

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 1. STATUS AND NATURE OF BUSINESS

The Group comprise of Allied Bank Limited (the Bank and holding company) and ABL Asset Management Company Limited (the subsidiary), hereinafter referred as "the Bank and its subsidiary".

Allied Bank Limited (the Bank and holding company), incorporated in Pakistan, is a scheduled Bank, engaged in commercial banking and related services. The Bank is listed on all three stock exchanges in Pakistan. The Bank operates a total of 806 (2009: 779) 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 the 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.

#### ABL Asset Management Company Limited (the subsidiary company, wholly owned)

ABL Asset Management Company Limited, a wholly owned subsidiary of the Bank, is a public unlisted company incorporated in Pakistan as a limited liability company on October 12, 2007 under the Companies Ordinance, 1984. The subsidiary company has obtained licenses from the Securities and Exchange Commission of Pakistan (SECP) to carry out Asset Management Services and Investment Advisory Services as a Non-Banking Finance Company (NBFC) under Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 as amended through S.R.O.1131(I) 2007 (the NBFC Rules, 2003). The subsidiary company received certificate of commencement of business on December 31, 2007. The registered office of the subsidiary company is situated at 11-B Lalazar, M.T. Khan Road, Karachi. The Management quality rating of the company, as assigned by JCR-VIS credit rating company limited, is AM3.

The subsidiary is managing following open ended funds:

-	ABL-Income Fund	Launched on September 20, 2008
-	ABL-Stock Fund	Launched on June 28, 2009
-	ABL-Cash Fund	Launched on July 31, 2010
-	ABL-Islamic Cash Fund	Launched on July 31, 2010

### 2. (a) BASIS OF PRESENTATION

- These consolidated financial statements consist of holding company and its subsidiary company, for the year ended December 31, 2010.
- 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 consolidated financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.
- These consolidated financial statements have been presented in Pakistan Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to nearest thousand.
- The US Dollar amounts reported in consolidated statement of financial position, consolidated profit and loss account and consolidated statement of cash flows are stated as additional information, solely for the convenience of the users of financial statements. For the purpose of translation to US Dollar, the rate of Rs 85.6367 (2009: Rs. 84.2416) per US Dollar has been used for 2010 and 2009 financial years, as it was the prevalent rate as on respective dates of statements of financial position.

### (b) BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as on December 31, 2010.

The subsidiary is fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiary are presented for same reporting period as the Bank, using consistent accounting policies. All balances, income and expenses, unrealised gains and losses and dividends resulting from transactions between the Bank and its subsidiary are eliminated in full.

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### (c) BASIS OF MEASUREMENT

These consolidated 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 consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved Accounting Standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (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. Further, according to a notification of Securities and Exchange Commission of Pakistan dated April 28, 2008, International Financial Reporting Standard (IFRS) 7 "Financial Instruments Disclosure" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these consolidated financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars.

### 3.3 New and amended standards and interpretations become effective

During the year, following new / revised standards, amendments and interpretations to accounting standards became effective:

IFRS 2 - Share-based payments: Amendments relating to Group Cash-settled Share-based payment transactions

IFRS 3 - Business Combinations (Revised)

IFRS 27 - Consolidated and Separate Financial Statements (Amendment)

IFRS 39 - Financial instruments: Recognition and Measurement - Eligible hedged items (Amendments)

IFRIC 17 - Distribution of Non-cash Assets to owners.

In May 2008 and April 2009, International Accounting Standards Board issued amendments to various standards primarily with a view to remove inconsistencies and clarifying wording.

These improvements are listed below:

Issued in May 2008:

- IFRS 5 - Non-current Assets Held For Sale and Discontinued Operations

Issued in April 2009:

- IFRS 2 - Share Based Payments: Amendments relating to Group Cash-settled Share-based payment transaction.
- IFRS 5 - Non-current Assets Held For Sale and Discontinued Operations
- IFRS 8 - Operating Segments
- IAS 1 - Presentation of Financial Statements.
- IAS 7 - Statement of Cash Flows.
- IAS 17 - Leases.
- IAS 36 - Impairment of Assets.
- IAS 38 - Intangible Assets.
- IAS 39 - Financial Instruments: Recognition and measurement
- IFRIC 9 - Reassessment of Embedded Derivatives
- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation

Adoption of the above standards, amendments and interpretations did not affect the accounting policies of the Bank.

### 3.4 Standards, Interpretations and Amendments to Published Approved Accounting Standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2011. These standards are either not relevant to the Bank's operations or are not expected to have a significant impact on the Bank's financial statements other than amendment in certain disclosures:

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### [IAS 12 Income Taxes \(Amendment\)](#)

The amended standard is effective for annual periods beginning on or after January 01, 2012. It clarifies the recognition of deferred tax assets.

### [IAS 24 Related Party Disclosures \(Amendment\)](#)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

### [IAS 32 Financial Instruments: Presentation – Classification of Right Issues \(Amendment\)](#)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

### [IFRS 9 Financial Instruments: Classification and Measurement](#)

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and de-recognition. The completion of this project is expected in early 2011.

### [IFRIC 14 Prepayments of a minimum funding requirement \(Amendment\)](#)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

### [IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments](#)

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit and loss.

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011, however the future adoption of these amendments will not have any significant impact on the Banks financial statements.

### [IFRS 3 Business Combinations](#)

Improvements in IFRS 3 Business Combinations is effective for annual periods beginning on or after 1 July 2010. These amendments clarifies the measurement of non-controlling interests, un-replaced and voluntarily replaced share-based payment awards, Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS.

### [IFRS 7 Financial Instruments: Disclosures](#)

Improvements in IFRS 7 Business Combinations is effective for annual periods beginning on or after 1 July 2011 and clarifies the disclosures requirements.

### [IAS 1 Presentation of Financial Statements](#)

In May 2010, the IASB issued Improvements to IFRSs, which amends IAS 1 requirements relating to Statement of Changes in Equity. Entities shall apply these amendments for annual periods beginning on or after 1 January 2011.

### [IAS 27 Consolidated and Separate Financial Statements](#)

In May 2010, the IASB issued Improvements to IFRSs, which amends IAS 27 requirements. Entities shall apply these amendments for annual periods beginning on or after 1 July 2010. These improvements deals with transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements.

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### IFRIC 13 Customer Loyalty Programmes

IFRIC 13 Customer Loyalty Programmes is amended to further clarify the estimation of fair value of award credits. Such amendments are applicable for annual periods beginning from 1 January 2011.

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

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates that affect the reported amounts of assets, liabilities, income and expenses. It also requires the 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 historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

##### i) Classification of investments

- In classifying investments as "held-for-trading" the Bank and its subsidiary determine securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements.
- In classifying investments as "held-to-maturity" the Bank follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity.
- The investments which are not classified as held for trading or held to maturity are classified as available for sale.

##### ii) Provision against non performing loans and advances and debt securities classified as investments

The Bank reviews its loan portfolio and debt securities classified as investments to assess amount of non-performing loans and advances and debt securities and provision required there-against. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower, the forced sale value of the securities and the requirements of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Bank follows, the general provision requirement set out in Prudential Regulations. These provisions change due to changes in requirements.

##### iii) Valuation and impairment of available for sale equity investments

The Bank and its subsidiary determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank and its subsidiary evaluate among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

##### iv) Income taxes

In making the estimates for income taxes currently payable by the Bank and its subsidiary, the management looks, at the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the future taxable profits of Bank and its subsidiary are taken into account.

##### v) Fair value of derivatives

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates in effect at the balance sheet date and the rates contracted.

##### vi) Fixed assets, depreciation and amortization

In making estimates of the depreciation / amortisation, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank and its subsidiary and estimates the useful life. The method applied and useful lives estimated are reviewed at each financial year end and if there is a change in the expected pattern or timing of consumption of the future economic benefits embodied in the assets, the estimate would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, "Changes in Accounting Estimates and Errors".

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vii) **Defined benefits plan**

Liability is determined on the basis of actuarial advice using the Projected Unit Credit Method.  
The actuarial assumptions used to determine the liability and related expense are disclosed in note 36.

5. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these consolidated financial statements are the same as those applied in the preparation of the consolidated financial statements of the Bank and its subsidiary for the year ended December 31, 2009 and are enumerated as follows:

5.1 Pursuant to the adoption of revised IAS - 1 through SBP BSD Circular Letter no. 7 dated 20 April, 2010, Balance Sheet has been renamed to "Statement of Financial Position"

5.2 **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.

5.3 **Lendings to / borrowings from financial institutions**

The Bank and its subsidiary 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.

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

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

Lendings are stated net of provision. Mark-up on such lendings is charged to the profit and loss account on a time proportion basis except mark-up on impaired/ delinquent lendings, which is recognized on receipt basis.

5.4 **Investments**

5.4.1 The Bank and its subsidiary at the time of purchase classifies its investment portfolio into the following categories, which are initially recognized at fair value plus the acquisition cost, except in case of held for trading investments, in which cases, these are charged off to the profit and loss account.

5.4.1.1 **Investments are classified as follows:**

(a) **Held for trading**

These are securities which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, 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, that do not fall under the held for trading or held to maturity categories.

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- 5.4.2 In accordance with the requirements of the SBP, quoted securities, other than those classified as held to maturity, are carried at market value. Investments classified as held to maturity are carried at amortized cost .

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

- 5.5 **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 and its subsidiary transfer 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 un-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.

- 5.6 **Operating fixed assets and depreciation**

### Tangible assets

Property and equipment owned by the Bank and its subsidiary, 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.

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Subsequent costs 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.

## 5.7 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 using the balance sheet liability method on all temporary differences, 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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

"The Bank and its subsidiary also recognize 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".

## 5.8 Staff retirement and other benefits

### 5.8.1 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 to which equal contribution are made by the Bank and the employees (defined contribution scheme).

#### b) For employees who did not opt for the new scheme:

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

Until December 31, 2008, the bank operated a contributory benevolent fund, which was discontinued during the year for active employees. Existing employees were also given an option to settle their monthly grant with a lump sum payment. Those who have not opted for the lump sum option will continue to receive benevolent grant (defined benefit scheme).

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### 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.

### 5.8.2 Other benefits

#### Employees' compensated absences

Employees' entitlement to annual leave is recognised when they accrue to employees. A provision is made for estimated liability for annual leaves as a result of services rendered by the employee against unavailed leaves, as per terms of service contract, up to balance sheet date, based on actuarial valuation using Projected Unit Credit Method.

#### ABL Asset Management Company Limited ( the subsidiary company)

The subsidiary company operates an approved provident fund for its permanent employees. Equal monthly contributions to the fund are made both by the company and its employees at the rate of 10% each of the basic salary per month.

### 5.9 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.

### 5.10 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up 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.

### 5.11 Subordinated loans

Subordinated loans are initially recorded at the amount of proceeds received. Mark-up 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.

### 5.12 Impairment

At each balance sheet date, the Bank and its subsidiary review the carrying amount of its assets (other than deferred tax 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 for 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.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank and its subsidiary estimate the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss, other than loss on goodwill, is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit and loss account unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

### 5.13 Provisions

Provisions are recognized when the Bank and its subsidiary have 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 and its subsidiary to settle the obligation. The loss is charged to the profit and loss account net of expected recovery and is classified under other liabilities.

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

### 5.14 Dividend distribution and appropriations

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

### 5.15 Foreign currencies

#### a) Foreign currency transactions

Transactions in foreign currencies 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 are valued at spot rate and forward foreign exchange contracts are valued at forward rates applicable to their respective maturities.

#### b) Translation gains and losses

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

#### c) Commitments

Commitments for outstanding forward foreign exchange contracts disclosed in these financial statements are translated at forward rates applicable to their respective maturities. 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.

### 5.16 Financial instruments

#### 5.16.1 Financial assets and liabilities

Financial assets and financial liabilities are recognised at the time when the Bank and its subsidiary become party to the contractual provision of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of the asset. Financial liabilities are de-recognised when obligation specific in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liability is recognised in the profit and loss account of the current period. The particular recognition and subsequent measurement methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

#### 5.16.2 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.

### 5.17 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 and its subsidiary intend to either settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

### 5.18 Revenue recognition

Revenue is recognized to the extent that the economic benefits will flow to the Bank and the revenue can be reliably measured. These are recognised as follows:

#### a) Advances and investments

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

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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 and other services are recognized on an accrual basis except account maintenance and service charges are recognized when realized.

d) **Management fee**

Remuneration for asset management services are recognized on an accrual basis.

5.19 **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:

5.19.1 **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.

f) **Asset Management**

This includes asset management and investment advisory services.

5.19.2 **Geographical segments**

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

5.20 **Earnings per share**

The Bank presents earnings per share (EPS) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
<b>6. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
Local currency		4,604,357	5,143,843
Foreign currencies		352,944	413,588
		4,957,301	5,557,431
Remittances in transit		658,678	613,685
With State Bank of Pakistan (SBP) in			
Local currency current accounts	6.1	14,193,354	12,694,476
Foreign currency current account	6.2	2,639	5,829
		14,195,993	12,700,305
Foreign currency deposit accounts			
- Non remunerative		1,401,830	977,413
- Remunerative	6.3	4,205,490	2,932,240
		5,607,320	3,909,653
With National Bank of Pakistan in			
Local currency current accounts		5,821,160	3,611,940
National Prize Bonds		25,206	42,669
		31,265,658	26,435,683

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 no mark-up.

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
<b>7. BALANCES WITH OTHER BANKS</b>			
In Pakistan			
On current accounts		284	284
On deposit accounts		145	148
Outside Pakistan			
On current accounts	7.1	579,271	1,280,159
		579,700	1,280,591

7.1 Included in nostro accounts are balances, aggregating to Rs.126.448 million (2009: Rs. 198.082 million), representing balances held with a related party outside Pakistan.

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
<b>8. LENDINGS TO FINANCIAL INSTITUTIONS</b>			
Call money lendings		-	525,000
Letters of placement		-	649,750
Repurchase agreement lendings (Reverse Repo)	8.1 & 8.4	11,392,277	26,347,932
Certificates of investment	8.2	96,667	880,845
		11,488,944	28,403,527
Provision against lendings to Financial Institutions	8.5	-	(280,595)
		11,488,944	28,122,932

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

8.1 These are short-term lendings to various financial institutions against the government securities shown in note 8.4 below. These carry mark-up at rates ranging between 12.50 % and 13.25 % (2009: 11.75 % and 12.40 %) per annum and will mature on various dates, latest by January 31, 2011.

8.2 The certificate of investment carries mark-up at the rate 13.26% (2009: ranging between 13.0% and 14.47% on performing lendings) per annum and will mature on various dates latest by February 08, 2012.

	December 31, 2010	December 31, 2009
	Rupees in '000	
8.3 Particulars of lending		
In local currency	11,488,944	28,122,932
In foreign currencies	-	-
	11,488,944	28,122,932

8.4 Securities held as collateral against lending to financial institutions

	December 31, 2010			December 31, 2009		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
	Rupees in '000					
Market Treasury Bills	11,392,277	-	11,392,277	22,527,333	3,820,599	26,347,932
	11,392,277	-	11,392,277	22,527,333	3,820,599	26,347,932

	December 31, 2010	December 31, 2009
	Rupees in '000	
8.5 Particulars of provision		
Opening balance	280,595	-
Charge for the year	-	280,595
Reversal	(280,595)	-
Net (reversal) / charge	(280,595)	280,595
Closing balance	-	280,595

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 9. INVESTMENTS

	Note	December 31, 2010			December 31, 2009		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
Rupees in '000							
9.1	Investments by types						
	Held-for-trading securities						
	Ordinary shares of listed companies	16,053	-	16,053	67,385	-	67,385
	Units in open end mutual funds-related parties	1,229,049	-	1,229,049	252,866	-	252,866
		1,245,102	-	1,245,102	320,251	-	320,251
	Available-for-sale securities						
	Market Treasury Bills	57,547,817	2,298,869	59,846,686	27,019,901	6,976,575	33,996,476
	Pakistan Investment Bonds	246,764	-	246,764	246,204	-	246,204
	Ordinary shares of listed companies / certificates of mutual funds	5,564,180	-	5,564,180	4,882,928	-	4,882,928
	Preference Shares	282,688	-	282,688	191,667	-	191,667
	Units of open end mutual funds	1,655,757	-	1,655,757	3,497,813	-	3,497,813
	Ordinary shares of unlisted companies	245,193	-	245,193	215,193	-	215,193
	Ordinary shares/units of related parties						
	- Listed shares	1,948,264	-	1,948,264	2,449,082	-	2,449,082
	- Unlisted shares	602,496	-	602,496	597,496	-	597,496
	- Open-end mutual funds	1,000,000	-	1,000,000	850,000	-	850,000
	Pre IPO investments	-	-	-	35,000	-	35,000
	Sukuk Bonds	4,783,539	-	4,783,539	3,637,774	-	3,637,774
	Term Finance Certificates (TFCs)	29,967,464	-	29,967,464	26,166,567	-	26,166,567
		103,844,162	2,298,869	106,143,031	69,789,625	6,976,575	76,766,200
	Held-to-maturity securities						
	Pakistan Investment Bonds	7,493,147	-	7,493,147	7,690,909	-	7,690,909
	Foreign Currency Bonds (US\$)	645,701	-	645,701	73,286	-	73,286
	TFCs, Debentures, Bonds and PTCs	5,878,932	-	5,878,932	10,274,764	-	10,274,764
		14,017,780	-	14,017,780	18,038,959	-	18,038,959
	Investments at cost	119,107,044	2,298,869	121,405,913	88,148,835	6,976,575	95,125,410
	Provision for diminution in the value of investments	9.3	[2,681,810]	[2,681,810]	[2,185,929]	-	[2,185,929]
	Unrealized loss on revaluation of						
	Held-for-trading securities	9.14	[2,668]	[2,668]	[365]	-	[365]
	Surplus / (deficit) on revaluation of						
	Available-for-sale securities	21.2	2,439,434	[2,139]	2,437,295	44	1,733,984
	<b>Total investments</b>		118,862,000	2,296,730	121,158,730	87,696,481	94,673,100

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
9.2. Investments by Segments:			
Federal Government Securities:			
Market Treasury Bills	9.2.1-9.2.3	59,846,686	33,996,476
Pakistan Investment Bonds	9.2.1	7,739,911	7,937,113
Foreign Currency Bonds (US\$)	9.2.4	645,701	73,286
Ijara Sukuk Bonds	9.2.1	100,000	100,000
Fully paid up ordinary shares of listed companies/certificates of mutual funds	9.4	7,528,496	7,399,395
Fully paid up ordinary shares of unlisted companies	9.5	847,689	812,689
Investment in Units of Open End Mutual Funds	9.6	3,884,806	4,600,679
Pre IPO Investments	9.7	–	35,000
Fully paid up Preference Shares	9.8	282,688	191,667
Term Finance Certificates (TFCs) , Debentures, Bonds and Participation Term Certificates:			
Term Finance Certificates	9.9		
- Listed		2,518,340	2,337,735
- Unlisted		29,717,278	30,335,030
Debentures	9.10	63,479	63,479
Bonds - Government	9.11	–	118,513
- others (Sukuk)	9.11	8,225,203	7,118,712
Participation Term Certificates	9.12	5,636	5,636
Total investments at cost		121,405,913	95,125,410
Less: Provision for diminution in the value of investment	9.3	[2,681,810]	[2,185,929]
Investments (Net of Provisions)		118,724,103	92,939,481
Unrealized loss on revaluation of Held-for-trading securities	9.14	[2,668]	[365]
Surplus on revaluation of Available-for-sale securities	21.2	2,437,295	1,733,984
Total investments		121,158,730	94,673,100

### 9.2.1 Principal terms of investments in Federal Government Securities

Name of investment	Maturity	Redemption	Coupon
Market Treasury Bills	13 January, 2011 To 01 December, 2011	On maturity	At maturity
Foreign Currency Bonds (US\$)	13 March, 2016	On maturity	Half Yearly
Pakistan Investment Bonds	14 February, 2011 To 19 May, 2016	On maturity	Half Yearly
Ijara Sukuk Bonds	26 September, 2011	On maturity	Half Yearly

9.2.2 Included herein are Market Treasury Bills having a book value of Rs.1,992.376 million (2009: Rs.6,639.897 million), given as collateral against repurchase agreement borrowings from financial institutions.

9.2.3 Included herein are Market Treasury Bills having a face value of Rs. 339.800 million (2009: 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.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 9.2.4 Investments in Foreign Currency Bonds

Name of Bond	Coupon Rate	Date of Issue	Date of Maturity	Coupon Due	Redemption Period	2010	2009
						Rupees in '000	
US \$ Bonds							
KH 000020 (\$695,880)						-	58,622
KH 000040 (\$174,070)						-	14,664
Euro Dollar Bond (\$3,000,000)	7.125%	01-Oct-09	31-Mar-16	31-Mar-11	6.5 Years	229,375	-
Euro Dollar Bond (\$3,200,000)	7.125%	24-May-10	31-Mar-16	31-Mar-11	5.9 Years	258,928	-
Euro Dollar Bond (\$2,000,000)	7.125%	30-Mar-06	31-Mar-16	31-Mar-11	10 Years	157,398	-
						645,701	73,286
						Note	December 31, 2010
						December 31, 2009	Rupees in '000

### 9.3. Particulars of Provision

Opening balance		2,185,929	2,015,042
Charge for the year		1,359,432	1,070,397
Reversals		(70,028)	(2,789)
Net charge		1,289,404	1,067,608
Reversal as gain on disposal		(793,523)	(894,984)
Amounts written off		-	(1,737)
Closing balance	9.3.1	2,681,810	2,185,929

#### 9.3.1 Particulars of Provision in respect of Type and Segment By Type

##### Available-for-sale securities

Ordinary shares / certificates of listed companies	571,682	1,310,674
Ordinary shares of unlisted companies	27,832	45,176
Preference shares	149,355	-
Units of open end mutual fund	55,424	100,000
Sukuk Bonds	105,528	-
Term Finance Certificates	125,000	-
	1,034,821	1,455,850

##### Held-to-maturity securities

TFCs, Debentures, Bonds and PTCs	1,646,989	730,079
	2,681,810	2,185,929

##### By Segment

##### Fully Paid up Ordinary Shares:

Listed companies	571,682	1,310,674
Unlisted companies	27,832	45,176
Preference shares	149,355	-
Units of open end mutual funds	55,424	100,000
	804,293	1,455,850

##### Term Finance Certificates, Debentures,

##### Bonds and Participation Term Certificates:

Bonds	1,141,621	590,250
Term Finance Certificates	666,781	70,714
Debentures	63,479	63,479
Participation Term Certificates	5,636	5,636
	1,877,517	730,079
	2,681,810	2,185,929

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 9.4 Investments in Listed Shares/Certificate of Mutual Funds

Name of Company / Mutual Fund	2010			2009	
	Cost per share/ certificate	No. of shares/ certificates	Total Cost	No. of shares/ certificates	Total Cost
	Rupees		Rupees '000		Rupees '000
Askari Bank Limited	-	-	-	5,305,372	107,616
Attock Petroleum Limited	-	-	-	166,618	57,788
Bank Al Habib Limited	33.55	1,000,000	33,551	-	-
Crescent Steel & Allied Products Limited	-	-	-	903,295	55,124
Dadabhoy Leasing Company Limited	-	47,300	-	47,300	-
Dadabhoy Modaraba	8.85	567,500	5,025	567,500	5,025
D.G.Khan Cement Limited	25.59	7,387,891	189,063	-	-
Engro Corporation Limited	170.71	3,594,372	613,592	-	-
Engro Chemical Pakistan Limited.	-	-	-	3,608,536	553,258
Eye Television Network Limited	21.11	2,748,917	58,024	1,894,534	89,677
Fauji Fertilizer Company Limited	86.48	15,894,987	1,374,557	12,444,987	998,879
First Credit & Investment Bank Limited	-	-	-	4,646,900	46,234
Habib Bank Limited	100.10	2,000,000	200,205	-	-
Hub Power Company Limited – related party	31.45	39,009,500	1,226,828	46,547,409	1,414,727
Kaiser Arts & Craft Limited	-	766,500	-	766,500	-
Lucky Cement Limited.	-	-	-	4,145,846	225,190
Meezan Bank Limited	16.09	1,990,762	32,027	4,497,568	89,040
Mohib Export Limited.	-	21,275	-	-	-
Nishat (Chunian) Limited – related party	24.11	8,000,000	192,909	-	-
Nishat Chunian Power Limited – related party	10.00	36,734,693	367,347	44,260,774	442,608
Nishat Power Limited (underwriting) – related party	-	-	-	100	10
Nishat Mills Limited	50.13	7,795,000	390,800	-	-
Nishat Power Limited – related party	10.00	35,408,850	354,088	59,173,739	591,737
National Refinery Limited	190.68	1,773,220	338,125	-	-
Otsuka Pakistan Limited	34.92	95,517	3,335	-	-
Pace Pakistan Limited.	-	-	-	5,104,658	69,363
Pak Oman Advantage Fund	-	-	-	96,000	960
Pakistan Oil field Limited.	250.35	5,200,000	1,301,823	3,980,360	809,007
Pakistan Petroleum Limited.	-	-	-	2,746,400	421,181
Pakistan State Oil Company Limited	249.56	2,000,000	499,119	1,870,000	466,447
PICIC Growth Mutual Fund	14.13	14,186,600	200,451	9,490,938	189,532
PICIC Growth Fund	32.51	63,400	2,061	63,400	2,060
Redco Textile Mills Limited	10.00	300	3	300	3
S.G. Fibers Limited.	58.20	788,800	45,908	788,800	45,908
SAFA Textile Mills Limited	10.00	860,200	8,602	860,200	8,602
UBL Capital Protected Fund	8.91	8,420,250	75,000	7,725,000	75,000
United Bank Limited	-	-	-	10,716,000	567,034
<b>Held for Trading Shares</b>					
Pakistan State Oil Company Limited	-	-	-	200,000	67,385
Japan Power Generation Limited	1.93	7,925,040	15,295	-	-
Pioneer Cement Limited	7.10	106,784	758	-	-
			<b>7,528,496</b>		<b>7,399,395</b>

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 9.5 Investments In Un-Listed shares

Name of Company	Percentage of Holding	No. of shares	Break-up Value	Paid up Value	Cost	Based on audited accounts as at	Name of Chief Executive/managing Agent
			Rupees	Rupees	Rupees '000		
Al-Amin Textile Mills Limited	-	13,100	N/A	10	-	N/A	Mr. Anis-ur-Rahman
Arabian Sea Country Club Limited - related party	6.45%	500,000	10.93	10	5,000	30-Jun-10	Mr. Arif Khan Abbasi
Atlas Power Limited - related party	10.99%	35,500,000	9.91	10	355,000	30-Jun-09	Mr. Maqsood A. Basra
Attock Textile Mills Limited	-	55,500	N/A	10	506	N/A	Mrs. Fareeda Khanum
Bankers Equity Limited	-	807,699	N/A	10	-	N/A	Under liquidation
Dawood Family Takaful Limited	4.67%	3,500,000	9.44	10	35,000	31-Dec-09	Mr. Abdul halim Nasri
Eastern Capital Limited	16.13%	500,000	13.05	10,000	5,000	30-Jun-07	Under liquidation
Equity Participation Fund	-	1	76.51	100	-	30-Jun-08	Mr. Jamal Nasim
First Women Bank Limited - related party	8.97%	2,544,000	38.55	10,000	21,200	31-Dec-09	Ms. Shafqat Sultana
Habib Allied International Bank - related party	9.50%	2,375,000	238.45	136	214,769	31-Dec-09	Mr. Nauman K. Dar
KATEX Mills Limited	-	151,100	N/A	10	1,511	N/A	Col. Muhammad Yaqub (Rtd)
Khushhali Bank Limited.	11.73%	20,000,000	12.18	10	200,000	31-Dec-09	Mr. M. Ghalib Nishtar
Kohinoor Looms	-	21,000	N/A	10	-	N/A	De-listed
National Woolen Mills	-	6,900	N/A	10	52	N/A	Haji Sher Shah
National Institution Facilitation Technologies (Pvt.) Limited - related party	4.35%	472,744	50.77	10	1,526	30-Jun-09	Mr. Muzaffar M Khan
PASSCO	3.33%	1,000	20,953.03	1,000	1,000	31-Mar-09	Maj. Gen Ahmed Nawaz Salim Mela
Ruby Rice & Gen Mills	-	14,500	N/A	10	104	N/A	Mr. Mehboob Ali
SME Bank Limited.	0.24%	580,778	9.28	10	5,250	31-Dec-09	Mr. R.A. Chughtai
SWIFT	-	10	0	10	1,771	-	-
					847,689		

### 9.6 Detail of Investment in Open Ended Mutual Funds

Name of Company	No. of Units		Paid-up value per Certificate Rupees	Total Cost	
	2010	2009		2010	2009
	Rupees in '000				
ABL Cash Fund - related party	14,844,724	-	10	150,000	-
ABL Income Fund - related party	81,671,638	89,608,873	10	811,204	891,571
ABL Stock Fund - related party	13,361,352	18,820,324	10	134,861	211,295
ABL Islamic Cash Fund - related party	19,229,597	-	10	185,297	-
AH Dow Jones 15 Safe Pak Titans	400,000	-	50	20,000	-
Atlas Money Market Fund	99,502	-	500	50,000	-
AMZ Plus Income Fund	563,126	1,016,028	100	55,424	100,000
Crosby Phoenix Fund	435,545	-	100	44,296	-
Faysal Saving Growth Fund	-	1,456,876	100	-	150,000
JS Income Fund	-	997,077	100	-	100,000
KASB Liquid Fund	3,644,483	5,015,216	100	341,885	472,813
Lakson Money Market Fund	249,097	1,000,904	100	250,000	100,000
MCB Dynamic Cash Fund	-	5,101,313	100	-	500,000
NAFA Cash Fund	93,969,726	104,830,739	10	894,152	1,000,000
National Investment Trust	-	5,000,000	10	-	50,000
United Growth & Income Fund	-	10,518,684	100	-	1,000,000
UBL Principal Protected Plan-II	-	250,000	100	-	25,000
ABL Cash Fund - Held for Trading - related party	92,697,556	-	10	947,687	-
				3,884,806	4,600,679

### 9.7 Pre IPO Investment

Dawood Family Takaful Limited	-	35,000
	-	35,000

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 9.8 Detail of Investments in Preference Shares

Name of Company	Note	Percentage of Holding	No. of certificates	Paid-up Value per certificate	Total paid-up value	Total Cost December 31, 2010	Based on audited accounts Agent	Name of Chief Executive/ Managing
					Rupees in '000	as at		
Masood Textile Mills Limited	9.8.1	19%	5,833,335	10	58,333	58,333	30 June 09	Mr. Shahid Nazeer
Fazal Cloth Mills Limited	9.8.2	30%	7,500,000	10	75,000	75,000	30 June 09	Mr. Sheikh Naseem Ahmed
First Dawood Investment Bank Ltd	9.8.3	13.88%	9,935,500	10	99,355	99,355	30 June 10	Mr. Abdus Samad Khan
Trust Investment Bank Ltd	9.8.4	16.31%	5,000,000	10	50,000	50,000	30 June 10	Mr. Hamayun Nabi Jan
						282,688		

9.8.1 This represents KIBOR plus 2% cumulative preference shares 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, at a discount of 15%.

9.8.2 This represents KIBOR plus 2.5% cumulative preference shares having redemption terms within 60 days after completion of 5 years from the date of issue, i.e., May 13, 2006.

9.8.3 This represents KIBOR plus 4% cumulative preference shares with call option available to the issuer and Conversion Option available to the Bank, any time after issue.

9.8.4 This represents KIBOR plus 100 bps cumulative preference shares with call option available to the issuer and Conversion Option available to the Bank, after completion of three 3 years from the date of issue.

### 9.9 Detail of Investments in TFCs

Name of Company	No. of Units		Paid-up value per Certificate Rupees	Total Cost	
	2010	2009		2010	2009
Rupees in '000					
<b>Listed</b>					
Askari Bank Limited	20,000	20,000	5,000	99,960	100,000
Standard Chartered Bank Pakistan Limited	10,000	10,000	5,000	47,420	49,930
Engro Corporation Limited	4,000	6,000	5,000	20,006	30,021
Pakistan Mobile Communication Limited	15,000	15,000	5,000	75,000	75,000
Faysal Bank Limited	70,000	-	5,000	350,000	-
Faysal Bank / Royal Bank Of Scotland/ ABN AMRO Bank Limited	7,000	7,000	5,000	26,201	34,936
United Bank Limited-3rd Issue	10,000	10,000	5,000	49,920	49,940
United Bank Limited -4th Issue - HTM	37,000	37,000	5,000	184,815	184,889
Searle Pakistan Limited	10,000	10,000	5,000	6,248	18,743
NIB Bank Limited - HTM	76,789	76,789	5,000	383,561	408,325
United Bank Limited-PPTFC	122,558	122,558	5,000	612,177	612,422
Telecard Limited - HTM	75,888	75,888	5,000	139,444	172,911
Pak Arab Fertilizers Limited	84,080	84,080	5,000	395,176	420,148
Azgard Nine Limited	1,300	1,300	5,000	4,327	4,868
Escort Investment Bank Limited	20,000	20,000	5,000	49,960	83,267
Financial Receivable Securitization Company Limited	21,000	21,000	5,000	70,563	86,722
Orix Leasing Pakistan Limited	1,500	1,500	5,000	3,562	5,613
				2,518,340	2,337,735
<b>Unlisted</b>					
Orix Leasing Pakistan Limited (Chief Executive: Mr. Teizon Kissat)	23,000	23,000	100,000	1,916,667	2,300,000
Dewan Farooque Spinning Mills Limited - HTM (Chief Executive: Mr. Dewan Abdul Baqi Farooqui)	25,000	25,000	5,000	31,250	31,250
Al-Abbas Sugar Industries (Chief Executive: Mr. Shunaid Qureshi)	25,000	25,000	5,000	74,950	99,950
Javedan Cement Limited [Formerly Al-Abbas Holding (Pvt) Limited] - HTM (Chief Executive: Mr. Aves Chochinwala)	5,750	5,750	100,000	503,125	575,000
Javedan Cement Limited [Formerly Ghani Holding (Pvt) Limited] - HTM (Chief Executive: Mr. Aves Chochinwala)	5,750	5,750	100,000	503,125	575,000
New Allied Electronics Industries - HTM (Chief Executive: Mian Pervaiz Akhtar)	-	10,000	-	-	27,777
Javedan Cement Limited (Chief Executive: Mr. Aves Chochinwala)	2,500	2,500	100,000	250,000	250,000
Grays Leasing Limited (Chief Executive: Mr. Naveed Amin)	18,000	18,000	5,000	20,000	50,000
Rai Textile Mills Limited - HTM (Chief Executive: Mr. Javed Ahmad Kayani)	-	6	-	-	12
Aruj Textile Mills Limited - HTM (Chief Executive: Sheikh Muhammad Tahir)	5	5	654,970	615	852

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

Name of Company	No. of Units		Paid-up value per Certificate Rupees	Total Cost	
	2010	2009		2010	2009
Rupees in '000					
Blue Star Spinning Mills Limited – HTM	1	1	165,291		
(Chief Executive: Ch.Sardar Mohammad)	1	1	270,681		
	1	1	263,639		
	1	1	251,937		
	1	1	244,584		
	1	1	233,192		
	1	1	225,529		
	1	1	214,966		
	1	1	206,474		
	1	1	195,704		
	1	1	187,419		
	1	1	176,954		
	1	1	168,364		
	1	1	158,215		
	1	1	149,309		
	1	1	139,574		
	1	1	130,254	1,726	1,726
Bentonite Limited – HTM	13	13	107,610		
(Chief Executive: Mr. Khalid Shakeel)	1	1	107,619		
	1	1	470,440		
	15	15	20,100		
	1	1	20,680	1,360	1,360
Shah Jewana Textile Mills Limited – HTM	13	13	40,010		
(Chief Executive: Mrs.Shahida Faisal Saleh Hyat)	1	1	40,069		
	11	11	12,090		
	1	1	120,127	118	118
Faruki Pulp Mills Limited – HTM	-	13	1,050,900		
(Chief Executive: Mr. Salim Akbar Faruki)	-	1	1,050,993	-	6,435
Choudhry Wire Rope Industries – HTM	13	13	217,000		
(Chief Executive: Ch. Muhammad Akram)	1	1	228,902	621	621
Sadhuja Textile Mills Limited – HTM	1	1	137,946		
(Chief Executive: Mr. Ali Asghar)	3	3	278,924		
	2	2	274,376		
	1	1	2,790,892	916	916
Tanocraft Limited – HTM	15	15	59,500		
(Chief Executive: Mr. Kanwer Furqan Ali)	1	1	60,942		
	5	5	69,900		
	1	1	70,385	145	145
Khairpur Sugar Mills Limited – HTM	13	13	55,536		
(Chief Executive: Muhammad Mubeen Jumani)	1	1	55,538		
	5	5	337,000		
	1	1	337,077	887	1,248
Bachani Sugar Mills Limited – HTM	23	23	135,227		
(Chief Executive: Mr. Najmuddin Ansari)	1	1	135,236		
	14	14	1,526,874		
	13	13	655,656		
	1	1	655,657	12,667	12,667
Frontier Ceramics – HTM	15	15	117,000		
(Chief Executive: Mr. Shamsul Hassan)	1	1	118,846		
	13	13	224,000		
	1	1	217,221		
	13	13	113,000		
	1	1	113,960	1,466	2,073

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

Name of Company	No. of Units		Paid-up value per Certificate Rupees	Total Cost	
	2010	2009		2010	2009
Rupees in '000					
Bank Al-Habib Limited (Chief Executive: Mr. Abbas D. Habib)	60,000	60,000	5,000	299,640	299,880
National Transmission Distribution Company Limited (PPTFC) (Chief Executive: Mr. Rasul Khan Mahsud)	2,348,200	2,348,200	5,000	11,741,000	11,741,000
Power Holding (Pvt) Limited (Islamabad Electric Supply Company Limited) (Chief Executive: Mr. Fazeel Asif)	300	400	10,000,000	3,000,000	4,000,000
Power Holding (Pvt) Limited (Lahore Electric Supply Company Limited) (Chief Executive: Mr. Fazeel Asif)	300	400	10,000,000	3,000,000	4,000,000
Power Holding (Pvt) Limited (WAPDA) (Chief Executive: Mr. Fazeel Asif)	200	-	10,000,000	2,000,000	-
Power Holding (Pvt) limited (Chief Executive: Mr. Fazeel Asif)	1,271,400	1,271,400	5,000	6,357,000	6,357,000
<b>Total</b>				<b>29,717,278</b>	<b>30,335,030</b>

### 9.10 Detail of Investments in Debentures (Fully Provided)

Name of company	Terms			Cost	
	Principal	Interest	Rate of Interest	2010	2009
Rupees in '000					
<b>Public Sector</b>					
Haripur Cold Storage	Overdue	Overdue	12.50%	500	500
Haripur Cold Storage	Overdue	Overdue	12.50%	459	459
Haripur Cold Storage	Overdue	Overdue	12.50%	56	56
Karachi Development Authority	Overdue	Overdue	12.00%	62,355	62,355
<b>Private Sector</b>					
EFFEF Industries	Overdue	Overdue	14.00%	109	109
				<b>63,479</b>	<b>63,479</b>

### 9.11 Detail of Investments in Bonds

Name of Bond / Sukuk	Coupon Rate	Date of Issue	Date of Maturity	Coupon Due date	Coupon Frequency	Cost	
						2010	2009
Rupees in '000							
<b>Government</b>							
Public Sector Enterprise						-	118,513
						-	118,513
<b>Sukuk Bonds</b>							
Dawood Hercules Limited	6MK+1.2%	18-Sep-07	18-Sep-12	18-Mar-11	Half Yearly	904,800	1,000,000
Security Leasing Corporation Limited	6 MK+2%	06-Jan-07	31-Mar-14	20-Jan-11	Monthly	137,109	168,750
Century Paper & Board Mills Limited	Last 5 Days 6 Month avg						
	K+1.35%	25-Sep-07	24-Sep-14	25-Mar-11	Half Yearly	920,000	1,150,000
K.S. Sulemanji Esmailji & Sons Limited	3 MK+2.4%	30-Jun-08	30-Jun-12	31-Mar-11	Quarterly	142,500	142,500
Liberty Power Tech. Limited	3 MK+3%	31-Mar-09	31-Mar-19	31-Mar-11	Half Yearly	2,530,797	1,026,524
Al-Zamin Leasing Modaraba	6 MK+1.9%	12-May-08	12-May-12	12-May-11	Half Yearly	154,375	190,938
Quetta Textile Mills Limited	6 MK+1.5%	27-Sep-08	27-Sep-15	27-Mar-11	Half Yearly	48,333	50,000
Shahraj Fabrics Pvt Limited	6 MK +2.10%	08-Mar-08	08-Mar-13	08-Mar-11	Half Yearly	200,000	200,000
Maple Leaf Cement Factory Limited	3 MK + 1.0%	03-Dec-07	03-Dec-18	03-Mar-11	Quarterly	3,187,289	3,190,000
						<b>8,225,203</b>	<b>7,118,712</b>

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 9.12 Detail of Investment in Participation Term Certificates (fully provided)

Name of the Borrower	No. of Certificates		Value per Certificate	Cost	
	2010	2009		2010	2009
Rupees in '000					
Crystal Chemicals	1	1	59,000		
(Chief Executive: Mr. Maqsood A Shaikh)	13	13	62,000	1,559	1,559
MAS Dairies Limited.	1	1	50,000		
(Chief Executive: Mian Nisar Akhtar)	9	9	51,000	1,009	1,009
Pangrio Sugar Mills Limited	15	15	236,000		
(Chief Executive: Mr. Sajid Hussain Naqvi)	1	1	240,000		
	1	1	168,000		
	13	13	169,000	3,068	3,068
				5,636	5,636

### 9.13 Quality of Available for Sale Securities

Name of Security	2010		2009	
	Market value/Book Value	Rating	Market value/Book Value	Rating
Rupees '000			Rupees '000	
<b>Government Securities</b>				
Market Treasury Bills	59,846,686	Un Rated	33,997,603	Un Rated
Pakistan Investment Bonds	246,764	Un Rated	244,899	Un Rated
Government of Pakistan Ijara Sukuk	100,000	Un Rated	101,000	Un Rated
<b>Listed TFCs</b>				
Askari Bank Limited	99,960	AA-	97,357	AA-
Engro Corporation Limited	19,580	**	27,878	
Pakistan Mobile Communication Limited	65,476	**	72,402	
Azgard Nine Limited	4,327	A	4,853	AA-
Faysal Bank / Royal Bank Of Scotland/ ABN Amro Bank Limited	26,201	AA-	34,568	AA-
Escort Investment Bank Limited	49,960	A	82,547	A+
Engro Chemical Pakistan Limited	-	-	27,878	AA
Faysal Bank Limited	350,000	AA-	-	-
Financial Receivable Securitization Company Limited-A	42,505	A+	53,395	A+
Financial Receivable Securitization Company Limited-B	28,058	A+	31,250	A+
NIB Bank Limited	-	-	45,862	A
Pakistan Mobile Communication Limited	-	-	72,401	AA-
Pak Arab Fertilizers Limited	395,176	AA	394,509	AA
Searle Pakistan Limited	6,248	A-	18,136	BBB+
Standard Chartered Bank (Pakistan) Limited (Union Bank)	47,420	AAA	49,963	AAA
United Bank Limited-3rd Issue	49,920	AA	49,312	AA
United Bank Limited-4th Issue	184,815	AA	163,025	AA
ORIX Leasing Pakistan Limited	3,562	AA+	5,637	AA+
<b>Unlisted TFCs</b>				
Islamabad Electricity Supply Company Limited	-	-	4,000,000	**
National Transmission Distribution Company Limited (PPTFC)	11,741,000	**	11,741,000	**
Javedan Cement Company Limited	250,000	**	187,500	**
Grays Leasing Limited	20,000	A-	50,000	A-
Bank Al-Habib Limited	299,640	AA	299,880	AA
ORIX Leasing Pakistan Limited	1,916,667	AA+	2,035,500	AA+
Power Holding (Pvt) Limited	14,357,000	**	6,357,000	**
<b>Shares Unlisted</b>				
Arabian Sea Country Club Limited*	50,000	**	5,000	**
Attock Textile Mills Limited	506	**	506	**

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

Name of Security	2010		2009	
	Market value/Book Value Rupees '000	Rating	Market value/Book Value Rupees '000	Rating
Atlas Power Limited*	355,000	**	355,000	**
Dawood Family Takaful Limited	35,000	**	-	**
Eastern Capital Limited*	5,000	**	5,000	**
Equity Participation Fund*	-	**	-	**
First Women Bank Limited*	21,200	BBB+&A2	21,200	BBB+&A2
Habib Allied Internation Bank Limited*	214,769	**	214,769	**
KATEX Mills Limited	1,511	**	1,511	**
Khushhali Bank Limited*	200,000	A-&A-2	200,000	A-&A2
National Woolen Mills	52	**	52	**
National Institutional Facilitation Technologies (Pvt.) Limited	1,526	**	1,527	**
Nishat Chunian Power Limited*	-	-	10	AA & A1+
PASSCO*	1,000	**	1,000	**
Ruby Rice & Gen Mills	105	**	105	**
SME Bank Limited*	5,250	BBB&A-3	5,250	BBB&A3
SWIFT	1,771	**	1,770	**
<b>Shares / Certificates Listed</b>				
Askari Bank Limited	-	-	144,837	AA&A1+
Attock Petroleum Limited	-	-	57,920	**
Bank Al-Habib Limited	33,551	AA+ & A1+	-	-
Crescent Steel & Allied Products	-	-	23,495	A+&A1
Dadabhoy Modaraba	5,025	**	5,025	**
D.G. Khan Cement Limited	189,063	**	-	-
Engro Chemical Pakistan Limited	613,592	AA&A1+	661,336	AA&A1+
Eye Television Network Limited	58,024	A&A1	55,150	A & A1
Fauji Fertilizer Company Limited*	998,879	**	1,280,963	**
Fauji Fertilizer Company Limited	375,677	**	-	-
First Credit & Investment Bank Limited	-	-	15,567	A-&A2
Habib Bank Limited	200,205	AA+&A-1+	-	-
Hub Power Company Limited*	999,085	AA+&A1+	968,686	AA+&A1+
Hub Power Company Limited	227,743	AA+&A1+	478,008	AA+&A1+
Lucky Cement Limited	-	-	274,621	**
Meezan Bank Limited	32,027	AA-&A-1	70,792	A+&A1
National Refinery Limited	338,125	AAA&A1+	-	-
Nishat (Chunian) Limited	192,909	A&A-2	-	-
Nishat Chunian Power Limited*	300,000	AA-&A1+	309,000	AA&A1+
Nishat Chunian Power Limited	67,347	AA-&A1+	146,886	AA&A1+
Nishat Mills Limited	390,800	A+&A1	-	-
Nishat Power Limited*	300,000	AA-&A1+	381,900	AA&A1+
Nishat Power Limited	54,089	AA-&A1+	371,382	AA&A1+
Otsuka Pakistan Limited	3,335	**	-	-
PACE Pakistan Limited	-	-	29,862	A&A1
Pak Oman Advantage Fund	-	-	1,008	FS AA-[f]
Pakistan Oilfield Limited	1,301,823	**	918,548	**
Pakistan Petroleum Limited	-	-	520,690	**
Pakistan State Oil Company Limited	499,119	AA+&A1+	556,213	AA+&A1+
PICIC Growth Mutual Fund	202,512	**	136,245	**
Redco Textile Mills Limited	3	**	3	**
S.G. Fibers Limited	45,908	**	45,908	**
SAFA Textile Mills Limited	8,602	**	8,602	**
UBL Capital Protected Fund	75,000	AA+[cpf]	61,800	AA+[cpf]
United Bank Limited	-	-	626,350	AA+&A1+
<b>Preference Shares</b>				
Trust Investment Bank Limited	50,000	BBB-&A3	-	**
First Dawood Investment Bank	99,355	D&D	-	**

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

Name of Security	2010		2009	
	Market value/Book Value	Rating	Market value/Book Value	Rating
	Rupees '000		Rupees '000	
Fazal Cloth Mills Limited	75,000	**	75,000	**
Masood Textile Limited	58,333	**	116,667	**
<b>Investment in Mutual Funds</b>				
ABL Cash Fund	249,469	AA+(f)	-	-
ABL Income Fund	816,780	A+(f)	896,975	A(f)
ABL Stock Fund	141,560	MFR 5-Star	244,773	**
ABL Islamic Cash Fund	192,456			
AH Dow Jones Safe Pak Titans	20,000	**	-	-
Atlas Money Market Fund	50,000	AA+(f)	-	-
AMZ Plus Income Fund	55,424	BB(f)	100,000	BB(f)
Crosby Phoenix Fund	44,296	A(f)	-	-
Faysal Saving & Growth Fund	-	-	149,927	FS-A(F)
JS Aggressive Income Fund	-	-	99	4-Star
JS Income Fund	-	-	102,988	AA-(F)
KASB Liquid Fund	341,885	BBB+(f)	444,097	5-Star
Lakson Money Market Fund	250,000	AA(f)	101,422	**
MCB Dynamic Cash Fund	-	-	528,214	**
NAFA Cash Fund	894,151	A+(f)	1,065,080	3-Star
National Investment Trust	-	-	50,650	4-Star
United Growth & Income Fund	-	-	1,065,015	FS-A(F)
UBL Principal Protected Fund Plan-II	-	-	25,000	**
<b>Pre-IPO Investment</b>				
Dawood Takaful family fund	-	-	35,000	**
<b>Sukuk Bonds</b>				
Security Leasing Corporation Limited	137,109	**	150,526	BBB-&A3
Century Paper & Board Mills Limited	920,000	A+	1,106,016	A+
Dawood Hercules Limited	904,800	**	972,541	**
K.S.Sulemanji Esmailji & Sons	142,500	**	142,500	**
Liberty Power Tech Limited	2,530,797	AA-	1,026,524	**
Quetta Textile Mills Limited	48,333	**	41,386	**
* Strategic Investments of the Bank				
** Ratings are not available				

	December 31, 2010	December 31, 2009
	Rupees in '000	
<b>9.14 Unrealized loss on revaluation of investments classified as held for trading</b>		
<b>Ordinary shares of listed companies</b>		
Pakistan State Oil Company Limited	-	(7,897)
ABL Income fund	5,576	4,654
ABL Stock Fund	6,700	2,878
ABL Islamic Cash Fund	1,783	-
Pioneer Cement Limited	(35)	-
Japan Power Generation Limited	(1,902)	-
Japan Power Generation Limited	(14,790)	-
	(2,668)	(365)

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
<b>10. ADVANCES</b>			
Loans, cash credits, running finances, etc. - in Pakistan		263,057,934	243,204,567
Net investment in finance lease - in Pakistan	10.2	1,261,371	846,699
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		973,826	389,507
Payable outside Pakistan		3,239,841	5,484,414
		4,213,667	5,873,921
Advances - gross		268,532,972	249,925,187
Provision for non-performing advances	10.4	(15,420,788)	(12,535,255)
General provision for consumer financing	10.4	(9,474)	(7,410)
		(15,430,262)	(12,542,665)
Advances - net of provision		253,102,710	237,382,522
<b>10.1 Particulars of advances (Gross)</b>			
<b>10.1.1</b> In local currency		265,266,359	248,538,092
In foreign currencies		3,266,613	1,387,095
		268,532,972	249,925,187
<b>10.1.2</b> Short term (for upto one year)		160,254,440	152,487,239
Long term (for over one year)		108,278,532	97,437,948
		268,532,972	249,925,187

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 10.2 Net investment in finance lease

	December 31, 2010				December 31, 2009			
	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	274,677	531,796	383,700	1,190,173	263,578	366,287	200,381	830,246
Residual value	51,759	135,880	65,555	253,194	57,695	65,271	38,364	161,330
Minimum lease payments	326,436	667,676	449,255	1,443,367	321,273	431,558	238,745	991,576
Financial charges for future periods	(49,745)	(79,409)	(52,842)	(181,996)	(45,668)	(61,458)	(37,751)	(144,877)
Present value of minimum lease payments	276,691	588,267	396,413	1,261,371	275,605	370,100	200,994	846,699

10.3 Advances include Rs.18,688.166 million (2009: Rs. 16,281.178 million) which have been placed under non-performing status as detailed below:-

Category of Classification	Classified Advances			December 31, 2010 Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Other Assets Especially Mentioned	24,340	-	24,340	-	-	-	-	-	-
Substandard	1,604,264	-	1,604,264	330,109	-	330,109	330,109	-	330,109
Doubtful	3,937,765	-	3,937,765	1,968,882	-	1,968,882	1,968,882	-	1,968,882
Loss	13,121,797	-	13,121,797	13,121,797	-	13,121,797	13,121,797	-	13,121,797
	18,688,166	-	18,688,166	15,420,788	-	15,420,788	15,420,788	-	15,420,788

Category of Classification	Classified Advances			December 31, 2009 Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Other Assets Especially Mentioned	21,370	-	21,370	-	-	-	-	-	-
Substandard	3,045,384	-	3,045,384	760,816	-	760,816	760,816	-	760,816
Doubtful	2,713,157	-	2,713,157	1,356,579	-	1,356,579	1,356,579	-	1,356,579
Loss	10,501,267	-	10,501,267	10,417,860	-	10,417,860	10,417,860	-	10,417,860
	16,281,178	-	16,281,178	12,535,255	-	12,535,255	12,535,255	-	12,535,255

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

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

	Note	December 31, 2010			December 31, 2009		
		Specific	General	Total	Specific	General	Total
Rupees in '000							
Opening balance		12,535,255	7,410	12,542,665	10,657,709	10,060	10,667,769
Charge for the year		4,566,131	2,064	4,568,195	4,180,963	-	4,180,963
Reversals		(1,493,619)	-	(1,493,619)	(1,015,350)	(2,650)	(1,018,000)
Charged to profit and loss account		3,072,512	2,064	3,074,576	3,165,613	(2,650)	3,162,963
Amounts written off	10.5.1	(186,979)	-	(186,979)	(1,288,067)	-	(1,288,067)
Closing balance		15,420,788	9,474	15,430,262	12,535,255	7,410	12,542,665
10.4.1 In local currency		15,420,788	9,474	15,430,262	12,535,255	7,410	12,542,665
In foreign currencies		-	-	-	-	-	-
		15,420,788	9,474	15,430,262	12,535,255	7,410	12,542,665

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
10.5 Particulars of write offs:			
10.5.1 Against provisions		186,979	1,288,067
Directly charged to Profit and Loss account		-	-
		186,979	1,288,067
10.5.2 Write Offs of Rs. 500,000 and above	10.6	113,208	1,047,845
Write Offs of Below Rs 500,000		73,771	240,222
		186,979	1,288,067

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

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962, the Statement in respect of written-off loans or any other financial relief of five hundred thousand rupees and above allowed to a person(s) during the year ended December 31, 2010 is given in Annexure "I" of the unconsolidated financial statements of Allied Bank Limited. However, these write offs do not affect the Bank's right to recover debts from these customers.

	Note	December 31, 2010	December 31, 2009
Rupees in '000			

### 10.7 Particulars of loans and advances to directors, related parties, etc.

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		5,358,275	4,950,762
Loans granted during the year		976,105	1,266,167
Repayments		(1,000,418)	(858,654)
Balance at end of the year		5,333,962	5,358,275

Details of loans and advances to associates and other related parties are given in note 41.

### 11. OPERATING FIXED ASSETS

Capital work-in-progress	11.1	3,279,994	1,686,872
Property and equipment	11.2	11,906,454	10,614,274
Intangible assets	11.3	184,670	158,440
		15,371,118	12,459,586

#### 11.1 Capital work-in-progress

Civil works		2,572,875	1,047,556
Equipment		46,893	170,601
Advances to suppliers and contractors		660,226	468,715
		3,279,994	1,686,872

**Notes to the Consolidated Financial Statements**  
for the year ended December 31, 2010

Description	Note	Cost/Revaluation			Accumulated Depreciation			Annual rate of depreciation %			
		At January 1, 2010	Additions (Adjustment)/ (deletions)	Write-off	At December 31, 2010	Charge for the year/ adjustment/ (depreciation on deletion)	Write-off		At December 31, 2010	Net book value at December 31, 2010	
Rupees in '000											
Land-Freehold	11.4	4,329,181	1,257 (7,155)	-	4,317,291	-	-	-	4,317,291	-	
Land-Leasehold	11.4	1,606,518	76,864	-	1,683,382	-	-	-	1,683,382	-	
Buildings-Freehold	11.4	1,111,365	630,707	-	1,742,072	95,997	69,382	-	1,65,379	1,576,693	5
Buildings-Leasehold	11.4	1,748,797	289,721	-	2,038,518	85,569	90,240	-	175,809	1,862,709	5
Furniture and fixtures		398,736	154,466 (24,130)	(53)	529,019	179,781	39,844 (23,787)	(53)	195,785	333,234	10
Electrical, office and computer equipment		2,519,739	572,506 (41,893)	(116)	3,050,236	1,208,326	435,820 (40,496)	(111)	1,603,539	1,446,697	14.28 - 50
Vehicles		235,472	28,273 (18,079)	-	245,666	131,484	44,441 (15,109)	-	160,816	84,850	20
Building improvements (rented premises)		460,971	376,264 (211)	-	837,024	95,348	140,237 (159)	-	235,426	601,598	20
<b>Total</b>		<b>12,410,779</b>	<b>2,122,903 (90,305)</b>	<b>(169)</b>	<b>14,443,208</b>	<b>1,796,505</b>	<b>819,964 (79,551)</b>	<b>(164)</b>	<b>2,536,754</b>	<b>11,906,454</b>	



## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

- 11.4 Bank arranged for valuation of Properties as at December 31, 2008 from five independent valuers (Akbari & 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. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

	December 31, 2010	December 31, 2009
Rupees in '000		
- Land	3,509,739	3,515,042
- Building	1,202,404	1,265,689

- 11.5 Fair value of property and equipment including land and buildings is not expected to be 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, 2010	December 31, 2009
Rupees in '000			
11.6 Incremental depreciation charged during the year transferred to profit and loss account	21.1	47,297	49,785
11.7 Restriction/discrepancy in the title of property having a net book value of		116,157	119,713
11.8 Carrying amount of temporarily idle property and equipment		35,550	18,446
11.9 The gross carrying amount of fully depreciated/amortized assets that are still in use:			
Furniture and fixtures		104,795	91,713
Electrical, office and computer equipment		592,849	485,217
Vehicles		21,265	19,718
Intangible assets - software		33,411	29,759
11.10 The carrying amount of property and equipment that have retired from active use and are held for disposal		-	5,992

- 11.11 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 Muhammad Waseem Mukhtar, a Director of the Bank.

- 11.12 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 "II".

- 11.13 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 "II".

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

	Note	December 31, 2010	December 31, 2009				
Rupees in '000							
<b>12. DEFERRED TAX ASSETS / (LIABILITY) - NET</b>							
Deferred debits arising in respect of:							
Compensated leave absences	12.2	153,605	216,646				
Provision against:	12.2						
Investments		79,098	79,098				
Other assets		275,847	305,418				
Off balance sheet obligations		169,525	169,525				
Provision against advances	4 (ii)	1,025,795	223,560				
Post retirement medical benefits	12.2	276,249	327,168				
Workers' welfare fund		86,455	75,258				
Loss on sale of listed shares		-	39,863				
		2,066,574	1,436,536				
Deferred credits arising due to:							
Surplus on revaluation of fixed assets	21.1	(314,611)	(331,165)				
Surplus on revaluation of investments		(403,875)	(472,787)				
Accelerated tax depreciation / amortization		(846,420)	(605,066)				
Excess of investment in finance lease over written down value of leased assets		(18,517)	(30,892)				
		(1,583,423)	(1,439,910)				
		483,151	(3,374)				
<b>12.1 Reconciliation of deferred tax</b>							
	Balance as at January 01, 2009	Recognised in Profit and Loss Account	Recognised in Equity	Balance as at December 31, 2009	Recognised in Profit and Loss Account	Recognised in Equity	Balance as at December 31, 2010
(Rupees in '000)							
Deferred debits arising in respect of:							
Compensated leave absences	244,254	(27,608)	-	216,646	(63,041)	-	153,605
Provision against:							
Investments	82,293	(3,195)	-	79,098	-	-	79,098
Other assets	310,498	(5,080)	-	305,418	(29,571)	-	275,847
Off balance sheet obligations	169,525	-	-	169,525	-	-	169,525
Advances	-	223,560	-	223,560	802,235	-	1,025,795
Post retirement medical benefits	351,653	(24,485)	-	327,168	(50,919)	-	276,249
Workers welfare fund	-	75,258	-	75,258	11,197	-	86,455
Loss on sale of listed shares	-	39,863	-	39,863	(39,863)	-	-
Deficit on revaluation of investments	690,817	-	(690,817)	-	-	-	-
Tax Loss	3,534	(3,534)	-	-	-	-	-
	1,852,574	274,779	(690,817)	1,436,536	630,038	-	2,066,574
Deferred credits arising due to:							
Surplus on revaluation of fixed assets	(348,590)	17,425	-	(331,165)	16,554	-	(314,611)
Surplus on revaluation of investments	-	-	(472,787)	(472,787)	-	68,912	(403,875)
Accelerated tax depreciation / amortization	(425,499)	(179,567)	-	(605,066)	(241,354)	-	(846,420)
Excess of investment in finance lease over written down value of leased assets	(47,436)	16,544	-	(30,892)	12,375	-	(18,517)
	(821,525)	(145,598)	(472,787)	(1,439,910)	(212,425)	68,912	(1,583,423)
	1,031,049	129,181	(1,163,604)	(3,374)	417,613	68,912	483,151

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

- 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 ended on December 31, 2008).

The deferred tax asset on the deductible temporary differences disallowed as a deduction in the past up to December 31, 2007, for which transitory provisions are not available, 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, 2010	December 31, 2009
Rupees in '000			
<b>13. OTHER ASSETS</b>			
Income/Mark-up accrued on advances, investments and lending to financial institutions:			
- in local currency		10,542,327	9,620,554
- in foreign currencies		31,115	65,454
Receivable on sale of investment		-	30,466
Advances, deposits, advance rent and other prepayments		1,137,721	929,122
Advance taxation (payments less provisions)		1,865,621	4,676,715
Stationery and stamps on hand		29,713	22,293
Prepaid exchange risk fee		66	18
Due from the employees' retirement benefit schemes	36.4	1,504,938	1,509,879
Excise duty		26	11
Receivable from SBP - customers encashments		487	203,834
Non banking assets acquired in satisfaction of claims	13.1	1,730,492	938,496
Suspense account		696,059	588,281
Others		40,612	217,506
		17,579,177	18,802,629
Less: Provision held against other assets	13.2	(1,062,781)	(816,191)
Other assets (net of provision)		16,516,396	17,986,438
<b>13.1 Market value of non banking assets acquired in satisfaction of claims</b>		1,747,410	1,077,601
<b>13.2 Provision against Other Assets:</b>			
Opening balance		816,191	887,138
Charge for the year		331,077	77,326
Reversals		-	(133,757)
Net charge / (reversal)		331,077	(56,431)
Written off		(84,487)	(14,516)
Closing balance		1,062,781	816,191
<b>14. CONTINGENT ASSETS</b>			
There were no contingent assets of the Bank as at December 31, 2010 and December 31, 2009.			
<b>15. BILLS PAYABLE</b>			
In Pakistan		4,118,791	3,162,429
Outside Pakistan		-	-
		4,118,791	3,162,429

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
<b>16. BORROWINGS</b>			
In Pakistan		20,680,282	39,457,216
Outside Pakistan		94,168	361,316
		20,774,450	39,818,532
<b>16.1 Particulars of borrowings with respect to currencies</b>			
In local currency		20,518,433	39,457,216
In foreign currencies		256,017	361,316
		20,774,450	39,818,532
<b>16.2 Details of borrowings (Secured/Unsecured)</b>			
<b>Secured</b>			
Borrowings from State Bank of Pakistan			
Under export refinance scheme	16.3	13,301,654	12,225,858
Long term financing facility – Export oriented projects	16.4	1,889,208	1,254,403
Long term financing facility	16.4	3,316,675	4,768,650
		18,507,537	18,248,911
Borrowing from financial institutions	16.5	20,000	–
		18,527,537	18,248,911
Repurchase agreement borrowings	16.6	1,990,896	10,558,305
<b>Unsecured</b>			
Call borrowings	16.7	161,849	10,650,000
Overdrawn nostro accounts		94,168	361,316
		256,017	11,011,316
		20,774,450	39,818,532
<b>16.3</b>	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 to 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 10% (2009: 7.0%) per annum. These borrowings are repayable within six months from the deal date.		
<b>16.4</b>	This represents Long Term Financing against Export Oriented Projects 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 ranging from 5.0% to 8.6% (2009: 7.0%) per annum.		
<b>16.5</b>	This represents short term borrowing from National Bank of Pakistan.		
<b>16.6</b>	These represent funds borrowed from the local interbank market against government securities, carrying mark-up at rate 13.5% (2009: ranging between 10.75% and 12.40%) per annum maturing on various dates, latest by January 03, 2011.		
<b>16.7</b>	These represent unsecured borrowings in foreign currency (2009: local currency) from the local interbank market, carrying mark-up at rates, ranging between 0.8% and 1.3% (2009: 11.45% and 12.90%) per annum maturing on various dates, latest by March 28, 2011.		
		December 31, 2010	December 31, 2009
Rupees in '000			
<b>17. DEPOSITS AND OTHER ACCOUNTS</b>			
<b>Customers</b>			
Fixed deposits		109,051,434	98,425,685
Savings deposits		93,632,849	85,274,893
Current accounts - Remunerative		57,006,516	47,704,436
- Non-remunerative		110,871,294	93,273,281
		370,562,093	324,678,295
<b>Financial Institutions</b>			
Remunerative deposits		718,855	4,194,264
		371,280,948	328,872,559

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

		December 31, 2010	December 31, 2009
		Rupees in '000	
17.1	Particulars of deposits		
	In local currency	343,371,982	308,357,013
	In foreign currencies	27,908,966	20,515,546
		371,280,948	328,872,559
18.	SUB-ORDINATED LOANS		
	Customers		
	Term Finance Certificates - I	2,496,000	2,497,000
	Term Finance Certificates - II	2,998,800	3,000,000
		5,494,800	5,497,000

The Bank has issued following unsecured sub-ordinated Term Finance Certificates to improve the Bank's capital adequacy. Liability to the TFC holders is subordinated to and rank inferior to all other debts of the Bank including deposits. The salient features of the issues are as follows:

	Term Finance certificate - I	Term Finance certificate - II
Outstanding Amount- (Rupees in thousand)	2,496,000	2,998,800
Issue date	December 06, 2006	August 28, 2009
Total issue	2,500,000	3,000,000
Rating	AA-	AA-
Listing	Karachi Stock Exchange (Guarantee) Limited	Karachi Stock Exchange (Guarantee) Limited
Mark up repayment	Semi annually	Semi annually
Rate	- Six months KIBOR plus 1.9%	- Six months KIBOR plus 0.85% for first 5 years - Six months KIBOR plus 1.30% from start of 6th year
Call Option	Call option is not available to the issuer, except with prior approval of SBP	Issuer has the right to seek redemption after the eleventh redemption date of the entire TFC issue, prior to its stated maturity.
Repayment	8 Years (2007 - 2014)	10 Years (2010 - 2019)

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
<b>19. OTHER LIABILITIES</b>			
Mark-up/Return/Interest payable in local currency		3,727,598	4,639,831
Mark-up/Return/Interest payable in foreign currency		417,918	352,215
Accrued expenses		733,214	601,609
Branch adjustment account		1,401,372	741,233
Unrealized loss on forward foreign exchange contracts		281,215	37,933
Provision for:			
- gratuity	36.4	94,917	90,841
- employees' medical benefits	36.4	1,632,793	1,485,820
- employees' compensated absences	36.12	872,706	838,006
Unclaimed dividend		49,162	43,503
Dividend payable		8,279	7,086
Provision against off-balance sheet obligations	19.1	370,764	459,003
Retention money payable		92,891	81,489
Security deposits against lease		254,009	161,544
Sundry deposits		1,203,467	1,012,960
Workers Welfare Fund Payable		255,413	222,665
Others		912,071	291,426
		12,307,789	11,067,164
<b>19.1 Provision against off-balance sheet obligations</b>			
Opening balance		459,003	484,356
Charge for the year		33,054	25,049
Reversals		(121,293)	(50,402)
Net charge		(88,239)	(25,353)
Closing balance		370,764	459,003
The above provision has been made against letters of guarantee issued by the Bank.			
<b>19.2</b>			
In local currency		11,741,659	10,560,314
In foreign currencies		566,130	506,850
		12,307,789	11,067,164

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 20. SHARE CAPITAL

#### 20.1 Authorized capital

December 31, 2010	December 31, 2009		December 31, 2010	December 31, 2009
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, 2010	December 31, 2009	Ordinary shares	December 31, 2010	December 31, 2009
No. of shares			Rupees in '000	
406,780,094	406,780,094	Fully paid in cash	4,067,801	4,067,801
357,772,190	286,672,114	Issued as bonus shares	3,577,722	2,866,721
764,552,284	693,452,208		7,645,523	6,934,522
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
782,100,834	711,000,758		7,821,009	7,110,008

Ibrahim Fibers Limited and Ibrahim Agencies (Private) Limited, associated undertakings of the Bank, held 287,078,695 (36.71%) and Nil (0.00%) [(December 31, 2009: 287,678,696(40.46%) and 66,247,840 (9.32%)] ordinary shares of Rs.10 each, respectively, as at balance sheet date.

Note	December 31, 2010	December 31, 2009
	Rupees in '000	

### 21. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX

Surplus/(deficit) arising on revaluation of:

- fixed assets	21.1	2,765,036	2,801,082
- securities	21.2	2,033,420	1,261,197
Surplus on revaluation of assets - net of tax		4,798,456	4,062,279

#### 21.1 Surplus on revaluation of Fixed Assets

Surplus on revaluation of fixed assets as at January 1		3,132,247	3,182,032
Surplus realised on disposal of revalued properties - net of deferred tax		(5,303)	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(30,743)	(32,360)
Related deferred tax liability		(16,554)	(17,425)
	11.6	(47,297)	(49,785)
Surplus on revaluation of fixed assets as at December 31		3,079,647	3,132,247
Less: Related deferred tax liability on :			
Revaluation as at January 1		331,165	348,590
Charge on revaluation during the year			-
Incremental depreciation charged during the year transferred to profit and loss account		(16,554)	(17,425)
		314,611	331,165
		2,765,036	2,801,082

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
21.2			
Surplus/(Deficit) on revaluation of Available-for-sale securities			
Federal Government Securities			
		(120,712)	1,127
		(23,870)	(19,305)
		(9,949)	(387,927)
		-	(97,281)
		2,528,671	2,069,929
		63,155	167,441
	9.1	2,437,295	1,733,984
	12	(403,875)	(472,787)
		2,033,420	1,261,197

## 22. CONTINGENCIES AND COMMITMENTS

### 22.1 Direct credit substitutes

Guarantees in favour of:

Banks and financial institutions	1,769,128	1,035,107
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### 22.2 Transaction-related contingent liabilities

Guarantees in favour of:

Government	9,512,438	5,752,873
Others	8,585,255	10,352,695
	18,097,693	16,105,568

22.3	Trade-related contingent liabilities	52,044,205	65,895,610
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22.4	Claims against the bank not acknowledged as debt	3,943,404	4,346,919
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22.5 The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

	December 31, 2010	December 31, 2009	
Rupees in '000			
22.6	Commitments in respect of forward foreign exchange contracts		
	Purchase	23,100,518	23,338,782
	Sale	7,371,457	8,827,975
22.7	Commitments in respect of:		
	Civil works	1,260,603	604,828
	Acquisition of operating fixed assets	372,584	327,650
22.8	Commitments in respect of lease financing	168,437	32,630
22.9	Commitments in respect of procurement of software	258	36,523

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 22.10 Other Contingencies

22.10.1 The income tax assessments of the Bank have been finalized upto and including tax year 2010 for local and Azad Kashmir operations. While finalizing income tax assessments upto tax year 2009, income tax authorities made certain add backs with aggregate tax impact of Rs. 9,631 million. As a result of appeals filed by the Bank before appellate authorities, the add backs amounting to Rs. 2,524 million and Rs. 6,987 million were set-aside and deleted respectively. While giving appeal effects on most of the deleted issues, a refund of Rs. 5,794 million has been determined. Against most of the deleted and set-aside issues, Department is in appeal before higher appellate authorities. Pending finalization of appeals, no provision has been made by the Bank on aggregate sum of Rs. 9,631 million. The management is hopeful that the outcome of these appeals will be in favour of the Bank.

22.10.2 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

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 over 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, and they have underlined trade transactions.

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.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 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, based on prevailing SBP regulations.

The accounting policies used to recognize and disclose derivatives are given in note 5.16.2. The risk management framework of derivative instruments is given in note 43.

	December 31, 2010	December 31, 2009
	Rupees in '000	
<b>24. MARK-UP/RETURN/INTEREST EARNED</b>		
On loans and advances	31,349,605	30,145,244
On investments in:		
Available for sale securities	10,354,988	6,882,768
Held to maturity securities	1,309,349	1,761,520
	11,664,337	8,644,288
On deposits with financial institutions	5,458	13,061
On securities purchased under resale agreements	1,858,505	2,152,279
On certificates of investment	31,467	70,833
On letters of placement	23,579	44,029
On call money lending	78,233	74,933
	45,011,184	41,144,667
<b>25. MARK-UP/RETURN/INTEREST EXPENSED</b>		
Deposits	16,648,769	17,945,544
Long term borrowing	353,197	259,786
Securities sold under repurchase agreements	767,920	607,703
Call money borrowing	1,173,399	1,158,272
Brokerage and commission	198,364	156,746
Sub-ordinated loans	761,979	826,025
Other short term borrowings	2,561,878	1,467,142
	22,465,506	22,421,218
<b>26. FEE, COMMISSION AND BROKERAGE INCOME</b>		
Core fees, commission and brokerage	2,405,807	2,468,792
Account maintenance charges	240,453	331,514
	2,646,260	2,800,306
<b>27. GAIN ON SALE OF SECURITIES</b>		
Shares - Listed	1,372,962	896,114
Shares - Unlisted	-	7,393
Open End Mutual Funds	62,632	197,970
	1,435,594	1,101,477

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
<b>28. OTHER INCOME</b>			
Gain on sale of operating fixed assets		11,986	4,221
Miscellaneous		86,724	31,765
Compensation of Tax Refund	28.1	152,618	-
		<b>251,328</b>	<b>35,986</b>

28.1 This represents claim of the bank in respect of compensation for delayed refunds under section 171 of the income tax ordinance 2001 pertaining to tax year 2008. This compensation has been calculated at KIBOR applicable under section 171 on the amount of refund for the period commencing at the end of the three months of refund becoming due to the bank and the date of adjustment of refund by the income tax authorities.

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
<b>29. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, etc.	29.3	6,044,326	4,924,926
Charge for defined benefit plan	36	472,290	616,127
Contribution to defined contribution plan - provident fund		193,248	166,159
Non-executive directors' fees, allowances and other expenses		2,125	2,125
Rent, taxes, insurance, electricity, etc.		1,332,749	978,483
Legal and professional charges		83,027	106,515
Communications		253,631	292,986
Repairs and maintenance		210,468	161,290
Stationery and printing		245,561	217,888
Advertisement and publicity		204,105	192,072
Auditors' remuneration	29.1	11,420	11,396
Depreciation/Amortization	11.2 & 11.3	854,869	636,943
Security service charges		463,925	361,433
Travelling, conveyance and fuel expenses		221,432	181,906
Entertainment		126,298	97,871
Computer expenses		270,538	236,886
Subscription		293,913	203,772
Donations	29.2	38,260	97,265
Others		21,905	31,541
		<b>11,344,090</b>	<b>9,517,584</b>

### 29.1 Auditors' remuneration

	December 31, 2010				December 31, 2009			
	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	M. Yousaf Adil Saleem & Co.	Total	KPMG Taseer Hadi & Co.	Ernst & Young Ford Rhodes Sidat Hyder	M. Yousaf Adil Saleem & Co.	Total
Rupees in '000								
Audit fee	2,730	2,730	-	5,460	2,730	-	2,730	5,460
Special certifications, half yearly reviews and sundry miscellaneous services	1,622	1,470	430	3,522	2,070	-	2,435	4,505
Out-of-pocket expenses	1,025	209	904	2,138	538	-	733	1,271
Audit fee-subsiidiary company	-	300	-	300	-	-	160	160
	<b>5,377</b>	<b>4,709</b>	<b>1,334</b>	<b>11,420</b>	<b>5,338</b>	<b>-</b>	<b>6,058</b>	<b>11,396</b>

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

29.2 None of the directors, executives and their spouses had any interest in the donations disbursed during the year. Donations paid in excess of Rs. 100,000 to a single party during the year are as follows:

	December 31, 2010	December 31, 2009
	Rupees in '000	
Institute of Business Administration	10,000	10,000
Donation for Flood Affected Persons, Punjab	10,000	-
Chief Minister of Punjab Flood Relief Fund	5,000	-
Chhipa Welfare Association Karachi	3,530	-
M/s Book Group Karachi	2,500	-
Bakhtawar Amin Memorial Trust Hospital	2,000	-
Shoukat Khanum Memorial Cancer Hospital	1,000	-
Lahore Businessmen Association for Rehabilitation of the Disabled	1,000	-
Aga Khan Hospital and Medical College Foundation	1,000	1,000
Patient Welfare Association, DMC & Civil Hospital Karachi	500	-
Liver Center Civil Hospital Karachi	500	-
Jazba Foundation Lahore	500	-
M/s Tehzeeb Social Welfares Lahore	250	-
National Textile College Mananwala Faisalabad	180	-
Pakistan Hindu Council	100	-
Citizen Foundation Karachi	100	-
Bait ul Sakoon Karachi	100	-
The Karachi Education Initiative	-	50,000
Tamir Welfare Organization	-	2,500
SOS Children's Villages of Pakistan	-	500
Rural Education & Area Development	-	500
National Management Foundation	-	20,000
Lahore Business Association	-	500
Khoja Society for People's Education	-	200
GC University Lahore	-	1,000
Family education service foundation	-	1,000
Abdus Sattar Edhi Foundation	-	10,000
	38,260	97,200

29.3 During the year, the Bank announced the Voluntary Retirement Scheme (VRS) for its employees. 195 employees of the Bank opted for retirement under this scheme. In accordance with the actuary recommendations, the Bank has recognized an amount of Rs. 294 million to cover additional retirement benefits in respect of such employees.

	December 31, 2010	December 31, 2009
	Rupees in '000	
<b>30. OTHER CHARGES</b>		
Penalties imposed by SBP	59,647	32,095
Education cess	10,017	21,384
Fixed assets written off	5	9,373
Other assets written off	1,579	4,525
	71,248	67,377

### 31. WORKERS WELFARE FUND

Under the Workers Welfare Fund Ordinance (WWF), 1971 the Bank and its subsidiary are liable to pay WWF @ 2% of profit before tax as per accounts or declared income as per income tax return, whichever is higher.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

		December 31, 2010	December 31, 2009
		Rupees in '000	
32.	<b>TAXATION</b>		
	Current - for the year	4,175,600	3,551,493
	- for prior years	373,475	-
		4,549,075	3,551,493
	Deferred	[417,613]	[129,181]
		4,131,462	3,422,312
32.1	<b>Relationship between tax expense and accounting profit</b>		
	Accounting profit for the current year	12,415,279	10,571,622
	Tax on income @ 35% (2009: 35%)	4,345,348	3,700,068
	Effect of permanent differences	10,510	106,975
	Adjustments in respect of tax at reduced rates	[442,250]	[343,894]
	Others	217,854	[40,837]
	Tax charge for the current year	4,131,462	3,422,312
33.	<b>EARNINGS PER SHARE - BASIC AND DILUTED</b>		
	Profit after taxation	8,283,817	7,149,310
		Number of Shares	
	Weighted average number of ordinary shares outstanding during the year	782,100,834	782,100,834
		Rupees	
			Restated
	Earnings per share - basic and diluted	10.59	9.14
	There is no dilution effect on basic earnings per share.		
33.1	The corresponding figure of weighted average number of shares outstanding and earning per share have been restated to include the effect of bonus shares issued by the Bank during the year.		
		Note	December 31, 2010
			December 31, 2009
			Rupees in '000
34.	<b>CASH AND CASH EQUIVALENTS</b>		
	Cash and balances with treasury banks	6	31,265,658
	Balances with other banks	7	579,700
	Overdrawn nostro accounts	16	[94,168]
			31,751,190
			27,354,958
35.	<b>STAFF STRENGTH</b>		
			Numbers
	Permanent		8,986
	Temporary / on contractual basis / trainee		142
	Staff strength at the end of the year		9,128
	Outsourced		3,505
	Total staff strength		12,633
			8,748
			143
			8,891
			2,835
			11,726

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 36. DEFINED BENEFIT PLANS

#### 36.1 General description

The Bank operates a funded gratuity scheme for all employees including those who opted for the new staff retirement benefit scheme introduced by the management with effect from July 1, 2002. For the employees, serving the Bank prior to July 01, 2002 and 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.

#### 36.2 Number of Employees under the schemes

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

	December 31, 2010	December 31, 2009
	Number	
- Gratuity fund	9,083	8,854
- Pension fund	2,701	3,040
- Benevolent fund	235	551
- Employees' compensated absences	8,947	8,713
- Post retirement medical benefits	8,947	8,713

#### 36.3 Principal actuarial assumptions

The actuarial valuations were carried out on December 31, 2010 based on the Projected Unit Credit Method, using the following significant assumptions:

	Sources of estimation	December 31, 2010	December 31, 2009
Discount rate	Yield on investments in Government Bonds	13.00%	13.00%
Expected rate of return on plan assets:			
Pension fund	Yield on investments	13.00%	13.00%
Gratuity fund	in Government Bonds	13.00%	13.00%
Benevolent fund		13.00%	13.00%
Expected rate of salary increase	Rate of salary increase	11.00%	11.00%
Pension indexation rate		7.00%	7.00%
Medical inflation rate		8.00%	8.00%
Exposure inflation rate		3.00%	3.00%

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 36.4 Reconciliation of (receivable from) / payable to defined benefit plans

December 31, 2010						
	Note	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000						
Present value of defined benefit obligations	36.6	4,237,829	941,933	22,819	1,752,683	872,705
Fair value of plan's/scheme's assets	36.7	(5,368,825)	(849,433)	(143,814)	-	-
Net actuarial (losses) not recognized		(343,263)	2,417	59,637	(119,890)	-
		(1,474,259)	94,917	(61,358)	1,632,793	872,705
Benefit of the surplus not available to the Bank		-	-	30,679	-	-
Net (asset) / liability		(1,474,259)	94,917	(30,679)	1,632,793	872,705
December 31, 2009						
		Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000						
Present value of defined benefit obligations	36.6	4,040,811	766,547	60,968	1,681,204	872,705
Fair value of plan's/scheme's assets	36.7	(5,138,070)	(593,567)	(143,594)	-	-
Net actuarial (losses) not recognized		(389,670)	(82,139)	36,726	(195,384)	-
		(1,486,929)	90,841	(45,900)	1,485,820	872,705
Benefit of the surplus not available to the Bank		-	-	22,950	-	-
Net (asset) / liability		(1,486,929)	90,841	(22,950)	1,485,820	872,705

36.4.1 The latest actuarial valuation of Benevolent Fund, carried out as at December 31, 2010 highlighted a surplus amounting to Rs. 30.679 million attributable to the Bank. The Bank has maintained 100% provision against it.

36.4.2 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, 2010 would be Rs. 95.401 million [2009: Rs. 86.444 million] and Rs. 113.873 million [2009: Rs. 74.285 million] respectively.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 36.5 Movement in (receivable from) /payable to defined benefit plans

December 31, 2010						
	Note	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000						
Opening balance		(1,486,929)	90,841	(22,950)	1,485,820	838,005
Charge/(reversal) for the year	36.9	12,670	157,076	(7,729)	292,455	214,819
Benefits paid		-	(153,000)	-	(145,482)	(180,119)
Closing balance		(1,474,259)	94,917	(30,679)	1,632,793	872,705
December 31, 2009						
	Note	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000						
Opening balance		(1,358,768)	90,845	(141,708)	1,277,755	832,215
Charge/(reversal) for the year	36.9	(128,161)	151,462	230,131	278,022	84,669
Benefits paid		-	(151,466)	(111,373)	(69,957)	(78,879)
Closing balance		(1,486,929)	90,841	(22,950)	1,485,820	838,005

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

December 31, 2010						
		Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000						
Opening balance		4,040,811	766,547	60,968	1,681,204	838,005
Current service cost		-	134,654	-	53,403	61,641
Interest cost		538,112	111,051	5,446	223,203	108,941
Benefits paid		(663,521)	(116,278)	(18,245)	(145,482)	(180,119)
VRS loss		130,527	4,736	-	9,184	23,399
Actuarial gains / (losses)		191,900	41,223	(25,350)	(68,829)	20,838
Closing balance		4,237,829	941,933	22,819	1,752,683	872,705
December 31, 2009						
		Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000						
Opening balance		3,400,000	557,547	474,679	1,521,833	832,215
Current service cost		-	106,250	1,410	56,611	44,783
Interest cost		476,000	78,057	13,362	213,057	116,510
Benefits paid		(327,102)	(36,065)	(673,461)	(69,957)	(78,879)
VRS loss		-	-	251,675	-	-
Actuarial gains / (losses)		491,913	60,758	(6,697)	(40,340)	(76,624)
Closing balance		4,040,811	766,547	60,968	1,681,204	838,005

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 36.7 Reconciliation of fair value of plan assets

December 31, 2010					
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000					
Opening balance	5,138,070	593,567	143,594	-	-
Expected return on plan assets	682,948	93,795	18,667	-	-
Bank's contribution	-	153,000	-	-	-
Employees' contribution	-	-	-	-	-
Benefits paid	(663,521)	(116,278)	(18,245)	-	-
Actuarial gains / (losses)	211,328	125,349	(202)	-	-
Closing balance	5,368,825	849,433	143,814	-	-
December 31, 2009					
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000					
Opening balance	4,319,903	304,031	617,643	-	-
Expected return on plan assets	604,786	42,564	47,123	-	-
Bank's contribution	-	151,466	111,373	-	-
Employees' contribution	-	-	-	-	-
Benefits paid	(327,102)	(36,065)	(673,461)	-	-
Actuarial gains	540,483	131,571	40,916	-	-
Closing balance	5,138,070	593,567	143,594	-	-

### 36.8 Composition of fair value of plans assets

December 31, 2010					
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000					
Government securities	1,497,001	-	-	-	-
Open end mutual fund units	722,968	-	-	-	-
Listed shares *	1,629,057	378,175	28,422	-	-
Bank balances *	1,519,799	471,258	115,392	-	-
	5,368,825	849,433	143,814	-	-
* Fair value of Bank's financial instruments included in plan assets					
Shares of ABL	640,102,826	202,055,290	-	-	-
Bank balances with ABL	1,519,799	471,258	115,392	-	-
	641,622,625	202,526,548	115,392	-	-

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 36.8 Composition of fair value of plans assets

	December 31, 2009				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000					
Government securities	680,122	76,659	-	-	-
Open end mutual funds	562,484	-	-	-	-
Listed shares *	1,251,087	242,100	31,926	-	-
Bank balances *	2,644,377	274,808	111,668	-	-
	5,138,070	593,567	143,594	-	-
* Fair value of Bank's financial instruments included in plan assets					
Shares of ABL	486,987	153,784	10,110	-	-
Bank balances with ABL	2,644,377	274,808	111,668	-	-
	3,131,364	428,592	121,778	-	-

### 36.9 Charge for defined benefit plan

	December 31, 2010				
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000					
Current service cost	-	134,654	-	53,403	61,641
Interest cost	538,111	111,051	5,446	223,203	108,941
Expected return on plan assets	(682,948)	(93,795)	(18,667)	-	-
Actuarial (gains)/losses	26,980	430	(2,237)	6,665	20,838
Contributions – employee	-	-	-	-	-
VRS Loss	130,527	4,736	-	9,184	23,399
Benefit of the surplus not available to the Bank	-	-	7,729	-	-
	12,670	157,076	(7,729)	292,455	214,819
December 31, 2009					
	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
Rupees in '000					
Current service cost	-	106,250	1,410	56,611	44,783
Interest cost	476,000	78,057	13,362	213,057	116,510
Expected return on plan assets	(604,786)	(42,564)	(47,124)	-	-
Actuarial (gains)/losses	625	9,719	7,154	8,354	(76,624)
Contributions – employee	-	-	-	-	-
VRS Loss	-	-	251,675	-	-
Benefit of the surplus not available to the Bank	-	-	3,654	-	-
	(128,161)	151,462	230,131	278,022	84,669

36.9.1 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. 6.201 million (2009: Rs. 11.238 million) and Rs. 7.402 million (2009: Rs. 9.657 million) respectively.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

	December 31, 2010		December 31, 2009		
	Rupees in '000				
<b>36.10</b>	<b>Actual return on plan assets</b>				
- Pension fund	894,226		1,145,269		
- Gratuity fund	219,144		174,135		
- Benevolent fund	18,465		88,039		
<b>36.11</b>	<b>Five year data of defined benefit plan and experience adjustments</b>				
	Pension fund				
	2010	2009	2008	2007	2006
	Rupees in '000				
Present value of defined benefit obligation	4,237,829	4,040,811	3,400,000	3,461,993	3,295,249
Fair value of plan assets	(5,368,825)	(5,138,070)	(4,319,903)	(5,738,722)	(5,155,897)
Surplus	(1,130,996)	(1,097,259)	(919,903)	(2,276,729)	(1,860,648)
	Experience adjustments on plan obligations / assets				
Actuarial gain / (loss) on obligation	(191,900)	(491,912)	(117,235)	(219,179)	(63,723)
Actuarial gain / (loss) on assets	211,328	540,483	(1,264,567)	449,195	(529,840)
	Gratuity fund				
	2010	2009	2008	2007	2006
	Rupees in '000				
Present value of defined benefit obligation	941,933	766,547	557,547	574,685	463,564
Fair value of plan assets	(849,433)	(593,567)	(304,031)	(475,357)	(393,999)
Deficit	92,500	172,980	253,516	99,328	69,565
	Experience adjustments on plan obligations / assets				
Actuarial gain / (loss) on obligation	(41,223)	(60,758)	60,479	(22,810)	1,848
Actuarial gain / (loss) on assets	125,349	131,570	(216,667)	(28,678)	19,193
	Benevolent fund				
	2010	2009	2008	2007	2006
	Rupees in '000				
Present value of defined benefit obligation	22,819	60,968	474,679	557,296	532,218
Fair value of plan assets	(143,814)	(143,594)	(617,643)	(692,158)	(610,811)
(Surplus) / deficit	(120,995)	(82,626)	(142,964)	(134,862)	(78,593)
	Experience adjustments on plan obligations / assets				
Actuarial gain / (loss) on obligation	25,350	6,697	94,790	1,424	51,450
Actuarial gain / (loss) on assets	(202)	40,916	(153,801)	(6,400)	(27,417)

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

	Gratuity fund				
	2010	2009	2008	2007	2006
	Rupees in '000				
Present value of defined benefit obligation	941,933	766,547	557,547	574,685	463,564
Fair value of plan assets	(849,433)	(593,567)	(304,031)	(475,357)	(393,999)
Deficit	92,500	172,980	253,516	99,328	69,565
<b>Experience adjustments on plan obligations / assets</b>					
Actuarial gain / (loss) on obligation	(41,223)	(60,758)	60,479	(22,810)	1,848
Actuarial gain / (loss) on assets	125,349	131,570	(216,667)	(28,678)	19,193
	Benevolent fund				
	2010	2009	2008	2007	2006
	Rupees in '000				
Present value of defined benefit obligation	22,819	60,968	474,679	557,296	532,218
Fair value of plan assets	(143,814)	(143,594)	(617,643)	(692,158)	(610,811)
(Surplus) / deficit	(120,995)	(82,626)	(142,964)	(134,862)	(78,593)
<b>Experience adjustments on plan obligations / assets</b>					
Actuarial gain / (loss) on obligation	25,350	6,697	94,790	1,424	51,450
Actuarial gain / (loss) on assets	(202)	40,916	(153,801)	(6,400)	(27,417)
	Post retirement medical				
	2010	2009	2008	2007	2006
	Rupees in '000				
Present value of defined benefit obligation	1,752,683	1,681,204	1,521,833	1,624,176	1,458,865
Fair value of plan assets	-	-	-	-	-
Deficit	1,752,683	1,681,204	1,521,833	1,624,176	1,458,865
<b>Experience adjustments on plan obligations</b>					
Actuarial gain / (loss) on obligation	68,829	40,340	153,494	(62,511)	(68,312)
	Leave encashment				
	2010	2009	2008	2007	2006
	Rupees in '000				
Present value of defined benefit obligation	872,705	838,005	832,215	875,178	925,392
Fair value of plan assets	-	-	-	-	-
Deficit	872,705	838,005	832,215	875,178	925,392
<b>Experience adjustments on plan obligations</b>					
Actuarial gain / (loss) on obligation	-	-	-	-	-

### 36.12 Employees' compensated absences

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 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, 2010 would be as follows:

	Pension fund	Gratuity fund	Benevolent fund	Post retirement medical	Leave Encashment
	Rupees in '000				
Expected (reversal) / charge for the next year	(147,029)	152,594	(13,029)	284,453	191,001

### 37. 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 8,525 (2009: 7,478) as on December 31, 2010. During the year, employees made a contribution of Rs. 191.000 (2009: Rs. 164.205) million to the fund. The Bank has also made a contribution of equal amount to the fund.

The subsidiary company operates an approved provident fund for its permanent employees. Equal monthly contributions to the fund are made both by the subsidiary company and its employees at the rate of 10 % each of the basic salary per month. During the year contribution of Rs. 2.240 million (2009: Rs. 1.953 million) each was made to the fund by the subsidiary company and its employees.

### 38. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Note	President/Chief Executive		Directors		Executives*	
		December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Rupees in '000							
Fees	38.1	-	-	1,725	2,450	-	-
Managerial remuneration		26,045	16,930	-	-	772,168	568,076
Charge for defined benefit plans		1,613	1,127	-	-	200,575	129,859
Contribution to defined contribution plan		1,344	1,411	-	-	64,048	47,321
Rent and house maintenance		11,724	7,619	-	-	339,458	255,635
Utilities		2,790	1,781	-	-	75,661	56,808
Medical		135	784	-	-	93,536	67,923
Bonus		50,456	16,452	-	-	232,092	226,902
Conveyance and others		424	222	-	-	123,745	69,385
	38.2	94,531	46,326	1,725	2,450	1,901,283	1,421,909
Number of persons		1	1	4	6	845	620

38.1 This represents remuneration paid to directors for attending meetings of the Board of Directors, Audit Committee and other committees held during the year. Board of Directors had recommended an increase in meeting fee from Rs. 25,000 to Rs. 50,000 with effect from 18 October, 2010, and the same shall be approved in the upcoming Annual General Meeting.

38.2 This includes remuneration of ex-president and current president.

\* During the year SBP approved the appointment of an Executive Director as a full time employee of the Bank effective from July 01, 2010, however his role on the Board of Directors shall remain as an Executive Director.

### 39. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The maturity and repricing profile and effective rates are stated in notes 43.3.1 and 43.2.4 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.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 40. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

December 31, 2010								
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Asset Management	Eliminations	Total
Rupees in '000								
Total Income	409,614	2,021,742	23,977,826	40,871,128	444,758	176,166	(17,022,742)	50,878,492
Total Expenses	(210,172)	(2,001,367)	(19,943,573)	(37,105,938)	(238,686)	(117,681)	17,022,742	(42,594,675)
Net Income	199,441	20,375	4,034,254	3,765,190	206,072	58,485	-	8,283,817
Segment Assets (Gross)	222,575	12,393,503	106,907,076	349,369,145	214,079	539,436	-	469,645,814
Segment Non Performing Loans	-	-	6,237,635	12,450,450	-	-	-	18,688,085
Segment Provision Required	-	-	5,136,558	10,293,704	-	-	-	15,430,262
Segment Liabilities	263,553	2,469,120	334,172,029	72,662,635	4,389,332	24,663	-	413,981,332
Segment Return on net Assets (ROA) (%)*	89.61%	0.16%	3.77%	1.08%	96.26%	10.84%	-	-
Segment Cost of Funds (%)*	0.00%	13.01%	6.04%	9.88%	0.00%	0.00%	-	-

December 31, 2009								
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Asset Management	Eliminations	Total
Rupees in '000								
Total Income	610,451	2,347,927	19,869,881	37,921,530	375,825	150,027	(14,052,717)	47,222,924
Total Expenses	(315,757)	(2,336,961)	(17,239,657)	(33,897,887)	(213,185)	(122,884)	14,052,717	(40,073,614)
Net Income	294,694	10,966	2,630,224	4,023,643	162,640	27,143	-	7,149,310
Segment Assets (Gross)	467,199	28,531,518	94,853,781	309,596,743	250,471	466,521	-	434,166,233
Segment Non Performing Loans	-	280,595	4,644,319	11,636,859	-	-	-	16,561,773
Segment Provision Required	-	280,595	4,294,069	11,250,717	-	-	-	15,825,381
Segment Liabilities	378,254	21,540,856	276,350,228	86,770,234	3,370,272	11,215	-	388,421,058
Segment Return on net Assets (ROA) (%)*	63.08%	0.04%	2.77%	1.30%	64.93%	5.82%	-	-
Segment Cost of Funds (%)*	0.00%	10.47%	7.63%	10.72%	0.00%	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 Consolidated Financial Statements

for the year ended December 31, 2010

### 41. RELATED PARTIES TRANSACTIONS

The Bank and its subsidiary have related party relationships with companies with common directorship, directors, employee benefit plans and key management personnel.

Contributions to the accounts in respect of staff retirement benefits are made in accordance with actuarial valuation/terms of the contribution plan. Remuneration of the key management personnel are in accordance with the terms of their employment. Other transactions are at agreed terms.

	December 31, 2010				December 31, 2009			
	Directors	Associated Companies	Key management personnel	Other related parties	Directors	Associated Companies	Key management personnel	Other related parties
Rupees in '000								
<b>Loans</b>								
Loans at the beginning of the year	22,461	-	248,967	14,318,863	27,040	-	227,276	6,156,764
Loans given during the year	85,655	-	38,959	2,173,199	13,040	-	71,710	8,196,479
Loans repaid during the year	(46,535)	-	(76,223)	(430,166)	(17,619)	-	(50,019)	(34,380)
Loans at the end of the year	61,581	-	211,703	16,061,896	22,461	-	248,967	14,318,863
<b>Deposits</b>								
Deposits at the beginning of the year	9,661	9,400	10,782	-	4,845	55,423	14,275	-
Deposits received during the year	2,973,552	9,298,676	179,754	-	555,123	1,631,336	268,641	-
Deposits repaid during the year	(2,973,392)	(9,214,111)	(174,408)	-	(550,307)	(1,677,359)	(272,134)	-
Deposits at the end of the year	9,821	93,965	16,128	-	9,661	9,400	10,782	-
Nostro balances	-	126,448	-	-	-	198,082	-	-
Lendings	-	523,239	-	-	-	1,097,434	-	-
Borrowings	-	161,850	-	-	-	484,267	-	-
Investments in shares / mutual funds	-	240,969	-	2,304,790	-	240,969	-	4,229,537
Rent payable	-	-	-	-	-	-	664	-
Non funded exposure	-	-	-	4,111,021	-	-	-	4,003,500
Other receivables	-	-	-	-	-	-	-	-
Net receivable from								
staff retirement benefit funds	-	-	-	1,452,077	-	-	-	1,343,345
Staff retirement fund deposits	-	-	-	3,042,357	-	-	-	4,810,081
Rupees in '000								
<b>Other transactions</b>								
Mark-up earned	481	-	11,863	2,432,979	1,049	-	15,256	1,316,436
Income on placements	-	6	-	-	-	175	-	-
Income on lendings	-	155	-	-	-	22,860	-	-
Dividend income	-	-	-	292,892	-	-	-	9,855
Sales Commission	-	-	-	29,857	-	-	-	-
Mark-up expense on deposits	443	-	364	408,256	205	40	675	369,511
Interest expense on borrowings	-	600	-	-	-	161	-	-
Directors' meeting fee	1,725	-	-	-	2,125	-	-	-
Remuneration	-	-	190,577	-	-	-	175,635	-
NIFT charges	-	-	-	66,040	-	-	-	64,768
Management fee / commission	-	-	-	171,035	-	-	-	101,660
Rent expense	-	4,880	-	7,971	-	-	-	7,971
Bank charges levied	-	23	-	33	-	-	-	17
Charge / [reversal] in respect of staff retirement benefit funds	-	-	-	472,290	-	-	-	417,641

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, 9.4, 9.5, 20.2 and 38 to these unconsolidated financial statements.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 42. CAPITAL ASSESSMENT AND ADEQUACY

#### 42.1 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.

#### 42.2 Capital Structures

Banks and its subsidiary's 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. The regulatory approvals for TFC I and TFC II work obtained in December 2006 and August 2009 respectively.

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 salient features of the issue are as follows:

	Term Finance Certificate - I	Term Finance Certificate - II
Outstanding Amount- (Rupees in thousand)	2,496,000	2,998,800
Issue date	December 06, 2006	August 28, 2009
Total issue	2,500,000	3,000,000
Rating	AA-	AA-
Listing	Karachi Stock Exchange (Guarantee) Limited	Karachi Stock Exchange (Guarantee) Limited
Rate	Payable semi annually - Six months KIBOR plus 1.9%	Payable semi annually - Six months KIBOR plus 0.85% for first 5 years - Six months KIBOR plus 1.30% from start of 6th year
Call Option	Call option is not available to the issuer	Issuer has the right to seek redemption after the eleventh redemption date of the entire TFC issue, prior to its stated maturity.
Repayment	8 Years (2007 - 2014)	10 Years (2010 - 2019)

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.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

Detail of eligible capital of the bank and its subsidiary (on consolidated basis) is as follows:

	Note	December 31, 2010	December 31, 2009
Rupees in '000			
<b>Tier I Capital</b>			
Shareholders' equity /Assigned Capital		7,821,009	7,110,008
Share premium		983,957	1,694,958
Reserves		6,532,953	4,887,887
Unappropriated profits (Net of Losses)		15,853,255	12,164,662
<b>Total Tier I Capital</b>		<b>31,191,174</b>	<b>25,857,515</b>
<b>Less: Book value of intangibles</b>		<b>(184,670)</b>	<b>(158,44)</b>
Shortfall in provisions required against classified assets irrespective of relaxation allowed		(70,250)	(317,785)
Reciprocal investment		(8,482)	-
		(263,402)	(476,225)
<b>Eligible Tier I Capital</b>		<b>30,927,772</b>	<b>25,381,290</b>
<b>Tier II Capital</b>			
Subordinated Debt (upto 50% of total Tier 1 Capital)		4,496,400	4,997,600
General Provisions subject to 1.25% of Total Risk Weighted Assets		9,473	7,410
Revaluation Reserve (upto 45%)		2,482,624	2,189,804
<b>Total Tier II Capital</b>		<b>6,988,497</b>	<b>7,194,814</b>
<b>Eligible Tier II Capital</b>		<b>6,988,497</b>	<b>7,194,814</b>
<b>Eligible Tier III Capital</b>		<b>-</b>	<b>-</b>
<b>Total Regulatory Capital Base</b>		<b>37,916,269</b>	<b>32,576,104</b>

### 42.3 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) and Management Committee (MANCO). Further, capital adequacy and management is overseen by the Board's Risk Management Committee (BRMC) and Strategic Planning and Monitoring Committee (SPMC).

#### 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. 07 of 2009 dated April 15, 2009 has required the Banks to raise their minimum paid up capital to Rs. 7 billion by the end of financial year 2010. Furthermore the Banks are expected to increase their minimum paid up capital to Rs 10 billion in a phased manner by the end of financial year 2013.

SBP through its BSD Circular No. 09 dated April 15, 2009 has asked Banks to achieve the minimum Capital Adequacy Ratio (CAR) of 10% on standalone as well as on consolidated basis latest by December 31, 2010.

The paid up capital and CAR of the Bank stands at Rs. 7.821 billion and 13.97% of its risk weighted exposure as at December 31, 2010.

The Bank has complied with all externally imposed capital requirements as at year end.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 42.4 Risk Weighted Exposures

	Capital Requirements		Risk Weighted Assets	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
	Rupees in '000			
<b>Credit Risk</b>				
Portfolios subject to standardized approach (Simple or Comprehensive)				
<b>On- Balance Sheet</b>				
(a) Cash and Cash Equivalents	-	-	-	-
(b) Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR	-	-	-	-
(c) Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan	-	-	-	-
(d) Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR	66,166	11,925	661,656	119,253
(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	53,265	171,935	532,647	1,719,347
(h) Claims on Banks	272,915	72,260	2,729,147	722,604
(i) Claims, denominated in foreign currency, on banks with original maturity of 3 months or less	45,367	25,768	453,672	257,682
(j) Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR	87,567	142,180	875,665	1,421,804
(k) Claims on Corporates (excluding equity exposures)	12,951,802	11,333,633	129,518,020	113,336,333
(l) Claims categorized as retail portfolio	2,247,992	2,504,720	22,477,919	25,047,204
(m) Claims fully secured by residential property	177,253	172,952	1,772,533	1,729,516
(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:	-	-	-	-
1.1 where specific provisions are less than 20 per cent of the outstanding amount of the past due claim.	3,651	3,206	36,510	32,055
1.2 where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim.	324,304	364,115	3,243,038	3,641,146
1.3 where specific provisions are more than 50 per cent of the outstanding amount of the past due claim.	-	4,170	-	41,703
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	-	-	-	-
(o) Listed Equity investments and regulatory capital instruments issued by other banks (other than those deducted from capital) held in the banking book.	584,574	472,174	5,845,742	4,721,738
(p) Unlisted equity investments (other than that deducted from capital) held in banking book	134,228	115,128	1,342,285	1,151,282
(q) Investments in venture capital	-	-	-	-
(r) Investments in premises, plant and equipment and all other fixed assets	1,518,645	1,230,115	15,186,446	12,301,148
(s) Claims on all fixed assets under operating lease	-	-	-	-
(t) All other assets	456,123	551,411	4,561,234	5,514,106
	18,923,852	17,175,692	189,238,514	171,756,921

## Notes to the Consolidated Financial Statements

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	Capital Requirements		Risk Weighted Assets	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Rupees in '000				
<b>Off- Balance Sheet – Non Market related Exposures</b>				
Direct Credit Substitutes/ Lending of securities or posting of securities as collateral	1,942,157	1,404,899	19,421,569	14,048,990
Trade Related contingencies/Other Commitments with original maturity of one year or less	375,640	707,806	3,796,561	7,078,056
	2,317,797	2,112,705	23,218,130	21,127,046
<b>Equity Exposure Risk in the Banking Book</b>				
Equity portfolio subject to market-based approaches				
Under simple risk weight method	17,112	24,435	171,120	244,353
<b>Total Credit Risk (A)</b>	<b>21,258,760</b>	<b>19,303,156</b>	<b>212,627,764</b>	<b>193,128,320</b>
<b>Market Risk</b>				
<b>Capital Requirement for portfolios subject to Standardized Approach</b>				
Interest rate risk	-	-	-	-
Equity position risk etc.	1,442,962	1,125,239	14,429,622	11,252,390
	1,442,962	1,125,239	14,429,622	11,252,390
<b>Capital Requirement for portfolios subject to Internal Models Approach</b>				
Interest rate risk	-	-	-	-
Foreign exchange risk etc.	96,687	7,466	966,869	74,663
	96,687	7,466	966,869	74,663
<b>Total Market Risk (B)</b>	<b>1,539,649</b>	<b>1,132,705</b>	<b>15,396,491</b>	<b>11,327,053</b>
<b>Operational Risk</b>				
Basic Indicator Approach–Total of operational risk (C)	4,341,938	3,472,437	43,419,377	34,724,367
<b>TOTAL of A + B + C</b>	<b>27,140,347</b>	<b>23,917,974</b>	<b>271,443,632</b>	<b>239,179,740</b>
December 31, 2010      December 31, 2009				
<b>Capital Adequacy Ratio</b>				
Total eligible regulatory capital held (Note 42.2)	(a)		37,916,269	32,756,104
Total Risk Weighted Assets (Note 42.4)	(b)		271,443,632	239,179,740
Capital Adequacy Ratio	(a) / (b)		13.97%	13.62%

### 43. 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.

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<b>Market Risk</b>	The risk of loss generated by adverse changes in the price of financial assets or contracts currently held by the Bank (this risk is also known as price risk).
<b>Liquidity Risk</b>	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.
<b>Operational Risk</b>	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.
<b>Reputational Risk</b>	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) or ALCO (Assets and Liability Committee) 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.

#### 43.1 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) Counter party 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

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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 by Risk Managers 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.

### 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 2010, the specific provisioning rate was 81.86% 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 10.4 to these financial statements.

### Portfolio Diversification

During the year 2010, the advances grew by 7.46%, 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.

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### 43.1.1 Segmental Information

#### 43.1.1.1 Segments by class of business

	December 31, 2010					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, and Hunting	495,779	0.18	18,145,379	4.89	98,684	0.09
Fishing	8,024	0.00	-	-	-	-
Food & Beverages	5,778,648	2.15	2,008,456	0.54	132,952	0.12
Grains & related	19,484,217	7.26	3,602,908	0.97	288,907	0.27
Sugar	6,860,317	2.55	1,470,727	0.40	54,748	0.05
Spinning	18,163,273	6.76	6,372,522	1.72	664,582	0.61
Weaving	7,569,712	2.82	4,352,291	1.17	505,840	0.47
Finishing of Textile	10,961,581	4.08	1,671,885	0.45	2,303,899	2.13
Manufacture of made up & ready made garments	2,845,462	1.06	922,801	0.25	129,652	0.12
Footware & leather garments	802,575	0.30	427,135	0.12	120,642	0.11
Paper & paper boards	3,721,354	1.39	5,394	0.00	680,088	0.63
Printing, publishing & allied	86,078	0.03	34,752	0.01	135,655	0.13
Petroleum products	812,110	0.30	3,927,026	1.06	4,163,165	3.85
Chemical & pharmaceutical	15,939,600	5.94	338,679	0.09	2,108,997	1.95
Rubber & plastic	1,143,507	0.43	662,789	0.18	180,878	0.17
Cement/clay & ceramics	14,151,349	5.27	2,980,338	0.80	1,328,995	1.23
Basic metals (iron, steel)	2,208,997	0.82	1,531,727	0.41	1,136,417	1.05
Machinery & equipment	3,141,899	1.17	904,093	0.24	389,027	0.36
Power, gas, water & sanitary	43,181,647	16.08	2,594,281	0.70	18,322,632	16.95
Manufacture of transport equipment	375,545	0.14	113,392	0.03	214,393	0.20
Tobacco	-	-	17,434	0.00	-	-
Financial	3,077,428	1.15	2,307,736	0.62	34,325,654	31.75
Health & social welfare	383,198	0.14	10,030,940	2.70	-	-
Education	139,771	0.05	4,269,958	1.15	81,946	0.08
Real estate, renting, and business activities	5,881,142	2.19	32,945,936	8.87	12,160	0.01
Transport, storage & communication	4,780,065	1.78	1,363,453	0.37	34,967	0.03
Hotel, restaurant & clubs	149,872	0.06	1,048,080	0.28	5,225,642	4.83
Construction	6,468,245	2.41	17,393,998	4.68	81	0.00
Furniture & sports goods	982,716	0.37	860,080	0.23	1,183,566	1.09
Wholesale & retail trade	13,447,803	5.01	35,043,611	9.44	142,278	0.13
Individuals	6,627,507	2.47	118,576,797	31.94	6,157,707	5.69
Others	68,863,551	25.64	95,359,670	25.68	28,004,133	25.90
	268,532,972	100.00	371,284,268	100.00	108,128,288	100.00

#### 43.1.1.2 Segments by sector

	December 31, 2010					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	58,359,399	21.73	41,868,197	11.28	14,459,970	13.37
Private	210,173,573	78.27	329,416,071	88.72	93,668,317	86.63
	268,532,972	100.00	371,284,268	100.00	108,128,287	100.00

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

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

	December 31, 2010		December 31, 2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Rupees in '000				
Agriculture, Forestry, and Hunting	151,668	111,761	11,136	6,639
Food & Beverages	855,203	711,950	110	110
Spinning	3,170,992	2,085,969	-	-
Weaving	9,040	9,040	-	-
Finishing of Textile	1,909,925	1,513,757	3,503,605	2,177,059
Footware & leather garments	64,976	64,976	2,698,380	2,266,018
Paper & paper boards	2,559	2,559	2,559	2,559
Printing, publishing & allied	36,787	35,335	40,089	40,089
Petroleum products	5,037	5,037	7,719	5,202
Chemical & pharmaceutical	127,902	110,402	133,062	133,062
Rubber & plastic	2,135	2,135	2,479	2,479
Cement/clay & ceramics	119,625	29,906	-	-
Basic metals (iron, steel)	775,333	734,740	773,682	604,058
Machinery & equipment	1,274,679	1,274,679	1,683,723	1,683,723
Power, gas, water & sanitary	842,846	842,846	842,186	421,388
Manufacture of transport equipment	72,354	72,354	71,462	71,462
Financial	281,313	132,370	649,707	258,925
Health & social welfare	-	-	68,412	67,063
Real estate, renting, and business activities	1,733,911	1,349,097	390,889	98,073
Transport, storage & communication	361,458	359,815	358,532	358,532
Hotel, restaurant & clubs	61,408	61,408	-	-
Construction	887,907	763,419	407,132	384,112
Furniture & sports goods	450	450	450	450
Wholesale & retail trade	2,353,764	1,971,045	1,863,000	1,715,075
Individuals	48,303	48,303	239,539	239,472
Others	3,538,591	3,127,435	2,533,325	1,999,705
	18,688,166	15,420,788	16,281,178	12,535,255

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

	December 31, 2010		December 31, 2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Rupees in '000				
Public/Government	-	-	-	-
Private	18,688,166	15,420,788	16,281,178	12,535,255
	18,688,166	15,420,788	16,281,178	12,535,255

### 43.1.1.5 Geographical Segment Analysis

	December 31, 2010		December 31, 2009	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Rupees in '000				
Pakistan	12,343,106	449,931,526	35,974,857	108,128,287

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 43.1.2 Credit Risk – General Disclosures

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

#### 43.1.2.1 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 counter parties 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.

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

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

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

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

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

#### Use of ECAI Ratings

The Bank and its subsidiary 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.

## Notes to the Consolidated Financial Statements

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### Mapping to SBP Rating Grades

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

#### Long – Term Rating Grades Mapping

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

#### Short – Term Rating Grades Mapping

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

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

December 31, 2010

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

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### Credit exposures subject to Standardized Approach

Exposures	Rating Category	Rupees in '000					
		Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Deduction CRM	Net Amount
Corporate	1	36,213,222	-	36,213,222	49,932,599	-	49,932,599
	2	18,984,146	-	18,984,146	15,421,338	-	15,421,338
	3, 4	1,069,354	-	1,069,354	1,500,707	-	1,500,707
	5, 6	908,325	-	908,325	3,294,270	-	3,294,270
Claims on banks with original maturity of 3 months or less		13,493,628	9,113,821	4,379,807	28,426,234	21,078,346	7,347,888
Retail		37,364,308	2,803,830	34,560,478	42,830,060	5,112,371	37,717,689
Public sector entities	1	2,025,120	-	2,025,120	277,577	-	277,577
Others		178,461,422	-	178,461,422	130,755,272	-	130,755,272
Unrated		193,605,519	63,962,118	129,643,401	173,666,253	62,809,386	110,856,867

#### 43.1.2.2 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, and units in open ended mutual funds, 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.

#### 43.2 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 and dividend 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.

##### 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.

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### Composition of equity investments

	Held for Trading	Available for Sale
Rupees in '000		
Equity Investments - Publicly Traded	842,169	9,469,432
Equity Investments - Others	-	819,856
<b>Total Value</b>	<b>842,169</b>	<b>10,289,288</b>

The cumulative realized gain / (loss) arose of Rs. 1,435.594 million (2009: Rs. 1,107.477 million) from sale of equity securities/certificates of mutual funds and units of open end mutual funds; however unrealized loss of Rs. 2,437.295 million (2009: Rs. 1,733.984) was recognized in the statement of financial position in respect of "AFS" securities.

#### 43.2.1 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.

Following para should be included and above para should be deleted.

Market Risk performs risk measurement, monitoring and control functions through use of various risk procedures and models. To give it a formal structure, all the policies and guidelines are approved by the Board and relevant management committees. The Bank 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' and 'Available for Sale - Non-Strategic Equity Investments'. 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 - Strategic Portfolio
- 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), Bonds, Debentures, etc. 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 - Strategic only' and 'any other 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).

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### 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.

### 43.2.2 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, 2010				
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in '000				
Pakistani Rupee	435,998,048	384,738,366	[15,729,062]	35,530,620
United States Dollar	13,755,164	23,386,053	10,514,240	883,351
Great Britain Pound	236,093	2,655,422	2,453,832	34,503
Japanese Yen	2,325	1,384	-	941
Euro	454,025	3,195,680	2,770,140	28,485
Other Currencies	25,306	4,427	[9,150]	11,729
	14,472,913	29,242,966	15,729,062	959,009
	450,470,961	413,981,332	-	36,489,629
December 31, 2009				
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
Rupees in '000				
Pakistani Rupee	411,212,277	367,030,641	[14,299,698]	29,881,938
United States Dollar	6,589,864	17,372,733	10,854,270	71,401
Great Britain Pound	270,856	1,914,153	1,644,207	910
Japanese Yen	369	807	-	[438]
Euro	266,329	2,094,517	1,831,086	2,898
Other Currencies	34,636	1,502	[29,865]	3,269
	7,162,054	21,383,712	14,299,698	78,040
	418,374,331	388,414,353	-	29,959,978

### 43.2.3 Equity Position Risk

The Board with the recommendations of ALCO approves exposure limits applicable to investments in Trading and Banking 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.

# Notes to the Consolidated Financial Statements

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## 43.2.4 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.

	Effective Yield/Interest rate	Total	December 31, 2010							Not exposed to Yield/Interest Risk			
			Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years		Over 5 to 10 years	Above 10 years	
(Rupees in '000)													
<b>On-balance sheet financial instruments</b>													
<b>Assets</b>													
Cash and balances with treasury banks	0.00%	31,265,658	4,205,540	-	-	-	-	-	-	-	-	-	27,060,118
Balances with other banks		579,700	145	-	-	-	-	-	-	-	-	-	579,555
Lendings to financial institutions	12.22%	11,488,744	11,395,277	6,000	18,000	36,000	24,667	-	-	-	-	-	-
Investments - net	12.53%	121,158,730	31,795,537	30,933,115	4,594,856	875,197	2,779,620	2,310,175	(375,592)	-	-	-	12,639,783
Advances - net	14.66%	253,102,710	29,739,148	93,298,601	101,318,421	2,341,794	1,159,594	7,099,707	5,897,726	-	-	-	3,267,297
Other assets - net		12,001,011	-	-	-	-	-	-	-	-	-	-	12,001,011
		429,596,753	77,155,667	128,910,640	39,902,517	105,931,277	3,252,991	3,963,881	5,522,134	9,409,882	-	-	55,547,764
<b>Liabilities</b>													
Bills payable		4,118,791	-	-	-	-	-	-	-	-	-	-	4,118,791
Borrowings	9.15%	20,774,450	4,429,756	4,571,107	6,939,554	371,849	743,697	743,697	1,487,395	1,487,395	-	-	-
Deposits and other accounts	5.23%	371,280,748	100,045,460	31,648,457	21,421,896	99,354,335	1,905,394	775,526	3,546,589	1,184,770	505,227	-	110,871,294
Sub-ordinated loan	13.81%	5,484,800	-	2,998,800	2,496,000	-	-	-	-	-	-	-	-
Other liabilities		9,571,536	-	-	-	-	-	-	-	-	-	-	9,571,536
		411,240,525	104,475,216	39,238,364	30,857,450	99,726,184	2,649,091	1,519,223	2,672,165	5,035,984	505,227	-	124,561,621
<b>On-balance sheet gap</b>		<b>18,356,228</b>	<b>(27,319,549)</b>	<b>89,672,276</b>	<b>9,045,067</b>	<b>6,205,092</b>	<b>603,900</b>	<b>2,444,657</b>	<b>2,849,970</b>	<b>4,373,898</b>	<b>(505,227)</b>	<b>(505,227)</b>	<b>(69,013,857)</b>
<b>Off-balance sheet financial instruments</b>													
Commitments in respect of forward exchange contracts - purchase		23,100,518	-	-	-	-	-	-	-	-	-	-	23,100,518
Commitments in respect of forward exchange contracts - sale		(7,371,457)	-	-	-	-	-	-	-	-	-	-	(7,371,457)
<b>Off-balance sheet gap</b>		<b>15,729,061</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,729,061</b>
<b>Total yield / interest risk sensitivity gap</b>		<b>34,085,289</b>	<b>(27,319,549)</b>	<b>89,672,276</b>	<b>9,045,067</b>	<b>6,205,092</b>	<b>603,900</b>	<b>2,444,657</b>	<b>2,849,970</b>	<b>4,373,898</b>	<b>(505,227)</b>	<b>(505,227)</b>	<b>87,370,064</b>
<b>Cumulative yield / interest risk sensitivity gap</b>		<b>34,085,289</b>	<b>(27,319,549)</b>	<b>62,352,727</b>	<b>71,397,794</b>	<b>77,602,887</b>	<b>78,206,787</b>	<b>80,651,444</b>	<b>85,025,342</b>	<b>87,875,311</b>	<b>87,370,064</b>	<b>87,370,064</b>	<b>87,370,064</b>

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

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, 2009											
Effective Yield/Interest rate	Total	Exposed to Yield/Interest risk					Over 5 to 10 years	Above 10 years	Not exposed to Yield/Interest Risk		
		Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years				Over 2 to 3 years	Over 3 to 5 years
[Rupees in '000]											
<b>On-balance sheet financial instruments</b>											
<b>Assets</b>											
	26,435,683	3,909,633	-	-	-	-	-	-	-	-	22,526,030
Cash and balances with treasury banks	1,280,591	148	-	-	-	-	-	-	-	-	1,280,443
Balances with other banks	28,122,332	27,597,346	525,586	-	-	-	-	-	-	-	-
Lendings to financial institutions	94,673,100	20,069,942	35,215,734	23,920,419	6,564,115	-	-	299,880	-	-	8,602,990
Investments - net	237,382,522	82,741,375	107,798,367	27,315,755	661,614	1,618,041	-	4,985,775	3,977,788	-	3,757,335
Advances - net	14,925,665	-	-	-	-	-	-	-	-	-	14,925,665
Other assets - net	402,820,513	134,318,484	143,539,487	51,236,174	7,225,729	1,274,431	3,252,041	5,285,655	3,977,788	-	51,097,463
<b>Liabilities</b>											
	3,162,429	-	-	-	-	-	-	-	-	-	3,162,429
Bills payable	39,818,532	16,494,631	10,002,829	7,728,038	430,218	-	-	860,436	-	-	-
Borrowings	328,872,559	72,230,754	29,247,682	13,351,969	106,550,820	8,547,080	452,715	1,720,872	1,720,872	764,926	93,271,242
Deposits and other accounts	5,497,000	-	3,000,000	2,497,000	-	-	-	-	-	-	-
Sub-ordinated loan	8,652,498	-	-	-	-	-	-	-	-	-	-
Other liabilities	386,003,018	88,725,565	42,250,511	23,577,007	108,991,038	9,407,516	1,313,151	3,668,955	764,926	-	8,652,498
<b>On-balance sheet gap</b>	16,817,495	45,592,899	101,289,176	27,659,167	(101,765,309)	(7,789,475)	(38,720)	1,616,700	3,212,862	-	(53,993,666)
<b>Off-balance sheet financial instruments</b>											
Commitments in respect of forward exchange contracts - purchase											
	23,338,782	-	-	-	-	-	-	-	-	-	23,338,782
Commitments in respect of forward exchange contracts - sale											
	(8,827,975)	-	-	-	-	-	-	-	-	-	(8,827,975)
<b>Off-balance sheet gap</b>	14,510,807	-	-	-	-	-	-	-	-	-	14,510,807
<b>Total yield / interest risk sensitivity gap</b>	31,328,302	45,592,899	101,289,176	27,659,167	(101,765,309)	(7,789,475)	(38,720)	1,616,700	3,212,862	-	(3,212,862)
<b>Cumulative yield / interest risk sensitivity gap</b>	31,328,302	45,592,899	146,882,075	174,541,242	72,775,933	64,986,458	64,947,738	65,981,619	67,598,319	70,811,181	-

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.

Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.

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

	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Reconciliation to total assets	(Rupees in '000)		(Rupees in '000)	
Total financial assets	429,596,753	402,868,632	411,240,525	386,003,018
Less: Non financial assets				
Operating fixed assets	15,371,118	12,459,586		
Deferred tax asset	483,152	-		3,374
Other assets	4,515,385	3,060,753	2,736,253	2,414,666
	20,369,655	15,520,339	2,736,253	2,418,040
Balance as per balance sheet	449,766,408	418,340,852	413,976,778	388,421,058

43.3

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.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

43.3.1 Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

		December 31, 2010									
		Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
		(Rupees in '000)									
<b>Assets</b>											
Cash and balances with treasury banks	31,265,658	31,265,658	-	-	-	-	-	-	-	-	-
Balances with other banks	579,700	579,700	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	11,488,944	11,395,277	6,000	9,000	18,000	36,000	24,667	-	-	-	
Investments	121,158,730	30,401,148	7,627,656	24,731,040	13,349,325	13,529,004	14,434,659	8,748,806	8,337,092	-	
Advances	253,102,710	42,242,420	79,458,238	27,641,295	8,411,891	12,902,078	13,679,215	18,243,932	40,905,788	9,617,853	
Operating fixed assets	15,371,118	121,986	243,972	365,958	731,917	939,748	403,809	551,582	672,162	11,339,964	
Deferred tax assets	483,152	(4,699)	(61,640)	(36,830)	53,513	405,771	727,061	(5,023)	(351,614)	(243,386)	
Other assets	16,516,396	8,641,382	2,067,352	2,014,610	1,512,632	745,624	-	-	-	1,534,776	
	449,966,408	124,642,872	89,341,578	54,725,073	24,077,278	28,558,243	29,269,410	27,539,297	49,563,427	22,249,227	
<b>Liabilities</b>											
Bills payable	4,118,791	4,118,791	-	-	-	-	-	-	-	-	
Borrowings	20,774,450	4,429,756	4,571,107	6,939,554	371,849	743,697	743,697	1,487,395	1,487,395	-	
Deposits and other accounts	371,280,948	156,356,516	54,731,004	44,484,443	48,281,096	13,807,470	12,677,603	15,450,665	16,751,613	8,742,537	
Sub-ordinated loan	5,494,800	-	600	500	1,100	2,200	1,248,200	1,249,400	2,992,800	-	
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	
Other liabilities	12,307,789	4,385,887	3,967,902	232,429	429,562	451,408	645,738	795,947	1,398,914	-	
	413,976,778	169,288,950	63,270,614	51,656,926	49,083,607	15,004,776	15,315,239	18,983,407	22,630,723	8,742,537	
Net assets / (liabilities)	35,989,630	(44,646,078)	26,070,964	3,068,147	(25,006,329)	13,553,467	13,954,171	8,555,890	26,932,705	13,506,691	
Share capital	7,821,009										
Reserves	7,516,910										
Unappropriated profit	15,853,255										
	31,191,174										
Surplus on revaluation of assets - net of tax	4,798,456										
	35,989,630										

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### Maturities of Assets and Liabilities - Based on contractual maturity of the assets and liabilities of the Bank

	December 31, 2009									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
<b>Assets</b>										
Cash and balances with treasury banks	26,435,683	26,435,683	-	-	-	-	-	-	-	-
Balances with other banks	1,280,591	1,280,591	-	-	-	-	-	-	-	-
Lendings to financial institutions	28,122,932	27,597,346	525,586	-	-	-	-	-	-	-
Investments	94,673,100	20,069,962	35,215,734	23,920,419	6,564,115	-	-	-	299,880	8,602,990
Advances	237,382,522	37,440,885	74,348,804	19,312,547	18,900,190	21,576,788	16,240,116	25,389,442	20,250,872	3,922,878
Operating fixed assets	12,459,586	57,779	115,558	173,337	346,673	823,992	823,992	879,999	1,204,509	8,033,747
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	17,986,438	8,362,872	2,189,603	2,278,055	1,744,912	1,890,508	-	-	3,700	1,516,788
	418,340,852	121,245,118	112,395,285	45,684,358	27,555,890	24,291,288	17,064,108	26,269,441	21,758,961	22,076,403
<b>Liabilities</b>										
Bills payable	3,162,429	3,162,429	-	-	-	-	-	-	-	-
Borrowings	39,818,532	16,494,831	10,002,829	7,728,038	430,218	860,436	860,436	1,720,872	1,720,872	-
Deposits and other accounts	328,872,559	143,055,718	55,154,523	30,551,474	40,485,432	18,012,593	9,918,228	9,962,802	11,413,597	10,318,192
Sub-ordinated loan	5,497,000	-	600	500	1,100	2,200	2,200	2,496,400	2,994,000	-
Deferred tax liabilities	3,374	(24,456)	(10,048)	(16,835)	(88,438)	137,947	(132,231)	(89,873)	194,205	33,103
Other liabilities	11,067,164	4,300,144	3,882,751	193,410	377,917	297,415	282,483	503,959	1,229,085	-
	388,421,058	166,988,666	69,030,655	38,456,587	41,206,229	19,310,591	10,931,116	14,594,160	17,551,759	10,351,295
	29,919,794	(45,743,548)	43,364,630	7,227,771	(13,650,339)	4,980,697	6,132,992	11,675,281	4,207,202	11,725,108
<b>Net assets / (liabilities)</b>										
Share capital	7,110,008									
Reserves	6,582,845									
Unappropriated profit	12,164,662									
Surplus on revaluation of assets - net of tax	25,857,515									
	4,062,279									
	29,919,794									

43.3.1.1 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.

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

43.4 Maturities of Assets and Liabilities - Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank. This analysis has been prepared on the basis of the balances determined by the Assets and Liabilities management Committee (ALCO) of the bank, keeping in view the historical receipt / withdrawal pattern of these balances.

	December 31, 2010									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
On-balance sheet financial instruments										
Assets										
Cash and balances with treasury banks	31,265,658	31,265,658	-	-	-	-	-	-	-	-
Balances with other banks	579,700	579,700	-	-	-	-	-	-	-	-
Lendings to financial institutions	11,488,944	11,395,277	6,000	18,000	36,000	24,667	-	-	-	-
Investments - net	121,158,730	30,401,148	7,627,656	24,731,040	13,349,325	14,434,659	8,748,806	8,337,092	-	-
Advances - net	253,102,710	42,242,420	79,458,238	27,641,295	8,411,891	13,679,215	18,243,932	40,905,788	9,617,853	-
Operating fixed assets	15,371,118	121,986	243,972	365,958	731,917	403,809	551,582	672,162	11,339,964	-
Deferred tax assets	483,152	(4,699)	(61,640)	(36,830)	53,513	405,771	(5,023)	(351,614)	(243,386)	-
Other assets - net	16,516,396	8,641,382	2,067,352	2,014,610	1,512,632	745,624	-	-	1,534,796	-
	449,966,408	124,642,872	89,341,578	54,725,073	24,077,278	28,558,243	29,269,410	27,539,297	49,563,427	22,249,227
Liabilities										
Bills payable	4,118,791	4,118,791	-	-	-	-	-	-	-	-
Borrowings	20,774,450	4,429,756	4,571,107	6,939,554	371,849	743,697	743,697	1,487,395	1,487,395	-
Deposits and other accounts	371,280,948	57,923,802	66,772,552	53,426,003	57,222,656	17,907,447	16,777,580	24,884,660	43,856,913	32,509,334
Sub-ordinated loan	5,494,800	-	600	500	1,100	2,200	1,248,200	1,249,400	2,992,800	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	12,307,789	4,385,887	3,967,902	232,429	429,562	451,408	645,738	795,947	1,398,914	-
	413,976,778	70,858,235	75,312,161	60,598,486	58,025,167	19,104,753	19,415,216	28,417,402	49,736,022	32,509,334
Net assets	35,989,630	53,784,637	14,029,417	(5,873,413)	(33,947,889)	9,453,490	9,854,194	(878,105)	(172,595)	(10,260,107)
Share capital										
Share capital	7,821,009	7,821,009	-	-	-	-	-	-	-	-
Reserves	7,516,910	7,516,910	-	-	-	-	-	-	-	-
Unappropriated profit	15,853,255	15,853,255	-	-	-	-	-	-	-	-
	31,191,174	31,191,174	-	-	-	-	-	-	-	-
Surplus on revaluation of assets										
- net of tax	4,798,456	4,798,456	-	-	-	-	-	-	-	-
	35,989,630	35,989,630	-	-	-	-	-	-	-	-

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

43.4.1 Maturities of Assets and Liabilities - Based on the working prepared by the Asset and Liabilities Management Committee (ALCO) of the Bank

This analysis has been prepared on the basis of the balances determined by the Assets and Liabilities management Committee (ALCO) of the bank, keeping in view the historical receipt / withdrawal pattern of these balances.

	December 31, 2009									
	Total	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
(Rupees in '000)										
<b>Assets</b>										
Cash and balances with treasury banks	26,435,683	26,435,683	-	-	-	-	-	-	-	-
Balances with other banks	1,280,591	1,280,591	-	-	-	-	-	-	-	-
Lendings to financial institutions	28,122,932	27,597,346	525,586	-	-	-	-	-	-	-
Investments - net	94,673,100	20,069,962	35,215,734	23,920,419	6,564,115	-	-	-	299,880	8,602,990
Advances - net	237,382,522	37,440,885	74,348,804	19,312,547	18,900,190	21,574,788	16,240,116	25,389,442	20,250,872	3,922,878
Operating fixed assets	12,459,586	57,779	115,558	173,337	346,673	823,992	823,992	879,999	1,204,509	8,033,747
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets - net	17,986,438	8,362,872	2,189,603	2,278,055	1,744,912	1,890,508	-	-	3,700	1,516,788
	418,340,852	121,245,118	112,395,285	45,684,358	27,555,890	24,291,288	17,064,108	26,269,441	21,758,961	22,076,403
<b>Liabilities</b>										
Bills payable	3,162,429	3,162,429	-	-	-	-	-	-	-	-
Borrowings	39,818,532	16,494,831	10,002,829	7,728,038	430,218	860,436	860,436	1,720,872	1,720,872	-
Deposits and other accounts	328,872,559	62,637,486	68,007,594	43,404,545	53,338,503	19,706,372	11,612,007	15,376,345	31,706,196	23,083,511
Sub-ordinated loan	5,497,000	-	600	500	1,100	2,200	2,200	2,496,400	2,994,000	-
Deferred tax liabilities	3,374	(24,456)	(10,048)	(16,835)	(88,438)	137,947	(132,231)	(89,873)	194,205	33,103
Other liabilities	11,067,164	4,300,144	3,882,751	193,410	377,917	297,415	282,483	503,959	1,229,085	-
	388,421,058	166,988,666	69,030,655	38,456,587	41,206,229	19,310,591	10,931,116	14,594,160	17,551,759	10,351,295
<b>Net assets</b>	29,919,794	(45,743,548)	43,364,630	7,227,771	(13,650,339)	4,980,697	6,132,992	11,675,281	4,207,202	11,725,108
Share capital	7,110,008									
Reserves	6,582,845									
Unappropriated profit	12,164,662									
	25,857,515									
Surplus on revaluation of assets - net of tax	-									
	25,857,515									

## Notes to the Consolidated Financial Statements

for the year ended December 31, 2010

### 43.5 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 has in place a BOD approved Operational Risk Framework. Various policies and procedures with respect to this framework are currently being implemented across the Bank.

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 has also developed a Business Continuity Plan applicable to all its functional areas, with assistance of a consultant.

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.

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 currently implementing required systems and technology.

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

The Board of Directors of the Bank in its meeting held on February 11, 2011 has proposed a cash dividend in respect of 2010 of Rs. 2.0 per share (2009: Rs. 2.00 per share). In addition, the directors have also announced a bonus issue of 10% (2009: 10%). These appropriations will be approached in the forthcoming Annual General Meeting. The consolidated financial statements of the Bank for the year ended December 31, 2010 do not include the effect of these appropriations which will be accounted for in the consolidated financial statements for the year ending December 31, 2011.

### 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 and BSD circular letter No. 07 dated April 20, 2010.

### 46. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 11, 2011 by the Board of Directors of the Bank.

Chief Financial Officer

President and Chief Executive

Director

Director

Chairman