

First Women Bank Limited

Balance Sheet

As at 31 December 2008

	Note	2008 (Rupees in '000)	2007
Assets			
Cash and balances with treasury banks	6	575,929	809,657
Balances with other banks	7	400,761	384,792
Lendings to financial institutions	8	350,849	1,245,000
Investments - net	9	2,264,088	3,159,640
Advances - net	10	3,304,330	3,063,507
Operating fixed assets	11	174,833	148,686
Deferred tax assets - net	12	56,630	-
Other assets - net	13	176,301	174,294
		7,303,721	8,985,576
Liabilities			
Bills payable	15	101,993	193,321
Borrowings	16	27,140	21,543
Deposits and other accounts	17	5,939,308	7,569,059
Subordinated loan		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net	12	-	11,000
Other liabilities	18	132,247	102,409
		6,200,688	7,897,332
Net assets		1,103,033	1,088,244
Represented by:			
Share capital	19	283,650	283,650
Reserves		228,540	207,336
Unappropriated profit		623,610	537,130
		1,135,800	1,028,116
Surplus on revaluation of assets - net of tax	20	(32,767)	60,128
		1,103,033	1,088,244
Contingencies and commitments	21		

The annexed notes 1 to 41 form an integral part of these financial statements.

The investments in securities held as 'Available-for-sale' are valued at prices quoted on stock exchange / net assets value as of 31 December 2008 and the resulting decline in market value below cost is reported in the 'Surplus / deficit on revaluation of available-for-sale securities - net of tax'. Had the full amount of impairment loss been charged to profit and loss account, net deficit on revaluation of available-for-sale securities would have been lower by Rs. 8.913 million with consequential effect on 'Unappropriated profit'. See note 9.6.1.

Chief Financial Officer

President and
Chief Executive

President and
Chief Executive

Director

Director

Director

First Women Bank Limited
Profit and Loss Account
For the year ended 31 December 2008

	Note	2008 (Rupees in '000)	2007
Mark-up / return / interest earned	23	736,103	685,346
Mark-up / return / interest expensed	24	212,601	171,694
Net mark-up / interest income		523,502	513,652
Provision for diminution in the value of investments	9.6.1	10,716	-
Provision against advances - net	10.3.2	39,437	18,065
Bad debts written off directly		-	-
		50,153	18,065
Net mark-up / interest income after provisions		473,349	495,587
Non-mark-up / interest income			
Fee, commission and brokerage income		24,511	31,672
Dividend income		9,088	9,375
Income from dealing in foreign currencies		31,902	4,406
Gain on sale of securities - net	25	7,250	24,115
Other income	26	17,592	12,917
Total non-mark-up / interest income		90,343	82,485
		563,692	578,072
Non-mark-up / interest expenses			
Administrative expenses	27	367,798	332,517
Other provision / write offs / (reversals)	13.1	-	(313)
Other charges	28	5,451	7,446
Total non-mark-up / interest expenses		373,249	339,650
Extra ordinary / unusual item		-	-
Profit before taxation		190,443	238,422
Taxation - current year		87,280	82,464
- prior years		16,878	(17,563)
- deferred		(19,735)	15,634
	29	84,423	80,535
Profit after taxation		106,020	157,887
Unappropriated profit brought forward		537,130	409,070
Transferred to statutory reserve		(21,204)	(31,577)
Transfer from surplus on revaluation of fixed assets - net of tax	20.1	1,664	1,750
		517,590	379,243
Profit available for appropriation		623,610	537,130
Basic and diluted earnings per share - after tax	30	3.74	5.57

The annexed notes 1 to 41 form an integral part of these financial statements.

In accordance with SRO 150(1) 2009 dated 13 February 2009, the impairment loss on securities held as 'Available-for-sale' has been reported in 'Surplus / deficit on revaluation of available-for-sale securities - net of tax'. In case the full amount of impairment loss was charged to profit and loss account, profit for the year would have been lower by Rs. 8.913 million and earnings per share would have been lower by Rs. 0.03. See note 9.6.1.

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First Women Bank Limited

Cash Flow Statement

For the year ended 31 December 2008

	<i>Note</i>	2008	2007
		(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		190,443	238,422
Dividend income		(9,088)	(9,375)
		181,355	229,047
<i>Adjustments for non-cash charges:</i>			
Depreciation		15,429	16,111
Amortisation of intangible assets		1,747	2,184
Provision for diminution in value of investments		10,716	-
Provision against advances - net		39,437	18,065
Provision against other assets		-	(313)
Gain on sale of operating fixed assets		(172)	(155)
Bad debts written off directly		-	-
		67,157	35,892
		248,512	264,939
Decrease / (increase) in operating assets			
Lendings to financial institutions		894,151	186,628
Advances		(280,260)	(15,323)
Others assets (excluding advance taxation)		(26,950)	25,717
		586,941	197,022
(Decrease) / increase in operating liabilities			
Bills payable		(91,328)	131,264
Borrowings		5,597	(909,977)
Deposits and other accounts		(1,629,751)	603,681
Other liabilities		29,838	6,594
		(1,685,644)	(168,438)
		(850,191)	293,523
Income tax paid		(80,112)	(79,132)
<i>Net cash flows from operating activities</i>		(930,303)	214,391
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available-for-sale investments		229,224	(375,147)
Net investments in held-to-maturity investments		480,482	353,040
Dividend income		9,088	9,375
Investments in operating fixed assets		(6,820)	(14,719)
Proceeds from disposal of operating fixed assets		570	750
<i>Net cash flows from investing activities</i>		712,544	(26,701)
(Decrease) / increase in cash and cash equivalents		(217,759)	187,690
Cash and cash equivalents at beginning of the year		1,194,449	1,006,759
Cash and cash equivalents at end of the year	<i>31</i>	976,690	1,194,449

The annexed notes 1 to 41 form an integral part of these financial statements.

Chief Financial Officer

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First Women Bank Limited
Statement of Changes in Equity
For the year ended 31 December 2008

	<i>Note</i>	Share capital	Statutory reserve	Revenue reserve unappropriated profit	Total
----- (Rupees in '000) -----					
Balance as at 31 December 2006		283,650	175,759	409,070	868,479
Changes in equity for the year 2007					
Profit after tax for the year ended 31 December 2007		-	-	157,887	157,887
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax (recognised directly in equity)	20.1	-	-	1,750	1,750
Total recognised income for the year ended 31 December 2007		-	-	159,637	159,637
Transferred to statutory reserve		-	31,577	(31,577)	-
Balance as at 31 December 2007		283,650	207,336	537,130	1,028,116
Changes in equity for the year 2008					
Profit after tax for the year ended 31 December 2008		-	-	106,020	106,020
Transferred from surplus on revaluation of fixed assets to unappropriated profit - net of tax (recognised directly in equity)	20.1	-	-	1,664	1,664
Total recognised income for the year ended 31 December 2008		-	-	107,684	107,684
Transferred to statutory reserve		-	21,204	(21,204)	-
Balance as at 31 December 2008		283,650	228,540	623,610	1,135,800

The annexed notes 1 to 41 form an integral part of these financial statements.

Chief Financial Officer

**President and
Chief Executive**

**President and
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Director

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Director

First Women Bank Limited
Notes to the Financial Statements
For the year ended 31 December 2008

1. STATUS AND NATURE OF BUSINESS

- 1.1** First Women Bank Limited ("the Bank") was incorporated under the Companies Ordinance, 1984 on 21 November 1989 in Pakistan as an unquoted public limited company and commenced operations on 2 December 1989. The Bank is engaged in commercial banking and related services. The registered office of the Bank is situated at ground floor, S.T.S.M. Foundation Building, Civil Lines, Karachi. The number of branches as at 31 December 2008 was thirty eight (31 December 2007: thirty eight).

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade related mode of financing include purchase of goods by the 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 financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

- 3.1** These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by State Bank of Pakistan (SBP). In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.
- 3.2** The State Bank of Pakistan, vide its BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

During the year, IFRIC 9 - Reassessment of embedded derivatives, IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions, IFRIC 12 - Service Concession Arrangements, IFRIC 14, IAS 19 - The Limit on Defined Benefit Asset Minimum Funding Requirements and their interaction, became effective. The application of these standards did not have material effect on the Bank's financial statements.

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 January 2009:

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

- Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after 1 January 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on the Bank's financial statements.
- IAS 29 – Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 28 April 2008). The Company does not have any operations in Hyperinflationary Economies and therefore the application of the standard is not likely to have an effect on the Bank's financial statements.
- Amendments to IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which require retrospective application, are not expected to have any impact on the Bank's financial statements.
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard will not have any effect on the Bank's financial statements.
- Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Bank's financial statements.
- Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard will not have any effect on the Bank's financial statements.
- IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after 28 April 2008) supersedes IAS 30 – Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32 – Financial Instruments: Disclosure and Presentation. The standard would be applied when IAS 39 – Financial Instruments – Recognition and Measurement becomes applicable for Banks and would require significant increase in disclosures.
- IFRS 8 – Operating Segments (effective for annual periods beginning on or after 1 January 2009) introduces the “management approach” to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's “chief operating decision maker” in order to assess each segment's performance and to allocate resources to them. Currently, the Bank presents segment information in respect of its business and geographical segments. This standard will have no effect on the Bank's reported total profit or loss or equity.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 01 July 2008) addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The application of IFRIC 13 is not likely to have any effect on the Bank's financial statements.

- IFRIC 15- Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Bank's operations.
- IFRIC 16- Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss. The Interpretation allows an entity that uses the step-by-step method of consolidation, an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. The amendment will not have any effect the Bank's financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 financial statements. These amendments are unlikely to have an impact on the Bank's financial statements.
- IAS 27 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment will not have any effect on Bank's financial statements.
- IFRIC – 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a company distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Bank does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Bank's financial statements.
- IFRS 5 Amendment - Improvements to IFRSs - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 July 2009) specify that: if an entity is committed to a sale plan involving the loss of control of a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of IFRS 5 are met. Disclosures for discontinued operations would be required by the parent when a subsidiary meets the definition of a discontinued operation. The amendment is not likely to have an effect on Bank's financial statements.

4. BASIS OF MEASUREMENT

- 4.1** These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts, available for sale and held for trading investments and derivative financial instruments are measured at fair value.
- 4.2** The financial statements are presented in Pakistan Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to nearest thousand.
- 4.3 Critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards requires the management to make judgements, estimates and assumptions that effect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its

accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are as follows:

a) Classification of investments

- In classifying investments as 'held for trading', the Bank determines the securities which are acquired with an intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days. However, currently no held-for-trading instruments are held by the Bank.
- 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 investment to maturity.
- The investments which are not classified as 'held for trading' or 'held to maturity' are classified as 'available for sale'.

b) Impairment of available for sale equity investments

The Bank 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. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational financial cash flows.

c) Provision against advances

The Bank reviews its loan portfolio to assess the amount of non-performing advances and provision required thereagainst on a regular basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrowers and the requirements of the Prudential Regulations are considered. The Bank also maintains general provision against consumer advances in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan.

d) Taxation

In making the estimates for income taxes currently payable by the Bank, the management considers the current income tax laws and the decisions of appellate authorities on certain issues in the past. In making the provisions for deferred taxes, estimates of the Bank's future taxable profits are also taken into account.

e) Depreciation, amortisation and revaluation of operating fixed assets

In making estimates of the depreciation / amortisation method, the management uses the method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method is changed to reflect the changed pattern. Such a change is accounted for as change in accounting estimates in accordance with International Accounting Standard (IAS) 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Further, the Bank estimates the revalued amount of land and buildings on a regular basis. The estimates are based on valuations carried out by independent professional valuers and such valuations are carried out with sufficient regulatory so that the valuation at the year end is close to their fair value.

f) Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in these financial statements (note 33) for the actuarial valuation of staff retirement benefit plans. Actuarial assumptions are entity's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may effect the liability / asset under these plans in those years.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise of cash and balances with treasury banks and balances with other banks.

5.2 Investments

The Bank classifies its investments as follows:

a) Held for trading

These are securities, which are either acquired for generating profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists. However, currently no held-for-trading instruments are held by the Bank.

b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which 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.

Investments are initially recognised at cost where its fair value and includes transaction costs associated with the investment except that in case of held for trading financial instruments, these are charged off to the profit and loss account.

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

In accordance with the requirements of the State Bank of Pakistan, quoted securities, other than those classified as 'held to maturity', are subsequently re-measured to fair value. Surplus / (deficit) arising on these securities is taken to the profit and loss account when actually realised on disposal or when the investment is considered to be impaired. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the balance sheet below equity. Surplus / (deficit) arising on these securities is taken to the Profit & Loss account when actually realised on disposal or when the investment is considered to be impaired. Surplus / (deficit) arising on revaluation of quoted securities which are classified as 'held for trading', is taken to the profit and loss account (however, at 31 December 2008, no investments were held in the held for trading category).

Unquoted equity securities (including the investment in associated undertaking where the Bank does not have significant influence) are valued at the lower of cost and break-up value. 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. Associates as defined under local statutes but not under IAS are accounted for as ordinary investments.

Investments classified as 'held to maturity' are carried at amortised cost.

Provision for impairment in the values of securities (except term finance certificates) is made currently after consideration of impairment, if any, in their value. Provision for impairment in the value of term finance certificates is determined as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

5.3 Securities under repurchase / resale agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. Securities purchased under an agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase / sale and resale / re-purchase price is recognised as mark-up income / expense on a time proportion basis, as the case may be.

5.4 Advances

Advances are stated net of specific and general provisions. Specific provision is determined on the basis of the Prudential Regulations and other directives issued by the State Bank of Pakistan (SBP) and charged to the profit and loss account. Provisions comprise of provisions against identified losses and provisions against unidentified losses. Provision against unidentified losses represents general provision against consumer advances and micro-finances made in accordance with the requirements of the Prudential Regulations issued by SBP. Advances are written-off when there is no realistic prospect of recovery.

5.5 Operating fixed assets

Property and equipment, other than land the carrying value of which is not amortised, are stated at cost or revalued amounts less accumulated depreciation and accumulated impairment losses (if any). Land is carried at revalued amounts. Capital work-in-progress is stated at cost.

Depreciation is charged to income applying the diminishing balance method except for motor vehicles which are depreciated using the straight line method. The rates of depreciation are given in note 11 to these financial statements. Depreciation on additions to operating fixed assets is charged for the whole year. While no depreciation is charged on operating fixed assets disposed off during the year.

The residual values and useful lives are reviewed at each balance sheet date, and adjusted if impact is considered significant.

Surplus on revaluation of land and buildings is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

Gains / losses on sale of property and equipment are included in the profit and loss account currently, except that the related surplus on revaluation of land and buildings (net of deferred taxation) is transferred directly to unappropriated profit.

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

5.6 Intangible fixed assets

Intangible assets comprise of cost of computer software and are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised using the diminishing balance method. Costs associated with maintaining the computer software are recognised as expense as and when incurred. The useful

lives of intangible assets are reviewed and adjusted, if appropriate, at each balance sheet date.

5.7 Impairment

The carrying value of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amounts. The resulting impairment loss is taken to the profit and loss account except for impairment loss on revalued assets, which is adjusted against the related surplus on revaluation to the extent that the impairment loss does not exceed the surplus on revaluation of that asset.

5.8 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into consideration available tax credits and rebates. The charge for current tax also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalised during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The Bank records deferred tax assets / liabilities using the tax rates, enacted or substantially enacted at the balance sheet date, expected to be applicable at the time of its reversal. Deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities and deferred tax liability on surplus on revaluation of fixed assets which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12, 'Income Taxes'.

5.9 Provisions

Provisions are recognised when the Bank has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

5.10 Staff retirement benefits

Staff retirement benefits are available to the employees of the Bank under two schemes, viz. old scheme and a new scheme.

5.10.1 For employees of the Bank who were transferred from other scheduled banks and who did not opt for the new scheme, the Bank operates the following schemes:

Approved funded gratuity scheme (defined benefit plan)

The Bank operates a funded gratuity scheme for its employees. The fund was granted approval by the Commissioner of Income Tax on 31 December 2003 to take effect from 1 January 2003. Contributions to the fund are made on the basis of actuarial recommendations.

Approved contributory provident fund (defined contribution plan)

The Bank operates a recognised contributory provident fund to which equal contributions are made both by the Bank and the employees at a rate of 8.33% of basic salary.

5.10.2 For new employees and for those who have opted for the new scheme, the Bank operates the following schemes:

Approved funded pension scheme (defined benefit plan)

The Bank operates a funded pension scheme for its employees. The fund was granted approval by the Commissioner of Income Tax on 6 March 2000 to take effect from 1 October 1999. Contributions are made on the basis of actuarial recommendations.

Approved non contributory provident fund (defined contribution plan)

The Bank operates a non contributory provident fund in which monthly contributions are made by employees at a rate of 12% of basic salary.

5.10.3 Contributions to the defined benefit plans are made on the basis of actuarial recommendations using the projected unit credit method. The above benefits are payable to staff at the time of separation / retirement from the Bank's services subject to the completion of qualifying period of service.

5.10.4 *Actuarial gains and losses*

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the plan assets or 10% of the defined benefit obligation at the end of the last reporting year are charged or credited to income over the employees' expected average remaining working lives. These limits are calculated and applied separately for each defined benefit plan.

5.10.5 *Past service cost*

Past service cost resulting from changes to defined benefit plans to the extent the benefits are already vested is recognized immediately and the remaining unrecognized past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested.

5.11 **Employees' compensated absences**

The Bank recognises liability in respect of compensated absences of its employees in the period in which these are earned on the basis of actuarial valuation carried out using the Projected Unit Credit Method.

5.12 **Revenue recognition**

- Mark-up / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method except that mark-up / interest on non-performing advances and investments is recognised on a receipt basis, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (SBP).
- Dividend income is recognised when the Bank's right to receive dividend is established.
- Profit / loss on sale of investments is credited / charged to profit and loss account currently.

5.13 **Foreign currencies**

5.13.1 **Foreign currency transactions**

Transactions in foreign currencies are translated to 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 prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at the rates applicable to their respective maturities.

5.13.2 Translation gains and losses

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

5.13.3 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in these financial statements at committed amounts. 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 at the balance sheet date.

5.14 Off-setting

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

5.15 Financial instruments

5.15.1 Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, other assets, bills payable, borrowings, deposits and other accounts and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

5.15.2 Derivative financial instruments

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

5.16 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's primary format of reporting is based on business segments.

5.16.1 Business segment

Corporate finance

Corporate finance includes syndications and advances to corporate enterprises.

Trading and sales

It includes fixed income, equity, foreign exchange commodities, lendings to financial institutions and borrowings.

Retail and consumer banking

It includes retail lending and deposits, banking services, private lending and deposits, retail offered to its retail customers and small and medium enterprises.

Commercial banking

It includes project finance, export finance, trade finance, other lendings, guarantees and bills of exchange.

5.16.2 Geographical segment

The Bank operates in Pakistan only.

6. CASH AND BALANCES WITH TREASURY BANKS	<i>Note</i>	2008	2007
		(Rupees in '000)	
In hand			
Local currency	6.1	128,476	138,283
Foreign currencies		28,047	10,322
With State Bank of Pakistan in:			
Local currency current account	6.2	301,432	603,469
Foreign currency deposit account	6.3	83,844	38,440
US Dollar clearing account		1,613	2,775
With National Bank of Pakistan in local currency current account			
- associated undertaking		32,517	16,368
		575,929	809,657

6.1 This includes National Prize Bonds of Rs 0.065 million (2007: Rs 0.105 million).

6.2 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve as percentage of its time liabilities and demand liabilities in Pakistan as may be prescribed by SBP.

6.3 The balance held in foreign currency deposit account with the SBP represents the 5% cash reserve requirement and 15% special cash reserve for holding FE-25 deposits. This amount include Special Cash Reserve of Rs 63.279 million (2007: Rs 19.220 million) on which return is earned at 0.9% per annum (2007: 4.24% per annum).

7. BALANCES WITH OTHER BANKS

In Pakistan			
current account	7.1	36,076	9,616
deposit account	7.2	292,664	328,600
Outside Pakistan			
current account		72,021	46,576
		400,761	384,792

7.1 Balances with other banks include balances with associated undertakings amounting to Rs. 36.076 million (2007: Rs. 9.616 million).

7.2 Placement of funds with banks, against foreign currency deposit scheme (FE-25), are unsecured and carry mark-up rates ranging from 5.75% to 6% per annum (2007: 5% to 6% per annum).

8. LENDINGS TO FINANCIAL INSTITUTIONS - in local currency

Short term lendings - secured	8.1	227,767	-
Call money lendings		-	145,000
Repurchase agreement lendings	8.2	123,082	-
Letter of placements (with Non Banking Finance Companies - NBFCs)		-	1,100,000
		350,849	1,245,000

8.1 This represents secured financings to two financial institutions carrying profit rate at six months KIBOR+2% (which at the year-end amounted to 17.7%). These are due to mature in December 2009 and are adjustable in monthly instalments.

8.2 Securities held as collateral against repurchase agreement lendings

	2008			2007		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	------(Rupees in '000)-----					
Market Treasury Bills	123,082	-	123,082	-	-	-

Market value of securities held as collateral against repurchase agreement lendings as at 31 December 2008 amounted to Rs. 121.250 Million (2007: Nil) carrying mark-up rate of 14.90% per annum.

9. INVESTMENTS - net

9.1 Investments by types

Note	2008			2007			
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total	
	------(Rupees in '000)-----						
Available-for-sale							
- Market Treasury Bills	9.4	882,864	-	882,864	1,103,520	-	1,103,520
- Pakistan Investment Bonds	9.4	1,199,680	-	1,199,680	1,205,655	-	1,205,655
- Term Finance Certificates (TFCs)	9.5	68,209	-	68,209	80,802	-	80,802
- Units / certificates of mutual funds	9.6	60,000	-	60,000	50,000	-	50,000
- Preference shares of a listed company	9.7	10,000	-	10,000	10,000	-	10,000
- Shares of an unlisted company	9.8	954	-	954	954	-	954
		2,221,707	-	2,221,707	2,450,931	-	2,450,931
Held-to-maturity							
- Pakistan Investment Bonds	9.9	231,771	-	231,771	235,741	-	235,741
- Punjab Government Loan		-	-	-	26,512	-	26,512
- Certificates of Investments		-	-	-	450,000	-	450,000
		231,771	-	231,771	712,253	-	712,253
Investments at cost		2,453,478	-	2,453,478	3,163,184	-	3,163,184
Less: Provision for diminution in value of investments		(10,716)	-	(10,716)			
Investments (Net of Provisions)		2,442,762	-	2,442,762	3,163,184	-	3,163,184
Deficit on revaluation of available for sale securities - net	20.2	(178,674)	-	(178,674)	(3,544)	-	(3,544)
Investments at revalued amounts		2,264,088	-	2,264,088	3,159,640	-	3,159,640

9.2 Investments by segments

		2008	2007
		(Rupees in '000)	
Federal Government Securities:			
- Market Treasury Bills	9.4	882,864	1,103,520
- Pakistan Investment Bonds	9.4 & 9.9	1,431,451	1,441,396
Provincial Government Securities			
- Punjab Government Loan		-	26,512
Fully Paid-up Ordinary Shares / Certificates / Units			
- Listed mutual funds	9.6	60,000	50,000
- Unlisted company (related party)	9.8	954	954
Fully Paid-up Preference Shares:			
- Shares of a listed company	9.7	10,000	10,000
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
- Listed Term Finance Certificates	9.5	62,543	73,802
- Unlisted Term Finance Certificates	9.5	5,666	7,000
		68,209	80,802
Other Investments:			
- Certificates of Investments		-	450,000
Total investments at cost		2,453,478	3,163,184
Less: Provision for diminution in value of investments		(10,716)	-
Total investments (Net of Provisions)		2,442,762	-
Deficit on revaluation of available for sale securities - net	20.2	(178,674)	(3,544)
Investments at revalued amounts		2,264,088	3,159,640

9.3 Quality of available for sale securities

	2008			2007		
	Market value/ carrying value of investments (Rupees in '000)	Credit rating		Market value/ carrying value of investments (Rupees in '000)	Credit Rating	
		Long Term	Short Term		Long Term	Short Term
Market Treasury Bills	880,592	(Unrated - Government Securities)		1,101,724	(Unrated - Government Securities)	
Pakistan Investment Bonds	1,035,924	(Unrated - Government Securities)		1,199,449	(Unrated - Government Securities)	
Listed Term Finance Certificates						
Searle Pakistan Limited	17,098	A-	(Unrated)	26,239	A-	(Unrated)
Telecard Limited - I	12,809	BBB	(Unrated)	17,216	BBB	(Unrated)
Bank Al-Habib Limited - I	3,029	AA	(Unrated)	4,350	AA-	(Unrated)
Orix Leasing Pakistan Limited - II	23,753	AA+	(Unrated)	27,745	AA+	(Unrated)
	56,689			75,550		
Un-listed Term Finance Certificates						
Pakistan International Airlines Corporation	5,667	(Unrated)	(Unrated)	7,000	(Unrated)	(Unrated)
Shares in listed companies / certificates / units of mutual funds						
Faysal Saving Growth Fund	11,867	A (F)	(Unrated)	10,646	MFR 3 star	(Unrated)
Dawood Money Market Fund	14,148	FR 5 star	(Unrated)	14,251	FR 5 star	(Unrated)
AMZ Plus Income Fund	12,056	BBB (F)	(Unrated)	12,313	A (F)	(Unrated)
Meezan Balanced Fund	3,970	FR 5 star	(Unrated)	8,400	FR 5 star	(Unrated)
Pakistan Strategic Allocation Fund	2,280	FR 4 star	(Unrated)	9,100	FR 4 star	(Unrated)
Chenab Limited - preference shares	8,170	(Unrated)	(Unrated)	8,000	(Unrated)	(Unrated)
	52,491			62,710		
Shares in an un-listed company						
National Institutional Facilitation Technologies (Private) Limited	954	(Unrated)	(Unrated)	954	(Unrated)	(Unrated)
	2,032,317			2,447,387		

9.4 Available for sale' Market Treasury Bills and Pakistan Investment Bonds are eligible for rediscounting with the State Bank of Pakistan.

9.5 Term Finance Certificates (TFCs) - available for sale

Investee	Number of certificates held	Paid up value per certificate	Total Paid up value (before redemption)	Profit	Principal Redemption	Carrying value as at 31 December 2008	Name of the Chief Executive
		(Rupees)	(Rupees in '000)			(Rupees in '000)	
Listed TFCs							
Bank AL Habib Limited - I	871	5,000	4,355	6 months KIBOR + 1.5% p.a.	0.02% of total issue in 2 semi annual installments in first 78 months and the remaining principal in 3 equal semi-annual installments from the 84th month from July 2004.	4,348	Mr. Abbas D. Habib
Searle Pakistan Limited	6,000	5,000	30,000	6 month KIBOR + 2.50% p.a.	0.02% of total issue in 2 semi annual installments in first 12 months and the remaining in 8 equal semi-annual installments from the 18th month from March 2006.	18,742	Mr. Rashid Abdullah
Telecard Limited	5,000	5,000	25,000	6 months KIBOR + 3.75% p.a.	0.02% of total issue in 2 semi annual installments in first 12 months. 6.25% of total issue in 2 semi annual installments in 18th and 24th month. 9.38% of total issue in 2 semi annual installments in 30th and 36th month. 10.83% of total issue in 3 semi annual installments in 42nd, 48th and 54th month. 11.21% of total issue in 60th month and remaining in 2 equal installments in 66th and 67th month from May 2005.	14,468	Mr. Shahid Feroz
Orix Leasing Pakistan Limited - II	5,000	5,000	25,000	6 month KIBOR + 1.50% p.a.	0.02% of total issue in 4 semi annual installments in first 24 months and remaining in 6 semi annual installments from 30th month from September 2006	24,985	Mr. Humayun Murad
						62,543	
Unlisted TFCs							
Pakistan International Airlines Corporation	1,600	5,000	8,000	SBP discount rate + 0.5% p.a.	0.001% of total issue in 4 semi annual instalments in first 24 months. 2.5% of total issue in 6 semi annual installments from 30th month to 60th month and remaining in 6 equal semi annual instalments from 66th month from February 2003.	5,666	Mr. Aijaz Haroon
						5,666	
Total (at cost)						68,209	
Deficit on revaluation of listed TFCs - net						(5,854)	
Carrying value as at 31 December 2008						62,355	

9.6 Mutual fund units / certificates

Investee	Number of units / certificates held	Paid-up value per certificate/unit (Rupees)	Total paid-up / nominal value (Rupees in '000)	Carrying value as at 31 December 2008	Name of the Chief Executive
Open ended mutual funds:					
AMZ Plus Income Fund	130,226	100	13,023	10,000	Mr. Main Ikram ul Haq
Dawood Money Market Fund	194,840	100	19,484	20,000	Ms. T. Uzra Dawood.
Faysal Savings Growth Fund	114,571	100	11,457	10,000	Mr. Salman Haider Sheikh
				40,000	
Closed ended mutual funds					
Pakistan Strategic Allocation Fund	1,000,000	10	10,000	10,000	Mr. Nasim Beg
Meezan Balanced Fund	1,000,000	10	10,000	10,000	Mr. Mohammad Shoaib
				20,000	
Total (at cost)				60,000	
Less: Provision for diminution				(10,716)	
Total (Net of Provisions)				49,284	
Deficit on revaluation - net				(4,963)	
Carrying value as of 31 December 2008				44,321	

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

Furthermore, SBP BSD Circular No. 4 dated 13 February 2009 has provided to follow Securities and Exchange Commission of Pakistan (SECP) notification vide SRO 150 (1)/2009 dated 13 February, 2009 allowing that the impairment loss, if any, recognized as on 31 December 2008 due to valuation of listed equity investments held as "Available for Sale" to quoted market prices may be shown under the equity. The amount taken to equity including any adjustment/effect for price movements shall be taken to Profit and Loss account on quarterly basis during the year ending 31 December 2009. The amount taken to equity at 31 December 2008 shall be treated as a charge to Profit and Loss Account for the purposes of distribution as dividend.

In view of the floor mechanism as explained above and current economic conditions in the country, the management believes that these are 'rare circumstances' and the plunge in equity markets cannot be considered to be a fair reflection of equity values. Therefore recognition of impairment for 'Available for Sale' equity securities through Profit and Loss account will not reflect the correct financial performance of the Bank.

The recognition of impairment loss in accordance with the requirements of IAS 39 would have had the following effect on these financial statements:

	31 December 2008 Rupees in '000
Increase in "Impairment Loss" in Profit and Loss Account	10,716
Decrease in tax charge for the year	1,803
Decrease in profit for the year - after tax	<u>8,913</u>
	Rupees
Decrease in earnings per share - after tax (basic and diluted)	<u>0.03</u>
	Rupees in '000
Decrease in deficit on revaluation of available for sale securities	<u>10,716</u>
Decrease in unappropriated profit	<u>8,913</u>

9.7 Preference shares in a listed company

This represents cumulative redeemable preference shares of Chenab Limited, containing dividend entitlement at 9.25% per annum on the issue price. Market value of these shares at 31 December 2008 amounted to Rs. 8.170 million (2007: Rs. 8 million).

9.8 Shares in an unlisted company - related party

This represents investment in 616,082 ordinary shares (2007: 616,082 ordinary shares) of Rs. 10 of National Institutional Facilitation Technologies (Private) Limited (NIFT). The Bank's investment in NIFT is carried at cost and is not accounted under the equity method of accounting as the Bank does not have significant influence over the entity. However, an employee of the Bank is a Director of NIFT. The Bank has 5.67% (2007: 5.67%) stake in the above company.

The details of assets, liabilities, net assets, revenue and profit of the above company as at 30 June 2008 (the latest available audited financial statements) are as follows:

	30 June 2008 (Rupees in '000)	30 June 2007
Assets	634,292	484,286
Liabilities	102,514	88,368
Net assets	<u>531,778</u>	<u>395,918</u>
Revenue	<u>788,729</u>	<u>655,882</u>
Profit	<u>178,536</u>	<u>142,460</u>

Based on the financial statements of the above investee company as of 30 June 2008, the break-up value per share amounts to Rs. 48.93 per share (2007: Rs. 54.18 per share revised).

- 9.9 The market value of Pakistan Investment Bonds classified as 'held to maturity' as at 31 December 2008 amounted to Rs. 158.454 million (2007: Rs. 191.770 million).

10. ADVANCES - net		Note	2008	2007
			(Rupees in '000)	
Loans, cash credits, running finances, etc.				
In Pakistan			3,409,842	3,129,582
Provision against advances				
Specific provision		10.3	104,441	64,882
General provision		10.3	1,071	1,193
			105,512	66,075
Advances - net			3,304,330	3,063,507
10.1 Particulars of advances (gross)				
10.1.1 In local currency			3,405,198	3,129,582
In foreign currencies			4,644	-
			3,409,842	3,129,582
10.1.2 Short-term			2,932,718	2,450,812
Long-term			477,124	678,770
			3,409,842	3,129,582

10.2 Advances include Rs. 174.287 million (2007: Rs. 85.282 million) which have been placed under the non-performing status as detailed below:

Category of classification	2008								
	Classified advances			Specific provision required			Specific provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Substandard	91,602	-	91,602	22,900	-	22,900	22,900	-	22,900
Doubtful	2,289	-	2,289	1,145	-	1,145	1,145	-	1,145
Loss	80,396	-	80,396	80,396	-	80,396	80,396	-	80,396
	174,287	-	174,287	104,441	-	104,441	104,441	-	104,441

Category of classification	2007								
	Classified advances			Specific provision required			Specific provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in '000)								
Substandard	245	-	245	61	-	61	61	-	61
Doubtful	40,432	-	40,432	20,216	-	20,216	20,216	-	20,216
Loss	44,605	-	44,605	44,605	-	44,605	44,605	-	44,605
	85,282	-	85,282	64,882	-	64,882	64,882	-	64,882

10.3 Particulars of provision against advances

Category of classification	Note	2008			2007		
		Specific	General	Total	Specific	General	Total
		(Rupees in '000)					
Opening balance		64,882	1,193	66,075	47,076	1,496	48,572
Charge for the year		55,449	419	55,868	22,334	242	22,576
Reversals		(15,890)	(541)	(16,431)	(3,966)	(545)	(4,511)
	10.3.2	39,559	(122)	39,437	18,368	(303)	18,065
Amounts written off	10.4	-	-	-	(562)	-	(562)
Closing balance		104,441	1,071	105,512	64,882	1,193	66,075

10.3.1 Particulars of provision against advances

Category of classification	2008			2007		
	Specific	General	Total	Specific	General	Total
	(Rupees in '000)					
In local currency	104,441	1,071	105,512	64,882	1,193	66,075
In foreign currencies	-	-	-	-	-	-
	104,441	1,071	105,512	64,882	1,193	66,075

10.3.2 The following amounts have been charged to the profit and loss account:

	Note	2008	2007
		(Rupees in '000)	
Specific provision		39,559	18,368
General provision	10.3.3	(122)	(303)
		39,437	18,065

10.3.3 This includes general provision against consumer loans representing provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan.

10.4 Particulars of write offs:

10.4.1 Against provisions		-	562
Directly charged to the profit and loss account		-	-
		-	562
10.4.2 Write offs of Rs. 500,000 and above	10.4.3	-	545
Write offs of below Rs. 500,000		-	17
		-	562

10.4.3 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 financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended 31 Decemehr 2008 is given at Annexure - I.

10.5 Particulars of advances to directors, associated companies, etc.
Note
2008 2007
(Rupees in '000)

Debts due by executives or officers of the Bank or any of them either severally or jointly with any other persons

Balance at beginning of the year	53,171	51,054
Loans granted during the year	18,127	20,074
Repayments	(4,532)	(17,957)
Balance at end of the year	66,766	53,171

Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members

Balance at beginning of year	116,667	116,667
Given during the year	-	50,000
Repaid during the year	(58,333)	(50,000)
Balance at end of year	58,334	116,667

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

Balance at beginning of the year	609,962	236,320
Loans granted during the year	1,254,919	712,244
Repayments	(1,807,093)	(338,602)
Balance at end of the year	57,788	609,962

11. OPERATING FIXED ASSETS

Property and equipment	<i>11.1</i>	167,845	139,951
Intangible asset	<i>11.3</i>	6,988	8,735
		174,833	148,686

11.1 Property and equipment

Description	2008								Net book value at 31 December 2008	Annual rate of depreciation
	-----Cost/ revalued amount -----				----- Accumulated depreciation -----					
	At 1 January 2008	Additions / (disposals)	Revaluation	At 31 December 2008	At 1 January 2008	Charge for the year / (depreciation on disposals)	Revaluation adjustment	At 31 December 2008		
	----- (Rupees in '000) -----									
Land - leasehold	31,684	-	4,930	36,614	-	-	-	-	36,614	-
Buildings on leasehold land	71,046	801	17,219	89,066	11,747	3,005	(14,752)	-	89,066	5%
Furniture and fixtures	32,511	375 (157)	-	32,729	18,629	1,590 (127)	-	20,092	12,637	10% to 33.33%
Electrical, office and computer equipment	57,972	4,690 (34)	-	62,628	31,856	6,067 (7)	-	37,916	24,712	20%
Vehicles	34,587	954 (2,051)	-	33,490	25,617	4,767 (1,710)	-	28,674	4,816	20%
	227,800	6,820 (2,242)	22,149	254,527	87,849	15,429 (1,844)	(14,752)	86,682	167,845	

Description	2007								Net book value at 31 December 2007	Annual rate of depreciation
	-----Cost/ revalued amount -----				----- Accumulated depreciation -----					
	At 1 January 2007	Additions / (disposals) / revaluation	Adjustment	At 31 December 2007	At 1 January 2007	Charge for the year / (depreciation on disposals)	Adjustment	At 31 December 2007		
	----- (Rupees in '000) -----									
Land - leasehold	31,684	-	-	31,684	-	-	-	-	31,684	-
Buildings on leasehold land	71,046	-	-	71,046	8,626	3,121	-	11,747	59,299	5%
Furniture and fixtures	33,220	825 (988)	(546)	32,511	18,321	1,472 (740)	(424)	18,629	13,882	10% to 33.33%
Electrical, office and computer equipment	54,314	8,364 (2,562)	(1,812) (332)	57,972	28,943	6,235 (2,186)	(856) (280)	31,856	26,116	20%
Vehicles	34,486	914 (813)	-	34,587	21,147	5,283 (813)	-	25,617	8,970	20%
	224,750	10,103 (4,363)	(2,690)	227,800	77,037	16,111 (3,739)	(1,560)	87,849	139,951	

11.1.1 The land and buildings of the Bank have been revalued in December 2008 by independent valuers (Iqbal A. Nanjee & Co. valuation and engineering consultants), on the basis of market value. The impact of valuation has been incorporated as at December 31, 2008 and has resulted in surplus of Rs. 36,900 million over the written down value of Rs. 88,779 million of these assets (total revalued amount being Rs. 125.68 million). The details of revalued amounts are as follows:

	(Rupees in '000)
Total revalued amount of land	36,614
Total revalued amount of buildings	89,066
	125,680

Had the Land and building not been revalued, the total carrying amounts as at December 31, 2008 would have been as follows.

	(Rupees in '000)
Land	3,192
Buildings	8,256

11.1.2 The gross carrying amount of fully depreciated assets (vehicles only) that are still in use amounts to Rs. 9.656 million (2007: Rs. 8.170 million).

11.1.3 Summarised detail of the valuation of properties across the country:

Location of properties	Original Cost			Revalued Amount		
	Land	Buildings	Total	Land	Buildings	Total
	(Rupees in '000)			(Rupees in '000)		
Mehdi Tower, Karachi	-	5,167	5,167	-	16,752	16,752
Gurumandir, Karachi	-	1,010	1,010	-	15,345	15,345
Sukkur	-	1,017	1,017	-	9,000	9,000
Faisalabad	-	3,627	3,627	-	29,952	29,952
F.B. Area, Karachi	-	815	815	-	5,000	5,000
Gulshan-e-Iqbal, Karachi	-	1,322	1,322	-	5,500	5,500
P.E.C.H.S., Karachi	3,000	5,284	8,284	24,124	5,041	29,165
Mirpurkhas*	67	95	162	1,240	47	1,287
Kohat*	-	708	708	-	2,429	2,429
Nawabshah*	125	-	125	11,250	-	11,250
	3,192	19,045	22,237	36,614	89,066	125,680

* Represents temporarily idle properties. The land in Nawabshah is under litigation. Sindh High Court has issued an injunction in favor of the Bank under which the sale of land (by a party who illegally transferred the title in his own name) has been stayed.

11.2 Disposals of fixed assets during the year

	Cost	Accumulated depreciation	Carrying value	Sale proceeds	Mode of disposal	Particulars of Buyers
	(Rupees in '000)					
Furniture and fixtures						
Miscellaneous scrapped items	157	127	30	19	Auction	
	157	127	30	19		
Electrical, office and computer equipment						
Items having book value of less than Rs. 250,000 and cost of less than Rs. 1,000,000:						
Miscellaneous scrapped items	34	7	27	6	Trade - in	Fakhar International (Pvt) Ltd
	34	7	27	6		
Vehicles						
Toyota Corolla XLI	2005	877	538	339	339	To retired employees Ms.Safia Hasan
Toyota Corolla XLI	2003	865	863	2	175	To retired employees Ms.Shafquat Sultana
Suzuki Mehran	2000	309	309	-	31	To retired employees Ms.Nadira Agha
		2,051	1,710	341	545	
Total	2008	2,242	1,844	398	570	
Total	2007	4,363	3,739	624	750	

11.3 Intangible assets

Description	2008							Rate of amortisation %
	Cost			Accumulated amortisation			Net book value at 31 December 2008	
	At 1 January 2008	Additions	At 31 December 2008	At 1 January 2008	Amortisation for the year	At 31 December 2008		
------(Rupees in '000)-----								
Computer software	15,110	-	15,110	6,375	1,747	8,122	6,988	20%
	<u>15,110</u>	<u>-</u>	<u>15,110</u>	<u>6,375</u>	<u>1,747</u>	<u>8,122</u>	<u>6,988</u>	

Description	2007							Rate of amortisation %
	Cost			Accumulated amortisation			Net book value at 31 December 2007	
	At 1 January 2007	Additions	At 31 December 2007	At 1 January 2007	Amortisation for the year	At 31 December 2007		
------(Rupees in '000)-----								
Computer software	9,538	5,572	15,110	4,191	2,184	6,375	8,735	20%
	<u>9,538</u>	<u>5,572</u>	<u>15,110</u>	<u>4,191</u>	<u>2,184</u>	<u>6,375</u>	<u>8,735</u>	

12. DEFERRED TAX ASSET / (LIABILITY) - net

12.1 The details of the tax effect of taxable and deductible temporary differences are as follows:

	Note	2008	2007
(Rupees in '000)			
Taxable temporary differences on:			
Surplus on revaluation of operating fixed assets	20.1	(28,203)	(17,908)
Accelerated tax depreciation		(1,257)	(1,439)
		<u>(29,460)</u>	<u>(19,347)</u>
Deductible temporary differences on:			
Deficit on revaluation on investments	20.2	60,107	1,918
Provision against advances		25,983	6,429
		<u>86,090</u>	<u>8,347</u>
		<u>56,630</u>	<u>(11,000)</u>

12.2 Reconciliation of deferred tax

	Balance as at 1 January 2007	Recognised in the profit and loss	Recognised in equity	Balance as at 31 December 2007	Recognised in the profit and loss	Recognised in equity	Balance as at 31 December 2008
------(Rupees in '000)-----							
Deferred debits arising in respect of							
Compensated leave absences	3,035	(3,035)	-	-	-	-	-
Provision against other assets	2,732	(2,732)	-	-	-	-	-
Provision against advances	17,000	(10,571)	-	6,429	19,554	-	25,983
Deficit on revaluation of investment	2,763	-	(845)	1,918	-	58,189	60,107
	<u>25,530</u>	<u>(16,338)</u>	<u>(845)</u>	<u>8,347</u>	<u>19,554</u>	<u>58,189</u>	<u>86,090</u>
------(Rupees in '000)-----							
Deferred credits arising due to							
Surplus on revaluation of fixed assets	(18,851)	-	943	(17,908)	-	(10,295)	(28,203)
Accelerated tax depreciation	(2,143)	704	-	(1,439)	182	-	(1,257)
	<u>(20,994)</u>	<u>704</u>	<u>943</u>	<u>(19,347)</u>	<u>182</u>	<u>(10,295)</u>	<u>(29,460)</u>
	<u>4,536</u>	<u>(15,634)</u>	<u>98</u>	<u>(11,000)</u>	<u>19,735</u>	<u>47,894</u>	<u>56,630</u>

13. OTHER ASSETS - net	Note	2008 (Rupees in '000)	2007
Income / markup accrued in local currency		130,951	103,739
Income / markup accrued in foreign currency		2,274	2,179
Advances, deposits, prepayments and other receivables		16,620	16,225
Advance taxation (net of provisions)		10,420	35,363
Receivable from staff retirement benefit fund	33.3	671	1,808
Stationery and stamps on hand		4,192	3,524
Suspense account (fully provided)		5,050	5,050
Branch adjustment account		5,936	-
Others		7,679	13,898
		<u>183,793</u>	<u>181,786</u>
Provision against other assets	13.1	(7,492)	(7,492)
		<u>176,301</u>	<u>174,294</u>

13.1 Provision against other assets

Opening balance	7,492	7,805
Reversals for the year	-	(313)
Closing balance	<u>7,492</u>	<u>7,492</u>

14. CONTINGENT ASSETS

There were no contingent assets of the Bank as at 31 December 2008.

15. BILLS PAYABLE

In Pakistan	97,630	190,959
Outside Pakistan	4,363	2,362
	<u>101,993</u>	<u>193,321</u>

16. BORROWINGS

In Pakistan - in local currency	<u>27,140</u>	<u>21,543</u>
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16.1 Details of borrowings (secured / unsecured)

Secured

Borrowings from State Bank of Pakistan under			
-Export refinance scheme	16.2	27,140	21,543
-Locally manufactured machinery		-	-
		<u>27,140</u>	<u>21,543</u>

Unsecured

Call borrowings		-	-
		<u>27,140</u>	<u>21,543</u>

16.2 The Bank has entered into agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted 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 SBP. These carry mark-up rate of 6.5% per annum (2007: 6.5% per annum). These borrowings are repayable upto June 2009.

17. DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits		515,492	389,601
Savings deposits		3,010,555	2,930,287
Current (saving cum current) accounts - remunerative		817,539	2,275,298
Current accounts - non remunerative		1,446,332	1,838,353
Call deposits		129,006	111,737
Sundry deposits	17.1	20,178	21,897
		<u>5,939,102</u>	<u>7,567,173</u>

Financial institutions

Remunerative deposits	176	993
Non-remunerative deposits	30	893
	<u>206</u>	<u>1,886</u>
	<u>5,939,308</u>	<u>7,569,059</u>

17.1 Sundry deposits include margin account balance of Rs. 5.449 million (2007: Rs. 7.615 million).

17.2 Particulars of deposits	2008	2007
	(Rupees in '000)	
In local currency	5,551,123	7,198,289
In foreign currencies	388,185	370,770
	<u>5,939,308</u>	<u>7,569,059</u>

18. OTHER LIABILITIES

Mark-up/ return/ interest payable in local currency	102,034	73,947
Accrued expenses	3,545	3,228
Branch adjustment account	-	6,916
Payable to defined contribution plans	-	377
Provision for employees' compensated absences	33.10.3 14,388	12,217
Workers welfare fund	4,604	-
Others	7,676	5,724
	<u>132,247</u>	<u>102,409</u>

19. SHARE CAPITAL

19.1 Authorised capital

2008	2007		2008	2007
(Number of shares)				
<u>30,000,000</u>	<u>30,000,000</u>	Ordinary shares of Rs 10 each	<u>300,000</u>	<u>300,000</u>

19.2 Issued, subscribed and paid up capital

This comprises of fully paid-up ordinary shares of Rs 10 each as follows:

24,365,000	24,365,000	Issued for cash	243,650	243,650
4,000,000	4,000,000	Issued as bonus shares	40,000	40,000
<u>28,365,000</u>	<u>28,365,000</u>		<u>283,650</u>	<u>283,650</u>

19.3 Major shareholders (associated undertakings)

	2008 & 2007	
	Number of shares held	Percentage of shareholding
		%
MCB Bank Limited	7,596,000	26.78
Habib Bank Limited	7,596,000	26.78
Allied Bank Limited	2,544,000	8.96
National Bank of Pakistan	2,532,000	8.93
United Bank Limited	2,532,000	8.93
Ministry of Women Development, Government of Pakistan	5,565,000	19.62
	<u>28,365,000</u>	<u>100.00</u>

19.4 According to BSD Circular No. 19 of 2008, the Bank was required to raise its paid-up capital to Rs. 5 billion by 31 December 2008. However, the State Bank of Pakistan through its letter reference BSD/BAI-3/608/10/2009 dated 05 January 2009 has keeping in view the recapitalisation/restructuring of the Bank, granted the Bank an extension for meeting the Minimum Paid-up Capital Requirement up till 31 December 2009 or re-capitalization/restructuring of the Bank which ever occurs earlier.

20. SURPLUS ON REVALUATION OF ASSETS - net of tax	<i>Note</i>	2008	2007
		(Rupees in '000)	
Surplus arising on revaluation (net of tax) of:			
- fixed assets	20.1	85,800	61,754
- available-for-sale securities	20.2	(118,567)	(1,626)
		<u>(32,767)</u>	<u>60,128</u>
20.1 Surplus on revaluation of fixed assets - net of tax			
Surplus on revaluation of fixed assets as at 1 January		79,662	82,355
Transferred to accumulated profit representing incremental depreciation charged during the year - net of tax		(1,664)	(1,750)
Related deferred tax liability		(895)	(943)
		<u>(2,559)</u>	<u>(2,693)</u>
		77,103	79,662
Revaluation during the year		36,900	-
		<u>114,003</u>	<u>79,662</u>
Less: Deferred tax liability on:			
Revaluation surplus as at 1 January (excluding surplus on leasehold land of Rs. 6.692 million (2007: Rs. 6.692 million))		17,908	18,851
Incremental depreciation charged during the year		(895)	(943)
Revaluation during the year (excluding surplus on leasehold land of Rs. 4.929 million)		11,190	-
		<u>28,203</u>	<u>17,908</u>
		<u>85,800</u>	<u>61,754</u>
20.2 Deficit on revaluation of available-for-sale securities - net of tax			
Federal Government Securities		(166,027)	(8,002)
Listed Securities			
- Units / certificates of mutual funds / preference shares		(6,793)	2,710
- Listed Term Finance Certificates		(5,854)	1,748
		<u>(12,647)</u>	<u>4,458</u>
		(178,674)	(3,544)
Add: Related deferred tax asset - net		60,107	1,918
		<u>(118,567)</u>	<u>(1,626)</u>

21. CONTINGENCIES AND COMMITMENTS

	2008	2007
	(Rupees in '000)	
21.1 Transaction-related contingent liabilities		
Guarantees in favour of:		
Government	40,739	40,575
Others	1,081	890
	<u>41,820</u>	<u>41,465</u>
21.2 Trade-related contingent liabilities		
Letter of credit and acceptances on behalf of:		
Government	-	1,342
Others	6,191	1,574
	<u>6,191</u>	<u>2,916</u>
21.3 Commitments in respect of lending		
Commitments to extend credit	-	-
	<u>-</u>	<u>-</u>
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.		
21.4 Other contingencies		
Claims against the Bank not acknowledged as debt	154,037	154,037
	<u>154,037</u>	<u>154,037</u>
21.5 Commitments in respect of forward foreign exchange contracts		
Purchase	-	-
Sale	-	-
	<u>-</u>	<u>-</u>
21.6 Taxation		

The income tax assessments of the Bank have been finalised up to and including the assessment year 2002-03 and Tax year 2003 (financial year ended 31 December 2002) while returns for subsequent years up to tax year 2008 (financial year ended 31 December 2007) have been filed which are deemed to have been assessed for respective years under section 120 of the Income Tax Ordinance, 2001 (untill selected for audit). The tax authorities have made certain disallowances comprising primarily the interest on non-performing advances suspended by the Bank, Nostro account balances written-off by the Bank, etc. in respect of the assessment years 1995-96 to 2001-02 against which appeals have been filed by the Bank at appellate forums. In case of adverse decisions, the Bank would have to make additional provision of Rs. 35.734 million.

However, the management is confident that the decision in appeals would be in its favour and as such no provision has been made against the above amount.

22. DERIVATIVE INSTRUMENTS

The Bank, as a policy does not enter into derivatives except for forward foreign exchange contracts, which are primarily backed by trade finance related business of customers. The volume and quantum of such forward contracts is low.

23. MARK-UP / RETURN / INTEREST EARNED

On loans and advances to:

Customers	386,531	279,821
Financial institutions	5,169	19,294
	<u>391,700</u>	<u>299,115</u>

On investments in:

Available for sale securities	235,559	215,397
Held to maturity securities	24,328	50,104
	<u>259,887</u>	<u>265,501</u>

On deposits with financial institutions	79,785	106,134
On securities purchased under resale agreements	4,731	14,596
	<u>736,103</u>	<u>685,346</u>

		2008	2007
		(Rupees in '000)	
24	MARK-UP / RETURN / INTEREST EXPENSED		
	On deposits	191,122	164,586
	On securities sold under repurchase agreements	21,397	6,983
	On other short-term borrowings	82	125
		<u>212,601</u>	<u>171,694</u>
25	GAIN ON SALE OF SECURITIES		
	Units of Mutual Fund	<u>7,250</u>	<u>24,115</u>
26	OTHER INCOME		
	Gain on sale of fixed assets	172	126
	Rent on lockers	5,239	5,065
	Others	12,181	7,726
		<u>17,592</u>	<u>12,917</u>
27.	ADMINISTRATIVE EXPENSES		
	Salaries and allowances	197,626	177,488
	Charge for employees' compensated absences	33.10.3 2,171	3,710
	<u>Charge for defined benefit plans:</u>		
	Approved pension fund	33.7 16,722	16,543
	Approved gratuity fund	33.7 1,028	985
		<u>17,750</u>	<u>17,528</u>
	Contribution to defined contribution plan - provident fund	34 415	378
	Non-executive directors' fees	2	7
	Rent, taxes, insurance, electricity	54,330	42,688
	Legal and professional charges	3,705	5,437
	Worker Welfare Fund	4,604	-
	Communications	12,954	12,652
	Repairs and maintenance	12,790	11,198
	Stationery and printing	10,293	9,629
	Advertisement and publicity	8,690	5,094
	Donations	27.1 -	-
	Auditors' remuneration	27.2 1,715	1,378
	Depreciation	11.1 15,429	16,111
	Amortization of intangible asset	11.3 1,747	2,184
	Remittances, cash handling service charges	7,052	10,499
	Conveyance, Travelling, etc.	7,332	5,956
	Others	9,193	10,580
		<u>367,798</u>	<u>332,517</u>
27.1	No donations were made by the Bank during the year.		
27.2	Auditors' remuneration		
	Audit fee	770	700
	Fee for half yearly review of financial statements	300	275
	Fee for special certifications and sundry advisory services	250	265
	Fee for tax services	355	100
	Out of pocket expenses	40	38
		<u>1,715</u>	<u>1,378</u>
28.	OTHER CHARGES		
	Penalties imposed by the State Bank of Pakistan	<u>5,451</u>	<u>7,446</u>
29.	TAXATION		
	For the year		
	Current	87,280	82,464
	Deferred	(19,735)	(7,133)
		<u>67,545</u>	<u>75,331</u>
	Prior years		
	Current	16,878	(17,563)
	Deferred	-	22,767
		<u>16,878</u>	<u>5,204</u>
		<u>84,423</u>	<u>80,535</u>

29.1 Relationship between tax expense and accounting profit**2008** **2007**
(Rupees in '000)

Accounting profit for the year	<u>190,443</u>	<u>238,422</u>
Tax rate	<u>35%</u>	<u>35%</u>
Tax on income	68,603	83,448
Tax effect of expenses not allowable for tax purposes	1,908	2,606
Tax effect of dividend income & capital gain taxed at reduced rate	(3,232)	(2,344)
Tax effect of prior year tax charge	16,878	5,204
Tax effect of income exempt from tax	-	(8,440)
Others	266	61
Tax charge for the year	<u>84,423</u>	<u>80,535</u>

30. BASIC AND DILUTED EARNINGS PER SHARE**(Rupees in '000)**

Profit after taxation	<u>106,020</u>	<u>157,887</u>
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(Number of shares)

Weighted average number of ordinary shares outstanding during the year	<u>28,365,000</u>	<u>28,365,000</u>
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(Rupees)

Basic and diluted earnings per share	<u>3.74</u>	<u>5.57</u>
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31. CASH AND CASH EQUIVALENTS**(Rupees in '000)**

Cash and balances with treasury banks	6	575,929	809,657
Balances with other banks	7	400,761	384,792
		<u>976,690</u>	<u>1,194,449</u>

32. STAFF STRENGTH**(Number)**

Permanent		304	323
Temporary / on contractual basis		179	192
Daily wages		57	20
Bank's own staff strength at the end of the year		<u>540</u>	<u>535</u>
Outsourced		<u>-</u>	<u>-</u>
		<u>540</u>	<u>535</u>

33. STAFF RETIREMENT AND OTHER BENEFITS

33.1 General description

The Bank operates the following final salary retirement benefits for its employees as explained in detail in notes 5.10 and 5.11 to these financial statements:

- Approved pension fund - funded
- Approved gratuity fund - funded

In addition, the bank also makes provisions for employees compensated absences details of which are given in note 33.10.3.

33.2 Principal actuarial assumptions

The latest actuarial valuations of the approved pension fund, approved gratuity fund and employee's compensated absences were carried out as at 31 December 2008. The principal actuarial assumptions used are as follows:

	Approved pension fund		Approved gratuity fund	
	2008 (Percentages)	2007	2008 (Percentages)	2007
Valuation discount rate	15.00	10.00	15.00	10.00
Expected rate of return on plan assets	13.00	8.00	13.00	8.00
Salary increase rate	14.00	9.00	14.00	9.00
Indexation in pension	3.00	3.00	-	-

The expected return on plan assets is based on the market expectations and depends on the asset portfolio of the Bank, at the beginning of the period, for returns over the entire life of the related obligation.

33.3 The amounts recognised in the balance sheet

	Approved pension fund		Approved gratuity fund	
	2008	2007	2008	2007
------(Rupees in '000)-----				
Present value of funded obligations	33.4 167,383	150,082	7,263	6,069
Fair value of plan assets	33.5 (136,652)	(122,199)	(5,173)	(3,754)
Funded status (deficit)	30,731	27,883	2,090	2,315
Unrecognised actuarial losses	(31,402)	(29,691)	(2,090)	(2,315)
Recognised (asset) / liability	(671)	(1,808)	-	-

33.4 Movement in present value of defined benefit obligations

Present value of obligations as at 1 January	150,082	127,691	6,069	6,685
Current service cost	10,398	9,618	372	302
Interest cost	15,260	13,209	621	620
Actual benefits paid during the year	(3,084)	(805)	-	(1,139)
Actuarial (gains) / losses on obligation	(5,273)	369	201	(399)
Present value of obligation as at 31 December	167,383	150,082	7,263	6,069

33.5 Movement in fair value of plan assets

	Note	Approved pension fund		Approved gratuity fund	
		2008	2007	2008	2007
------(Rupees in '000)-----					
Fair value of plan assets as at 1 January		122,199	96,544	3,754	3,742
Expected return on plan assets		9,985	8,089	392	262
Contributions during the year		15,585	14,923	1,028	985
Benefits paid		(3,084)	(805)	-	(1,139)
Actuarial losses on plan assets		(8,033)	3,448	(1)	(96)
Fair value of plan assets as at 31 December		<u>136,652</u>	<u>122,199</u>	<u>5,173</u>	<u>3,754</u>

33.6 Movements in net (asset) / liability recognised in the balance sheet

Opening balance		(1,808)	(3,280)	-	-
Charge for the year	33.7	16,722	16,543	1,028	985
Contribution to the fund made during the year		(15,585)	(14,923)	(1,028)	(985)
Adjustment		-	(148)	-	-
Closing balance		<u>(671)</u>	<u>(1,808)</u>	<u>-</u>	<u>-</u>

33.7 Amounts recognised in the profit and loss account

Current service cost		10,398	9,618	372	302
Interest cost		15,260	13,209	621	620
Expected return on plan assets		(9,985)	(8,089)	(392)	(262)
Amortisation of transitional obligation		1,049	1,805	427	325
Actuarial losses recognised during the year		-	-	-	-
Net assets as at 31 December		<u>16,722</u>	<u>16,543</u>	<u>1,028</u>	<u>985</u>

33.8 Actual return on plan assets

	<u>3,775</u>	<u>5,773</u>	<u>380</u>	<u>187</u>
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33.9 Components of plan assets as percentage of total assets

	2008	2007	2008	2007
Government securities	11.19%	12.66%	0.00%	0.00%
Term Deposits	**42.99%	40.08%	* 80.11%	80.83%
Mutual Funds	34.91%	44.62%	0.00%	0.00%
Cash at Bank	* 10.91%	* 2.64%	* 19.89%	* 19.17%
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

* This represent funds deployed with First Women Bank Limited.

** Includes Rs. 42.5 million (31%) deployed with First Women Bank Limited.

33.10 Other relevant details of above funds are as follows:

	2008	2007	2006	2005	2004
------(Rupees in '000)-----					
33.10.1 Approved pension fund					
Present value of defined benefit obligation	167,383	150,082	127,691	111,768	86,030
Fair value of plan assets	136,652	122,199	96,544	75,040	56,500
Deficit	<u>30,731</u>	<u>27,883</u>	<u>31,147</u>	<u>36,728</u>	<u>29,530</u>
Experience adjustments on plan liabilities loss / (gain)	5,273	369	(13,388)	14,795	(15,279)
Experience adjustments on plan assets (loss) / gain	(8,033)	3,448	2,961	417	19
33.10.2 Approved gratuity fund					
Present value of defined benefit obligation	7,263	6,069	6,685	8,878	5,642
Fair value of plan assets	5,173	3,754	3,742	5,298	4,529
Deficit	<u>2,090</u>	<u>2,315</u>	<u>2,943</u>	<u>3,580</u>	<u>1,113</u>
Experience adjustments on plan liabilities (gain) / loss	(201)	(399)	(274)	2,416	(258)
Experience adjustments on plan assets (loss) / gain	(1)	96	235	207	267

33.10.3 Employee compensated absences

The liability of the Bank in respect of long-term employees compensated absences is determined based on actuarial valuation carried out using Projected Unit Credit Method. The liability of the Bank as per the latest actuarial valuation carried out as at 31 December, 2008 amounted to Rs. 14.388 million (2007: Rs. 12.217 million) which has been fully provided by the Bank. The charge for the year in respect of these absences is Rs. 2.171 million (2007: Rs. 3.710 million) which is included in note 27 to these financial statements.

34 Defined Contribution Plan

The Bank operates an approved contributory provident fund for 4 employees (2007: 4 employees) where contributions are made by the Bank and employees at 8.33% per annum (2007: 8.33% per annum) of the basic salary. During the year, Bank contributed Rs. 0.415 million (2007: 0.378 million) in respect of this fund.

The Bank also operates an approved non-contributory provident fund for 294 employees (2007: 313 employees) who have opted for the new scheme, where contributions are made by the employee at 12% per annum (2007: 12% per annum) of the basic salary.

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for compensation, including all benefits, to the Chief Executive, Directors and Executives of the Bank was as follows:

	President / Chief Executive		Directors		Executives	
	2008	2007	2008	2007	2008	2007
	------(Rupees in '000)-----					
Fees	-	-	4	7	-	-
Managerial remuneration	2,880	2,640	-	-	9,020	7,623
Charge for defined benefit plan	240	660	-	-	128	645
Contribution to defined contribution plan	240	220	-	-	-	-
Rent and house maintenance	1,685	1,240	-	-	2,110	2,480
Utilities	694	410	-	-	902	762
Medical	318	262	-	-	940	811
Conveyance	-	-	-	-	749	872
Others (Bonus, special allowance, expense reimbursement etc)	8,115	6,477	-	-	724	465
	<u>14,172</u>	<u>11,909</u>	<u>4</u>	<u>7</u>	<u>14,573</u>	<u>13,658</u>
Number of persons	<u>1</u>	<u>1</u>	<u>6</u>	<u>6</u>	<u>8</u>	<u>8</u>

The Chief Executive and certain executives are provided with free use of the Bank's maintained car and household equipments in accordance with the terms of their employment.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for tradable Pakistan Investment Bonds classified by the Bank as 'held to maturity'. These 'held to maturity' Bonds are being carried at amortised cost in order to comply with the requirements of BSD Circular 14 dated 24 September 2004. The fair value of these investments amounts to Rs. 158.454 million (2007: Rs. 191.7 million). Fair value of unquoted equity investments is determined on the basis of break up value of those investments as per the latest available audited financial statements. The details of this investments is given in note 9.8.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4 of these financial statements.

The maturity and repricing profile and effective rates are stated in notes 40.4.3, 40.4.5.1 and 40.4.5.2 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 re-priced.

37. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Corporate Finance	Trading and Sales	Retail & Consumer Banking	Commercial Banking	Total
	------(Rupees in '000)-----				
2008					
Total income	151,214	320,063	279,624	75,544	826,445
Total expenses	107,062	253,977	200,067	74,896	636,002
Income tax expense	-	-	-	-	84,423
Net income	44,152	66,086	79,557	648	106,020
Segment assets - (Gross)	1,822,379	3,098,720	2,171,776	271,903	7,364,778
Advance tax	-	-	-	-	10,420
Deferred tax assets	-	-	-	-	56,630
Total assets	1,822,379	3,098,720	2,171,776	271,903	7,431,828
Segment non performing loans	-	-	42,062	132,225	174,287
Segment specific provision required	-	-	40,829	63,612	104,441
Segment liabilities	3,739	8,685	6,159,390	28,875	6,200,688
Segment return on net assets (ROA)	2.43%	2.14%	3.62%	0.21%	1.75%
Segment cost of funds	2.21%	2.62%	1.59%	2.93%	9.55%
2007					
Total income	127,709	173,149	437,344	29,628	767,831
Total expenses	52,115	45,524	413,550	18,219	529,408
Income tax expense	-	-	-	-	80,535
Net income	75,594	127,625	23,794	11,409	157,888
Segment assets - (Gross)	1,740,166	4,859,027	2,163,705	252,197	9,015,095
Advance tax	-	-	-	-	35,362
Deferred tax assets	-	-	-	-	-
Total assets	1,740,166	4,859,027	2,163,705	252,197	9,050,457
Segment non performing loans	-	-	85,282	-	85,282
Segment specific provision required	-	-	64,882	-	64,882
Segment liabilities	2,206	2,941	7,869,538	22,647	7,897,332
Segment return on net assets (ROA) (%)	5.38%	2.62%	1.10%	4.52%	1.95%
Segment cost of funds (%)	3.04%	5.65%	9.02%	5.06%	8.05%

38. RELATED PARTY TRANSACTIONS AND BALANCES

The Bank has related party relationships with associated undertakings, employee benefits, directors and key management personnel and companies with common directors.

Details of advances to the companies or firms in which the directors of the Bank are interested as directors, partners or in case of private companies as members, are given in note 10.5 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to and accruals in respect of staff retirement benefit plans are made in accordance with the actuarial valuation / terms of the contribution plan as disclosed in notes 33 and 34. Remuneration to the executives and disposals of vehicles are disclosed in noted 35 and 11.2 to these financial statements. The details of transactions and balances with related parties are as

	Directors		Associated Undertaking		Key management personnel		Other related parties	
	2008	2007	2008	2007	2008	2007	2008	2007
------(Rupees in '000)-----								
A Balances								
Deposits								
Balance at beginning of the year	923	110	-	-	1,619	1,487	6,217	128,865
Deposited during the year	54,079	18,097	-	-	22,526	19,143	216,024	92,042
Withdrawn during the year	53,268	17,284	-	-	20,895	19,011	154,621	214,690
Balance at end of the year	<u>1,734</u>	<u>923</u>	<u>-</u>	<u>-</u>	<u>3,250</u>	<u>1,619</u>	<u>67,620</u>	<u>6,217</u>
Deposits carry mark-up rate at 5% to 15% per annum (2007: 4% per annum).								
Mark-up / return / interest expensed	<u>38</u>	<u>13</u>	<u>-</u>	<u>15</u>	<u>32</u>	<u>15</u>	<u>414</u>	<u>2,357</u>
Mark-up payable in local currency	<u>27</u>	<u>4</u>	<u>-</u>	<u>6</u>	<u>25</u>	<u>6</u>	<u>347</u>	<u>87</u>
Advances (secured)								
Balance at beginning of the year	5,653	1,224	416,667	116,667	2,044	2,319	309,962	236,320
Loans granted during the year	-	4,732	825,727	350,000	2,500	35	429,192	412,245
Repayments received during the year	673	303	1,184,061	50,000	1,159	310	681,366	338,603
Balance at end of the year	<u>4,980</u>	<u>5,653</u>	<u>58,333</u>	<u>416,667</u>	<u>3,385</u>	<u>2,044</u>	<u>57,788</u>	<u>309,962</u>
Advances carry profit rates ranging from 5% to 15.15 % per annum (2007: 5% to 10.99% per annum)								
Mark-up / return / interest earned	<u>265</u>	<u>97</u>	<u>52,719</u>	<u>11,302</u>	<u>103</u>	<u>104</u>	<u>23,899</u>	<u>25,278</u>
Mark-up receivable in local currency	<u>186</u>	<u>305</u>	<u>241</u>	<u>5,152</u>	<u>139</u>	<u>135</u>	<u>2,164</u>	<u>7,514</u>
B Other transactions and balances (including profit and loss related transactions)								
Balances as at the year end	Associated undertakings		Other related parties					
	2008	2007	2008	2007				
------(Rupees in '000)-----								
Cash and balance with treasury bank	<u>32,517</u>	<u>16,368</u>	<u>-</u>	<u>-</u>				
Balances with other banks	<u>35,659</u>	<u>9,199</u>	<u>-</u>	<u>-</u>				
Investment in National Institutional Facilitation Technologies (Private) Limited	<u>954</u>	<u>954</u>	<u>-</u>	<u>-</u>				
Mark-up receivable in local currency	<u>39</u>	<u>335</u>	<u>-</u>	<u>-</u>				
MCB ATM settlement account balance	<u>417</u>	<u>417</u>	<u>-</u>	<u>-</u>				
Receivable from defined benefit plan	<u>-</u>	<u>-</u>	<u>671</u>	<u>1,808</u>				
Payable to defined contribution plan	<u>-</u>	<u>-</u>	<u>-</u>	<u>377</u>				
Transactions during the year								
Interest income on lendings to financial institutions	<u>3,960</u>	<u>9,705</u>	<u>-</u>	<u>-</u>				
Interest expense on								
- Call borrowings	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>				
- Repurchase agreement borrowings	<u>3,990</u>	<u>148</u>	<u>-</u>	<u>-</u>				
	<u>148</u>	<u>148</u>	<u>-</u>	<u>-</u>				
Dividend income	<u>6,160</u>	<u>4,037</u>	<u>-</u>	<u>-</u>				
Charge for retirement benefits								
Approved pension fund	<u>-</u>	<u>-</u>	<u>16,722</u>	<u>16,543</u>				
Approved gratuity fund	<u>-</u>	<u>-</u>	<u>1,028</u>	<u>985</u>				
Contributory provident fund	<u>-</u>	<u>-</u>	<u>415</u>	<u>378</u>				
	<u>-</u>	<u>-</u>	<u>18,165</u>	<u>17,906</u>				
Income on Term Finance Certificates	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>				
Other expenses								
- Cheque processing charges	<u>-</u>	<u>2,482</u>	<u>-</u>	<u>-</u>				
- Others	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>				
	<u>-</u>	<u>2,482</u>	<u>-</u>	<u>-</u>				
Remuneration of key management personnel	<u>19,265</u>	<u>15,001</u>	<u>-</u>	<u>-</u>				

39 CAPITAL ADEQUACY

39.1 Capital Management

Objectives and goals of managing capital

The objectives and goals of managing capital of the Bank are as follows:

- maintain strong ratings and to protect the Bank against unexpected events;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- achieve low overall cost of capital with appropriate mix of capital elements.

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No.19 dated September 05, 2008 requires the minimum paid up capital (net of losses) for banks / development finance institutions to be raised to Rs. 23 billion by the year ending 31 December 2013. The raise is to be achieved in a phased manner requiring Rs.5 billion paid up capital (net of losses) by the end of the financial year 2008. However, the paid up capital of the Bank at 31 December 2008 amounting to Rs. 283.65 million is short of SBP's requirement. The State Bank of Pakistan has granted the Bank an extension for meeting the minimum paid-up capital requirement up to 31 December 2009 (refer note 19.4 for more details).

Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes fully paid up capital (including the bonus shares), general reserves as per the financial statements and net un-appropriated profits, etc after deductions for deficit on revaluation of available for sale investments, if any.
- Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 % 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).

Tier 3 capital has also been prescribed by the State Bank of Pakistan. However the Bank doesnot have any Tier 3 capital.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 30 dated November 25, 2008. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank. The Bank is required to manage its capital based on Basel II accord under the standardised approach and the Bank is complying with reporting of calculating the capital requirement under this basis.

The required capital adequacy ratio (9% of the risk-weighted assets) is tested with reference to the risk weighted exposure of the Bank. It is achieved by the Bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorized as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk, market risk and operational risk.

On and off-balance sheet assets in the banking book are broken down to various asset classes for calculation of credit risk. Ratings for assets are applied using various ECAI's and aligned with appropriate risk buckets. Collaterals if any, are used as an outflow adjustment. Risk weights notified, are applied at net adjusted exposure. Collaterals used include: Government of Pakistan guarantees for advances and investments in PSE / GOP, deposits / margins, lien on deposits, saving certificates and lending of securities (repo & reverse repo).

The risk weighted amount for operational risk is computed according to basic indicator approach.

The Bank's risk weighted amount for market risk comprise of foreign exchange rate risk, which includes net spot positions, while the Bank does not have any exposure in trading book. 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. However, the Bank has not taken any exposure in the trading book.

All investments excluding trading book are considered as part of banking book, which includes:

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

Treasury investments parked in the banking book include:

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

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

	31 December 2008	31 December 2007
	Rupees in '000	
		Un-Audited
39.2 Tier I Capital		
Shareholders' equity /Assigned Capital	283,650	283,650
Reserves	228,540	207,336
Unappropriated profits (Net of Losses)	623,610	537,130
Less: Book value of intangibles	(6,988)	(8,735)
Shortfall in provisions required against classified assets irrespective of relaxation allowed	-	-
Deficit on account of revaluation of investments held in AFS category	(171,799)	-
Total Tier I Capital	957,013	1,019,381
Tier II Capital		
General Provisions subject to 1.25% of Total Risk Weighted Assets	1,071	1,193
Revaluation Reserve (upto 45%)	48,208	34,253
Total Tier II Capital	49,279	35,446
Eligible Tier III Capital	-	-
Total Regulatory Capital Base	1,006,292	1,054,827

39.3 Risk Weighted Exposures

	Capital Requirements		Risk Weighted Assets	
	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	Rupees in '000			
		Un-Audited		Un-Audited
Credit Risk				
<i>Portfolios subject to standardized approach (Simple or Comprehensive)</i>				
<i>On- Balance Sheet</i>				
(a) Cash and Cash Equivalents	156,523	148,605	-	-
(b) Claims on Government of Pakistan (Federal or Provincial Governments) and SBP, denominated in PKR	2,476,607	3,166,896	-	-
(c) Foreign Currency claims on SBP arising out of statutory obligations of banks in Pakistan	85,502	41,215	-	-
(d) Claims on other sovereigns and on Government of Pakistan or provincial governments or SBP denominated in currencies other than PKR	-	-	-	-
(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	5,927	7,000	2,964	3,500
(h) Claims on Banks	68,593	25,984	13,719	5,197
(i) Claims, denominated in foreign currency, on banks with original maturity of 3 months or less	366,914	375,176	73,383	75,035
(j) Claims on banks with original maturity of 3 months or less denominated in PKR and funded in PKR	123,132	145,000	4,648	29,000
(k) Claims on Corporates (excluding equity exposures)	3,170,505	3,729,632	2,661,259	1,795,801
(l) Claims categorized as retail portfolio	483,812	615,301	361,923	274,704
(m) Claims fully secured by residential property	18,704	383,277	6,547	134,147
(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.	-	-	-	-
1.2 where specific provisions are no less than 20 per cent of the outstanding amount of the past due claim.	69,845	20,400	69,845	20,400
1.3 where specific provisions are more than 50 per cent of the outstanding amount of the past due claim.	-	-	-	-
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.	3,232	4,350	3,232	4,350
(p) Unlisted equity investments (other than that deducted from capital) held in banking book	954	954	1,431	1,431
(q) Investments in venture capital	-	-	-	-
(r) Investments in premises, plant and equipment and all other fixed assets	167,845	139,951	167,845	139,951
(s) Claims on all fixed assets under operating lease	-	-	-	-
(t) All other assets	69,060	174,294	69,060	174,294
	7,267,155	8,978,035	3,435,856	2,657,810
<i>Off- Balance Sheet - Non Market related Exposures</i>				
Direct Credit Substitutes/ Lending of securities or posting of securities as collateral	41,820	41,465	21,387	39,635
Trade Related contingencies/Other Commitments with original maturity of one year or less	6,191	2,916	15	-
	48,011	44,381	21,402	39,635
Equity Exposure Risk in the Banking Book				
<i>Equity portfolio subject to market-based approaches</i>				
Under simple risk weight method	-	-	-	-
Total Credit Risk (A)	7,315,166	9,022,416	3,457,258	2,697,445
<i>Market Risk</i>				
<i>Capital Requirement for portfolios subject to Standardized Approach</i>				
Interest rate risk	-	-	-	-
Equity position risk etc.	-	-	-	-
<i>Capital Requirement for portfolios subject to Internal Models Approach</i>				
Interest rate risk	-	-	-	-
Foreign exchange risk, etc.	7,090	4,239	88,625	52,983
	7,090	4,239	88,625	52,983
Total Market Risk (B)	7,090	4,239	88,625	52,983
Operational Risk				
Basic Indicator Approach-Total of operational risk (C)	80,306	73,508	1,003,825	918,852
TOTAL of A + B + C	7,402,562	9,100,163	4,549,708	3,669,280

		31 December 2008	31 December 2007 Un-Audited
Capital Adequacy Ratio			
Total eligible regulatory capital held (Note 41.2)	(a)	<u>1,006,292</u>	1,054,827
Total Risk Weighted Assets (Note 41.3)	(b)	<u>4,549,708</u>	3,669,280
Capital Adequacy Ratio	(a) / (b)	<u>22.12%</u>	<u>28.75%</u>

39.4 Types of exposures and External Credit Assessment Institutions (ECAIs) used

Exposures	31 December 2008	
	JCR-VIS	PACRA
Corporate	Yes	Yes
Banks	Yes	Yes
Sovereigns	-	-
SME's	-	-
Securitized	-	-
Others	Yes	Yes

39.5 Credit exposures subject to Standardized Approach

Exposures	31 December 2008				31 December 2007		
	Rating Category	Amount Outstanding	Deduction CRM	Net Amount	Un-Audited		
					Amount Outstanding	Deduction CRM	Net Amount
Corporate	1	24,191	-	24,191	1,167,474	117,776	1,049,698
	2	226,693	-	226,693	400,000	-	400,000
	3, 4	153,335	-	153,335	317,216	-	317,216
	5, 6	-	-	-	-	-	-
Claims on banks with original maturity of 3 months or less		123,132	99,892	23,240	145,000	-	145,000
Retail		483,812	1,249	482,563	615,301	249,029	366,272
Public sector entities	1	-	-	-	-	-	-
	2,3	-	-	-	-	-	-
	4,5	-	-	-	-	-	-
	6	-	-	-	-	-	-
Others		3,442,405	-	3,442,405	4,434,526	-	4,434,526
Unrated		2,844,235	376,547	2,467,688	1,898,518	776,297	1,122,221

40. RISK MANAGEMENT

Risk Management is a process consisting of well-defined steps, which support better decision making by contributing to a greater insight into risks and their impacts. The Bank has in place the "Basic Framework & Policy Guidelines", which cover organizational set up and functions of Risk Management Department (RMD). Risk management processes help to improve safety, quality and performance of activities. The Bank intends to further augment its RMD in line with the regulatory requirements, etc.

40.1 Credit risk

Credit risk is the possibility that a borrower or counter party will fail to meet its obligations in accordance with agreed terms. The Bank's Credit Manual contains detailed procedures and guidelines to address credit risk methodology for identifying, assessing, monitoring and mitigating the risk factors. The credit manual is under process of implementation and it will be followed in conjunction with risk based lending approach.

The Bank's policies and procedures on Country Risk Management have been approved by the Board of Directors.

40.2 Concentration of credit and deposit

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk is monitored, reviewed and analysed by Asset and Liability Management Committee (ALCO), which has established credit lines and credit limits to control exposure to counter parties. Investments are made only in instruments with good credit ratings.

Out of the total financial assets of Rs. 7,045.547 million (2007: 8,796.479 million), the financial assets which were subject to credit risk amounted to Rs. 4,495.313 million (2007: Rs. 5,957.736 million). To manage credit risk the Bank applies credit limits to its customers and obtains adequate collateral.

The following financial assets are guaranteed by the Federal / Provincial Government or the State Bank of Pakistan.

	2008	2007
	(Rupees in '000)	
Investments	<u>2,153,954</u>	2,570,426
Mark-up receivable on government guaranteed financial assets	<u>27,148</u>	29,526
Cash and balances with the State Bank of Pakistan	<u>386,889</u>	644,684

40.3 Segmental information

Segmental information is presented in respect of the class of business and geographical distribution of advances (gross), deposits, contingencies and commitments. The details are as follows:

40.3.1 Segments by class of business

	2008					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Agriculture, forestry, hunting and fishing	56,608	1.66	5,291	0.09	-	-
Textile	139,963	4.10	39,156	0.66	161,275	79.45
Chemical and pharmaceuticals	27,899	0.82	7,965	0.13	10,793	5.44
Cement	75,981	2.23	-	-	-	-
Production and Transmission of Energy	144,720	4.24	224,743	3.78	-	-
Footwear and leather garments	79,835	2.34	-	-	-	-
Wholesale and Retail Trade	110,235	3.23	81,327	1.37	3,010	1.52
Electronics and electrical appliances	200,921	5.89	4,150	0.07	-	-
Construction	777,177	22.79	81,796	1.38	25	0.01
Transport, storage and communication	28,309	0.83	1,068	0.02	11,718	5.91
Financial	94,735	2.78	206	0.00	-	-
Services/ Social Development and Education	795,398	23.33	572,351	9.64	25	0.01
Individuals	57,379	1.68	2,718,925	45.78	9,985	5.03
Others	820,682	24.07	2,202,330	37.08	5,217	2.63
	3,409,842	100.00	5,939,308	100.00	202,048	100.00

	2007					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Agriculture, forestry, hunting and fishing	95,818	3.06	37,299	0.49	-	-
Textile	240,144	7.67	15,005	0.20	163,350	82.33
Chemical and pharmaceuticals	81,421	2.60	8,230	0.11	739	0.37
Cement	419,926	13.42	-	-	25	0.01
Production and Transmission of Energy	187,509	5.99	1,205,069	15.92	-	-
Footwear and leather garments	7,453	0.24	-	-	275	0.14
Wholesale and Retail Trade	54,250	1.73	79,431	1.05	-	-
Electronics and electrical appliances	120,274	3.84	2,712	0.04	48	0.02
Construction	-	-	48,473	0.64	5,563	2.80
Transport, storage and communication	31,242	1.00	1,530	0.02	397	0.20
Financial	567,956	18.15	210	0.00	-	-
Services/ Social Development and Education	499,718	15.97	866,979	11.45	505	0.25
Individuals	277,746	8.87	2,825,149	37.32	2,051	1.03
Others	546,125	17.45	2,478,972	32.75	25,465	12.83
	3,129,582	100.00	7,569,059	100.00	198,418	100.00

40.3.2 Segment by sector

	2008					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Public / government	-	-	1,389,603	23.40	40,739	20.16
Private	3,409,842	100.00	4,549,705	76.60	161,309	79.84
	3,409,842	100.00	5,939,308	100.00	202,048	100.00

	2007					
	Advances (gross)		Deposits		Contingencies and commitments	
	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)	(Rupees in '000)	Percent (%)
Public / government	-	-	2,801,553	37.01	43,664	22.01
Private	3,129,582	100.00	4,767,506	62.99	154,754	77.99
	3,129,582	100.00	7,569,059	100.00	198,418	100.00

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

	2008		2007	
	Classified advances	Specific provision held	Classified advances	Specific provision held
------(Rupees in '000)-----				
Agriculture, Forestry, Hunting & Fishing	2,140	2,140	2,142	2,142
Textile & Garment	20,513	20,513	20,812	20,812
Chemical and Pharmaceuticals	153	153	153	153
Sugar	2,225	1,113	-	-
Footwear and Leather garments	1,759	635	260	260
Electronics and electrical appliances	-	-	2,439	2,439
Construction	1,000	1,000	1,676	1,676
Electricity, Gas, Water, Sanitary	90,000	22,500	-	-
Wholesale and Retail Trade	4,061	3,985	4,448	4,448
Exports/Imports	2,811	2,811	3,812	3,812
Transport, Storage and Communication	1,905	1,905	1,905	1,905
Services	344	344	2,880	2,880
Individuals	1,399	1,399	1,873	1,873
Others	45,977	45,943	42,882	22,482
	<u>174,287</u>	<u>104,441</u>	<u>85,282</u>	<u>64,882</u>

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

Private	<u>174,287</u>	<u>104,441</u>	<u>85,282</u>	<u>64,882</u>
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40.3.5 Geographical segment analysis

	2008			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
------(Rupees in '000)-----				
Pakistan	<u>190,443</u>	<u>7,303,721</u>	<u>1,103,033</u>	<u>202,048</u>
------(Rupees in '000)-----				
	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
------(Rupees in '000)-----				
Pakistan	<u>238,422</u>	<u>8,985,576</u>	<u>1,088,244</u>	<u>198,418</u>

Total assets employed include intra group items of Rs. nil (2007: Rs. nil).

40.4 Market risk management

Market risk is the risk of loss arising from movements in market variables, such as interest rates, exchange rates and equity indices, etc. Concentration limits and other controls are applied through various checks and controls.

The Asset and Liability Management Committee (ALCO) of the Bank is responsible for reviewing policies relating to risk assets, primarily in lending and treasury related transactions as well as in reviewing/ approving the procedures, setting of limits, monitoring and implementation as per Board's approved policies.

Procedural guidelines for covering the risks involved in various types of financing and customers' transactions are being followed to ensure customers' due diligence.

A number of developments are underway more particularly for operational and credit risk areas. Information technology infrastructure is being developed so as to strengthen the monitoring capacity as well as to keep pace with the modern banking facilities.

The management ensures all policies and procedures are regularly reviewed with a view to have full compliance with SBP guidelines as far as feasible and practicable with a view to ensure an efficient and effective system.

40.4.1 Foreign exchange risk management

Main objective of foreign exchange risk management is to ensure that foreign exchange exposure of the Bank remains within the defined risk appetite (15% of the paid up capital). Daily reports are generated to evaluate the exposure in different currencies. Details of the Bank's currency risk exposure are as follows:

2008			
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
----- (Rupees in '000) -----			
Pakistan Rupee	6,823,224	5,812,503	1,010,721
United States Dollar	468,164	376,714	91,450
Pound Sterling	7,855	10,354	(2,499)
Japanese Yen	43	-	43
Euro	4,368	1,117	3,251
Other currencies	67	-	67
	7,303,721	6,200,688	1,103,033
2007			
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
----- (Rupees in '000) -----			
Pakistan Rupee	8,556,685	7,524,199	1,032,486
United States Dollar	425,421	372,791	52,630
Pound Sterling	1,561	342	1,219
Japanese Yen	71	-	71
Euro	1,704	-	1,704
Other currencies	134	-	134
	8,985,576	7,897,332	1,088,244

40.4.2 Equity price risk

Equity price risk arises, primarily in trading book, due to changes in process of individual stocks or levels of equity indices. The Bank's existing equity book primarily comprises of available for sale portfolio, which is maintained with a medium term view of capital gains and higher dividend yields. Equity price risk is managed by applying nominal limits on individual scrips and on portfolio basis. The portfolio is also diversified to minimize the risk.

40.4.3 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	2008									Not exposed to yield / interest risk	
		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) -----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.90%	575,929	63,279	-	-	-	-	-	-	-	512,650	
Balances with other banks	5.89%	400,761	328,740	-	-	-	-	-	-	-	72,021	
Lendings to financial institutions	16.12%	350,849	127,933	9,702	21,447	191,767	-	-	-	-	-	
Investments - net	10.92%	2,264,088	99,546	781,046	62,356	-	30,016	669,705	531,549	36,424	53,446	
Advances - net	14.76%	3,304,330	2,641,242	19,953	61,140	104,872	307,506	66,284	59,694	17,756	25,883	
Other assets - net	-	149,590	-	-	-	-	-	-	-	-	149,590	
		<u>7,045,547</u>	<u>3,260,740</u>	<u>810,701</u>	<u>144,943</u>	<u>296,639</u>	<u>337,522</u>	<u>735,989</u>	<u>591,243</u>	<u>54,180</u>	<u>25,883</u>	<u>787,707</u>
Liabilities												
Bills payable	-	101,993	-	-	-	-	-	-	-	-	101,993	
Borrowings	6.50%	27,140	27,140	-	-	-	-	-	-	-	-	
Deposits and other accounts	5% - 15%	5,939,308	4,082,554	31,378	199,833	82,277	25,856	17,530	51,334	1,608	1,446,333	
Other liabilities	-	117,859	-	-	-	-	-	-	-	-	117,859	
		<u>6,186,300</u>	<u>4,109,694</u>	<u>31,378</u>	<u>199,833</u>	<u>82,277</u>	<u>25,856</u>	<u>17,530</u>	<u>51,334</u>	<u>1,608</u>	<u>1,666,185</u>	
On-balance sheet gap		<u>859,247</u>	<u>(848,954)</u>	<u>779,323</u>	<u>(54,890)</u>	<u>214,362</u>	<u>311,666</u>	<u>718,459</u>	<u>539,909</u>	<u>52,572</u>	<u>25,278</u>	<u>(878,478)</u>
Off-balance sheet financial instruments												
Commitments to extend credit	-	-	-	-	-	-	-	-	-	-	-	
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Off-balance sheet gap		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total yield / interest risk sensitivity gap			<u>(848,954)</u>	<u>779,323</u>	<u>(54,890)</u>	<u>214,362</u>	<u>311,666</u>	<u>718,459</u>	<u>539,909</u>	<u>52,572</u>	<u>25,278</u>	
Cumulative yield / interest risk sensitivity gap			<u>(848,954)</u>	<u>(69,631)</u>	<u>(124,521)</u>	<u>89,841</u>	<u>401,507</u>	<u>1,119,966</u>	<u>1,659,875</u>	<u>1,712,447</u>	<u>1,737,725</u>	

Effective yield / interest rate	Total	2007									Not exposed to yield / interest risk	
		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) -----												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	3.68%	809,657	19,220	-	-	-	-	-	-	-	790,437	
Balances with other banks	5.00%	384,792	124,000	204,600	-	-	-	-	-	-	56,192	
Lendings to financial institutions	10.50%	1,245,000	1,245,000	-	-	-	-	-	-	-	-	
Investments - net	9.43%	3,159,640	199,488	695,842	95,862	587,045	-	802,286	554,234	161,220	63,663	
Advances - net	11.26%	3,063,507	2,135,014	4,517	73,238	171,968	141,178	246,106	257,779	19,473	17,234	
Other assets - net	-	135,597	-	-	-	-	-	-	-	-	135,597	
		<u>8,798,193</u>	<u>3,722,722</u>	<u>904,959</u>	<u>169,100</u>	<u>759,013</u>	<u>141,178</u>	<u>1,048,392</u>	<u>812,013</u>	<u>180,693</u>	<u>17,234</u>	<u>1,045,889</u>
Liabilities												
Bills payable	-	193,321	-	-	-	-	-	-	-	-	193,321	
Borrowings	8.20%	21,543	-	17,920	3,623	-	-	-	-	-	-	
Deposits and other accounts	2.38%	7,569,059	5,279,415	115,610	30,017	90,881	25,014	15,426	39,816	-	1,972,880	
Other liabilities	-	95,493	-	-	-	-	-	-	-	-	95,493	
		<u>7,879,416</u>	<u>5,279,415</u>	<u>133,530</u>	<u>33,640</u>	<u>90,881</u>	<u>25,014</u>	<u>15,426</u>	<u>39,816</u>	<u>-</u>	<u>2,261,694</u>	
On-balance sheet gap		<u>918,777</u>	<u>(1,556,693)</u>	<u>771,429</u>	<u>135,460</u>	<u>668,132</u>	<u>116,164</u>	<u>1,032,966</u>	<u>772,197</u>	<u>180,693</u>	<u>17,234</u>	<u>(1,215,805)</u>
Off-balance sheet financial instruments												
Commitments to extend credit	-	-	-	-	-	-	-	-	-	-	-	
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Off-balance sheet gap		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total yield / interest risk sensitivity gap			<u>(1,556,693)</u>	<u>771,429</u>	<u>135,460</u>	<u>668,132</u>	<u>116,164</u>	<u>1,032,966</u>	<u>769,197</u>	<u>180,693</u>	<u>17,234</u>	
Cumulative yield / interest risk sensitivity gap			<u>(1,556,693)</u>	<u>(785,264)</u>	<u>(649,804)</u>	<u>18,328</u>	<u>134,492</u>	<u>1,167,458</u>	<u>1,936,655</u>	<u>2,117,348</u>	<u>2,134,582</u>	

40.4.6 Operational Risk

Operational risk is the risk resulting from inadequate or failed internal processes, people system or from external events. This risk arises from operational risk is the risk of inadequate documentation, legal or regulatory incapacity and uncertainty in enforcement of contracts. Procedural guidelines have been issued down the line. Necessary information / guidelines for Know Your Customer (KYC) compliance have also been issued by the Bank.

41. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Bank in their meeting held on _____.

Chief Financial Officer

**President and
Chief Executive**

**President and
Chief Executive**

Director

Director

Director

**STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF
FIVE HUNDRED THOUSAND OR ABOVE FROM 01 JANUARY 2008 TO 31 DECEMBER 2008**

Annexure - I

(Rupees)

Name and address of the borrower	Name of individual/ partners/directors with NIC no.	Father's/ Husband's name	Outstanding Liability at the beginning of Year				Principal Written- off	Mark-up Waived	Other Financial Relief Provided	Total
			Principal	Mark-up	Others	Total				
K.J. Computers 56-A New Queens Road Lalazar drive Karachi	Perveen Habibullah Jang Office 138 7th street DHA Phase 1, Karachi 510-56-317433	Habibullah Jang	2,999,886	1,395,158	120,484	4,515,528	-	655,978	90,550	746,528
Total			2,999,886	1,395,158	120,484	4,515,528	-	655,978	90,550	746,528