056	6,647,317	7,126,117	6,529,367
	13,771,895	10,512,436	11,354,923	9,958,681

**42.1.1.4 Details of non-performing advances and specific provisions by sector**

	December 31, 2008		December 31, 2007	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Rupees in '000				
Public/Government	689,039	276,270	506,947	322,828
Private	13,082,856	10,236,166	10,847,976	9,635,853
	13,771,895	10,512,436	11,354,923	9,958,681

**42.1.1.5 Geographical Segment Analysis**

	December 31, 2008			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and Commitments
Rupees in '000				
Pakistan	6,120,940	366,680,192	22,355,614	126,060,778

**42.1.2 Credit Risk - General Disclosures**

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

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

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

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

**Selection of ECAIs**

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

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

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

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

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

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

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

### Use of ECAI Ratings

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

### Mapping to SBP Rating Grades

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

#### Long – Term Rating Grades Mapping

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

#### Short – Term Rating Grades Mapping

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

#### Types of exposures and ECAI's used

December 31, 2008

Exposures	JCR-VIS	PACRA	FITCH	Standard & Poors
Corporate	Yes	Yes	-	-
Banks	Yes	Yes	Yes	Yes
Sovereigns	-	-	-	-
SME's	-	-	-	-
Securitized	-	-	-	-
Others	Yes	Yes	-	-

**Credit exposures subject to Standardized Approach**

Exposures	Rating Category	December 31, 2008						December 31, 2007					
		Rupees in '000											
		Audited			Un-Audited								
		Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Deduction CRM	Net Amount
Corporate	1	40,438,519	-	40,438,519	12,674,906	-	12,674,906	12,674,906	-	12,674,906	15,008,178	-	15,008,178
	2	19,084,894	-	19,084,894	6,948,760	480,000	6,468,760	6,948,760	480,000	6,468,760	-	-	-
	3, 4	1,036,060	-	1,036,060	-	-	-	-	-	-	-	-	-
	5, 6	37,500	-	37,500	-	-	-	-	-	-	-	-	-
Claims on banks with original maturity of 3 months or less		15,369,450	11,965,747	3,403,703	18,244,047	10,340,025	7,904,022	18,244,047	10,340,025	7,904,022	29,422,167	1,760,462	27,661,705
Retail		50,301,199	1,214,239	49,086,960	29,422,167	1,760,462	27,661,705	29,422,167	1,760,462	27,661,705	6,017,169	-	6,017,169
Public sector entities	1	9,244,319	-	9,244,319	6,017,169	-	6,017,169	6,017,169	-	6,017,169	129,521,256	-	129,521,256
Others		129,521,256	-	129,521,256	137,039,907	-	137,039,907	137,039,907	-	137,039,907	101,050,148	13,810,774	87,239,374
Unrated		101,050,148	13,810,774	87,239,374	94,735,314	-	94,735,314	94,735,314	-	94,735,314			

**42.1.2.2 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach**

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

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

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

**42.2 Equity position risk in the banking book**

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

**Classification of investments**

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

**Policies, valuation and accounting of equity investments**

In accordance with the requirements of the SBP, quoted securities are carried at market value whereas investments in subsidiaries are accounted for in accordance with the relevant International Accounting Standard as applicable in Pakistan.

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

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying value are credited / charged to profit and loss account. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any. Provision for diminution in the value of securities is made after considering impairment, if any, in their value.

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

## Notes to the Unconsolidated Financial Statements for the year ended December 31, 2008

### Composition of equity investments

	Held for Trading	Available for Sale	Investment in Subsidiary
	Rupees in '000		
Equity Investments - Publicly Traded	-	6,672,140	-
Equity Investments - Others	-	992,675	500,000
Total Value	-	7,664,815	500,000

The cumulative realized gain / (loss) arose of Rs. 151,068 from sale of equity securities; however unrealized loss of Rs. 1,973.762 million was recognized in the balance sheet in respect of "AFS" securities.

#### 42.2.1 Market Risk

The Bank is exposed to Foreign Exchange Rate Risk, Interest Rate Risk and Equity Price Risk.

Market Risk Function has been partially set up with current responsibility of performing basic market risk measurement, monitoring and control functions. However, to give it a formal structure, the Bank has appointed services of a foreign risk advisory firm for assistance in establishment of Market Risk Management Framework.

#### Market Risk Pertaining to the Trading Book

##### Trading Book

A trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book, financial instruments must be held with the intent of trading and free of any restrictive covenants on their tradability. In addition, positions need to be frequently and accurately valued and the portfolio should be actively managed.

The Bank's trading book includes equity securities classified as 'Held for Trading'. These positions are actively managed by the capital market desk. Bank's trading book constitutes capital market equities therefore, they are exposed to equity price risk.

#### Risk Pertaining to Banking Book Investment Portfolio

All investments excluding trading book are considered as part of banking book. Banking book includes:

- i) Available for sale securities
- ii) Held to maturity securities
- iii) Other strategic investments

Treasury investments parked in the banking book include:

- i) Government securities
- ii) Capital market investments
- iii) Strategic investments
- iv) Investments in bonds, debentures, etc

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

#### Interest Rate Risk – Banking Book

Government securities (PIBs & T-Bills) and other money market investments are subject to interest rate risk. To capture the risk associated with these securities extensive modeling is being done with respect to duration analysis. Stress testing and scenario models are also in place to capture the sensitivity of the portfolio to adverse movement in interest rates. For prudent risk management, all money market investments are marked to market to assess changes in the market value of investments due to interest rate movements.

#### Equity Position Risk – Banking Book

The Bank's portfolio of equity securities categorized under 'Available for Sale' and 'Strategic Investments' are parked in the banking book. These investments expose the Bank to equity price risk.

#### Stress Testing

The Bank also conducts Stress Testing of the Bank's investment portfolio to ascertain the impact of various scenarios on the capital adequacy and sustainability of the Bank. The exercise assumes various stress conditions, with respect to Market Risk (Rise or Fall in Interest Rates, leading to interest rate risk), Equity Price Risk resulting from Stock Market movements, FX Rate Risk leading from adverse movements in exchange rates and Liquidity Risk (ability to meet short-term obligations if there is a run on deposits).

#### Duration GAP Analysis

A Duration Gap Analysis is also conducted to ascertain the duration gap between the Bank's assets and liabilities, to ascertain the effect of interest rate shifts on the market value of equity.

#### 42.2.2 Foreign Exchange Risk

Foreign Exchange Risk is the risk of loss arising from fluctuations of exchange rates. Our FX Risk is first controlled through substantially matched funding policy. On the mismatched exposures, the Bank utilizes appropriate derivative instruments such as Forwards and Swaps.

The majority of net foreign currency exposure is in US Dollars. The Bank is carefully monitoring the net foreign currency exposure and the effect of exchange rate fluctuations by conducting sensitivity analysis and stress testing, as well as utilizing the currency forwards and swaps to hedge the related exposure.

December 31, 2008				
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure	
Rupees in '000				
Pakistani Rupee	358,868,096	324,577,931	(12,072,386)	22,217,779
United States Dollar	7,002,496	16,854,494	9,930,518	78,520
Great Britain Pound	175,994	1,356,917	1,185,627	4,704
Japanese Yen	9	861	-	(852)
Euro	574,739	1,530,503	958,568	2,804
Other Currencies	58,858	3,872	(2,327)	52,659
	7,812,096	19,746,647	12,072,386	137,835
	366,680,192	344,324,578	-	22,355,614

  

December 31, 2007				
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure	
Rupees in '000				
Pakistani Rupee	312,239,093	286,223,313	(6,234,724)	19,781,056
United States Dollar	7,308,529	11,721,695	4,420,146	6,980
Great Britain Pound	195,844	1,429,445	1,215,538	(18,063)
Japanese Yen	757	96	-	661
Euro	253,484	855,939	601,343	(1,112)
Other Currencies	112,016	993	(2,303)	108,720
	7,870,630	14,008,168	6,234,724	97,186
	320,109,723	300,231,481	-	19,878,242

#### 42.2.3 Equity Position Risk

The Board with the recommendations of ALCO approves exposure limits applicable to investments in Trading Book. Equity securities are perpetual assets and are classified under either Held for Trading Portfolio or Available for Sale Portfolio.

##### Concentration Risk

ALCO is responsible for making investment decisions in the capital market and setting limits that are a component of the risk management framework. Portfolio, Sector and Scrip wise limits are assigned by the ALCO to guard against concentration risk and these limits are reviewed and revised periodically. The capital market desk ensures compliance of concentration limits set by ALCO. Limit monitoring is done on a daily basis. Limit breaches if any are promptly reported to ALCO with proper reason and justification.

##### Price Risk

Trading and investing in equity securities give rise to price risk. ALCO and Treasury's Capital Market Unit both ensure that through prudent trading strategy and use of equity futures, the equity price risk is mitigated, albeit to a certain extent.

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

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

December 31, 2008											
Effective Yield/interest rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Exposed to Yield/Interest risk					Non-interest bearing financial instruments	
					Over 6 Months to 1 Year	Over 1 to 2 Year	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years		
Rupees in '000											
<b>On-balance sheet financial instruments</b>											
<i>Assets</i>											
Cash and balances with treasury banks	0.90%	23,653,754	2,554,486	-	-	-	-	-	-	-	21,099,268
Balances with other banks		2,096,779	-	-	-	-	-	-	-	-	2,096,779
Lendings to financial institutions	15.57%	15,793,183	15,493,183	300,000	-	-	-	-	-	-	-
Investments	11.99%	82,631,118	36,143,536	13,856,786	15,467,803	3,995,600	493,796	1,813,744	3,754,978	2,459,513	4,645,362
Advances	12.53%	212,972,008	139,715,162	37,365,530	20,665,221	1,482,850	1,708,876	587,772	1,513,588	4,117,809	2,711,075
Other assets		16,411,293	-	-	-	-	-	-	-	-	16,411,293
		353,558,135	193,906,367	51,522,316	36,133,024	5,478,450	2,202,672	2,401,516	5,268,566	6,577,322	2,711,075
											47,356,827
<i>Liabilities</i>											
Bills payable		2,952,490	-	-	-	-	-	-	-	-	2,952,490
Borrowings	13.91%	27,778,151	24,132,603	1,810,346	1,710,590	124,612	-	-	-	-	-
Deposits and other accounts	8.31%	297,475,321	195,418,674	16,687,651	3,763,965	3,850,000	-	-	-	-	77,755,031
Sub-ordinated loans	17.31%	2,498,000	-	-	2,498,000	-	-	-	-	-	-
Other liabilities		11,634,324	-	-	-	-	-	-	-	-	11,634,324
		342,338,286	219,551,277	18,497,997	7,972,555	3,974,612	-	-	-	-	92,341,845
<b>On-balance sheet gap</b>		11,219,849	(25,644,910)	33,024,319	28,160,469	1,503,838	2,202,672	2,401,516	5,268,566	6,577,322	2,711,075
											(44,985,018)
<b>Off-balance sheet financial instruments</b>											
Commitments in respect of Repo Lending		-	-	-	-	-	-	-	-	-	-
Commitments in respect of CFS lending		-	-	-	-	-	-	-	-	-	-
Commitments in respect of forward exchange contracts - purchase		17,083,600	-	-	-	-	-	-	-	-	17,083,600
Commitments in respect of forward exchange contracts - sale		4,831,414	-	-	-	-	-	-	-	-	4,831,414
<b>Off-balance sheet gap</b>		12,252,186	-	-	-	-	-	-	-	-	12,252,186
<b>Total Yield/Interest Risk Sensitivity Gap</b>		23,472,035	(25,644,910)	33,024,319	28,160,469	1,503,838	2,202,672	2,401,516	5,268,566	6,577,322	2,711,075
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>		23,472,035	(25,644,910)	7,379,409	35,539,878	37,043,716	39,246,388	41,647,904	46,916,470	53,493,792	56,204,867
December 31, 2007											
Effective Yield/interest rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Exposed to Yield/Interest risk					Non-interest bearing financial instruments	
					Over 6 Months to 1 Year	Over 1 to 2 Year	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years		
Rupees in '000											
<b>On-balance sheet financial instruments</b>											
<i>Assets</i>											
Cash and balances with treasury banks	3.71% - 4.72%	29,739,857	620,930	-	-	-	-	-	-	-	29,118,927
Balances with other banks		668,449	-	-	-	-	-	-	-	-	668,449
Lendings to financial institutions	9.56%	18,419,241	14,354,479	4,064,762	-	-	-	-	-	-	-
Investments	8.99%	83,958,463	5,226,956	20,793,363	15,408,023	8,522,875	1,601,096	53,336	2,901,695	5,414,812	24,036,307
Advances	10.55%	168,407,280	147,644,863	6,912,889	924,744	1,801,970	1,486,396	934,062	1,153,579	3,462,196	2,848,735
Other assets		9,966,651	-	-	-	-	-	-	-	-	9,966,651
		311,159,941	167,847,228	31,771,014	16,332,767	10,324,845	3,087,492	987,398	4,055,274	8,877,008	2,848,735
											65,028,180
<i>Liabilities</i>											
Bills payable		3,494,384	-	-	-	-	-	-	-	-	3,494,384
Borrowings	8.23%	22,933,656	19,223,177	1,470,631	2,043,895	195,953	-	-	-	-	-
Deposits and other accounts	4.28%	263,972,382	177,294,854	12,619,479	3,934,715	2,381,229	-	-	-	-	67,742,105
Sub-ordinated loans	11.93%	2,499,000	-	-	2,499,000	-	-	-	-	-	-
Other liabilities		5,230,539	-	-	-	-	-	-	-	-	5,230,539
		298,129,961	196,518,031	14,090,110	8,477,610	2,577,182	-	-	-	-	76,467,028
<b>On-balance sheet gap</b>		13,029,980	(28,670,803)	17,680,904	7,855,157	7,747,663	3,087,492	987,398	4,055,274	8,877,008	2,848,735
											(11,438,848)
<b>Off-balance sheet financial instruments</b>											
Commitments in respect of Repo Lending	10.25%	1,000,000	1,000,000	-	-	-	-	-	-	-	-
Commitments in respect of CFS lending	14%	733	733	-	-	-	-	-	-	-	-
Commitments in respect of forward exchange contracts - purchase		10,998,473	-	-	-	-	-	-	-	-	10,998,473
Commitments in respect of forward exchange contracts - sale		4,763,749	-	-	-	-	-	-	-	-	4,763,749
<b>Off-balance sheet gap</b>		7,235,457	1,000,733	-	-	-	-	-	-	-	6,234,724
<b>Total Yield/Interest Risk Sensitivity Gap</b>		20,265,437	(27,670,070)	17,680,904	7,855,157	7,747,663	3,087,492	987,398	4,055,274	8,877,008	2,848,735
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>		20,265,437	(27,670,070)	(9,989,166)	(2,134,009)	5,613,654	8,701,146	9,688,544	13,743,818	22,620,826	25,469,561

**42.2.4.1 Reconciliation of Assets and Liabilities exposed to Yield/Interest Rate Risk with Total Assets and Liabilities**

	December 31, 2008	December 31, 2007
	Rupees in '000	
Total financial assets as per note 42.2.4	353,558,135	311,159,941
Add Non Financial Assets		
Operating fixed assets	11,134,436	7,548,628
Deferred tax asset	1,029,223	662,431
Other assets	958,398	738,723
Total assets as per balance sheet	<u>366,680,192</u>	<u>320,109,723</u>
Total financial liabilities as per note 42.2.4	342,338,286	298,129,961
Add Non Financial Liabilities		
Other liabilities	1,986,292	2,101,520
Total liabilities as per balance sheet	<u>344,324,578</u>	<u>300,231,481</u>

**42.3 Liquidity Risk**

Liquidity risk is the risk that the Bank is unable to fund its current obligations and operations in the most cost efficient manner. ALCO is the forum to oversee liquidity management. The overall Bank's principle is that the ALCO has the responsibility for ensuring that Bank's policy for liquidity management is adhered to on a continual basis.

Other than customer's deposits, the Bank's funding source is the inter-bank money market. Change in the government monetary policy and market expectations of interest rate are all important factors that can adversely affect our key funding source. Efficient and accurate planning plays a critical role in liquidity management. Our MIS provides information on expected cash inflows/out flows which allow the Bank to take timely decisions based on the future requirements.

Gap analysis, stress testing and scenario analysis is done on periodic basis to capture any adverse effect of market movements on liquidity position. Based on the results produced, ALCO devise the liquidity management strategy to maintain sufficient liquidity to deal with any related catastrophe.



42.3.1.1 When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity.

**42.4 Operational Risk**

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

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

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

The Bank is also in the process of developing a Business Continuity Plan applicable to all its functional areas, with assistance of a consultant.

Further the Bank has appointed a consultant to assist in implementation of Operational Risk Framework. Various policies and procedures with respect to this framework were developed in 2008, and the same are planned for approval and subsequent implementation during 2009.

Currently the Bank uses the Basic Indicator Approach for assessing its operational risk capital charge. However, migration to Standardised Approach is planned for future. For this purpose the bank is in the process of acquiring and implementing required systems and technology.

**43. RECLASSIFICATION**

Following corresponding figure has been reclassified for the purpose of better presentation.

<b>From</b>	<b>To</b>	<b>December 31, 2007 Rupees in '000</b>
Administrative expenses	Mark-up/return/interest expensed	74,006

**44. NON ADJUSTING EVENT AFTER THE BALANCE SHEET DATE**

The Board of Directors of the Bank in its meeting held on February 27, 2009 has proposed a cash dividend in respect of 2008 of Rs. 1.00 per share (2007: cash dividend of Rs. 1.50 per share). In addition, the Directors have also announced a bonus issue of 10% (2007: 20%). These appropriations will be approved in the forthcoming Annual General Meeting. The unconsolidated financial statements of the Bank for the year ended December 31, 2008 do not include the effect of these appropriations which will be accounted for in the unconsolidated financial statements for the year ending December 31, 2009.

**45. GENERAL**

45.1 These accounts have been prepared in accordance with the revised forms of annual financial statements of the banks issued by the State Bank of Pakistan through its BSD Circular No. 04 dated February 17, 2006.

**46. DATE OF AUTHORIZATION FOR ISSUE**

These financial statements were authorized for issue on February 27, 2009 by the Board of Directors of the Bank.

Chief Financial Officer

President and Chief Executive

Director

Director

Director