

Oman International Bank S.A.O.G - Pakistan Branches

Balance Sheet

As at 31 December 2009

	Note	2009 (Rupees in '000)	2008
ASSETS			
Cash and balances with treasury banks	7	3,328,022	3,088,841
Balances with other banks	8	52,781	38,910
Lendings to financial institutions	9	150,000	-
Investments		-	-
Advances	10	387,223	277,089
Operating fixed assets	11	10,461	15,071
Deferred tax assets - net	12	-	-
Other assets	13	16,964	22,036
		3,945,451	3,441,947
LIABILITIES			
Bills payable	14	7,577	4,036
Borrowings	15	382,008	186,406
Deposits and other accounts	16	690,196	521,574
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities	17	18,094	17,790
		1,097,875	729,806
NET ASSETS		2,847,576	2,712,141
REPRESENTED BY:			
Head office capital account	18	3,203,140	3,008,999
Reserves		-	-
Accumulated losses		(355,564)	(296,858)
		2,847,576	2,712,141
Surplus / (deficit) on revaluation of assets		-	-
		2,847,576	2,712,141
CONTINGENCIES AND COMMITMENTS			
	19		

The annexed notes 1 to 44 form an integral part of these financial statements.

Acting Country Manager

Manager Finance

Oman International Bank S.A.O.G - Pakistan Branches

Profit and Loss Account

For the year ended 31 December 2009

	2009	2008
Note	(Rupees in '000)	
Mark-up / return / interest earned	21 56,707	40,426
Mark-up / return / interest expensed	22 (75,569)	(50,080)
Net mark-up / interest expense	(18,862)	(9,654)
Reversal / (provision) against non-performing loans and advances - net	10.4	
- Specific	1,611	20,000
- General	(783)	1,729
Provision for diminution in the value of investments	-	-
Bad debts written off directly	-	-
	828	21,729
Net Mark-up / interest income / (expense) after provisions	(18,034)	12,075
NON MARK-UP / INTEREST INCOME		
Fee, commission and brokerage income	8,859	4,238
Dividend income	-	-
Income from dealing in foreign currencies	5,191	3,660
Gain / (loss) on sale of securities	-	-
Unrealized gain / (loss) on revaluation of investments classified as held for trading	-	-
Other income	23 3,547	1,651
Total non-mark-up / interest income	17,597	9,549
	(437)	21,624
NON MARK-UP / INTEREST EXPENSES		
Administrative expenses	24 (55,148)	(57,280)
Other reversals / (provisions) / (write offs)	-	-
Other charges	25 (3,121)	(5,608)
Total non-mark-up / interest expenses	(58,269)	(62,888)
	(58,706)	(41,264)
Extra ordinary / unusual items	-	-
LOSS BEFORE TAXATION	(58,706)	(41,264)
Taxation - Current	-	-
- Prior years	-	-
- Deferred	-	-
	26 -	-
LOSS AFTER TAXATION	(58,706)	(41,264)
Earnings / (loss) per share - Basic and diluted	27 -	-

The annexed notes 1 to 44 form an integral part of these financial statements.

Acting Country Manager

Manager Finance

Oman International Bank S.A.O.G - Pakistan Branches

Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 (Rupees in '000)	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		(58,706)	(41,264)
Adjustments:			
Depreciation	24	1,631	1,815
Amortisation	24	3,437	1,104
Reversal against non-performing advances - net	10.4	(828)	(21,729)
Provision / (reversal) against other assets - net	13.1	113	(2,536)
Unrealized loss on forward foreign exchange contracts	17	-	310
		<u>4,353</u>	<u>(21,036)</u>
		(54,353)	(62,300)
(Increase) / decrease in operating assets			
Advances		(109,306)	(34,854)
Lendings to financial institution		(150,000)	-
Others assets (excluding advance taxation)		4,971	13,729
		<u>(254,335)</u>	<u>(21,125)</u>
Increase / (decrease) in operating liabilities			
Bills payable		3,541	1,282
Borrowings		195,602	8,406
Deposits		168,622	61,637
Other liabilities		304	(2,137)
		<u>368,069</u>	<u>69,188</u>
		59,381	(14,237)
Income tax paid		(12)	(8)
Net cash flow / (used) in operating activities		<u>59,369</u>	<u>(14,245)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to operating fixed assets		(458)	(12,344)
Net cash used in investing activities		<u>(458)</u>	<u>(12,344)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Remittances received from head office		-	51,006
Net cash flow from financing activities		-	51,006
Effects of exchange adjustment on revaluation of capital		194,141	668,776
Increase in cash and cash equivalents		<u>253,052</u>	<u>693,193</u>
Cash and cash equivalents at beginning of the year		3,127,751	2,434,558
Cash and cash equivalents at end of the year	28	<u>3,380,803</u>	<u>3,127,751</u>

The annexed notes 1 to 44 form an integral part of these financial statements.

Acting Country Manager

Manager Finance

Oman International Bank S.A.O.G - Pakistan Branches

Statement of Changes in Equity

For the year ended 31 December 2009

	Head office capital account	Accumulated losses	Total
	----- (Rupees in '000) -----		
Balance as at 01 January 2008	2,289,217	(255,594)	2,033,623
<i>Changes in equity during 2008</i>			
Transaction with owners, recorded directly in equity:			
Remittances received from head office	51,006	-	51,006
Comprehensive income for the year:			
Loss after taxation for the year ended 31 December 2008	-	(41,264)	(41,264)
Other comprehensive income for the year			
Exchange adjustments on revaluation of capital	668,776	-	668,776
Balance as at 31 December 2008	<u>3,008,999</u>	<u>(296,858)</u>	<u>2,712,141</u>
<i>Changes in equity during 2009</i>			
Transaction with owners, recorded directly in equity:			
Remittances received from head office	-	-	-
Comprehensive income for the year:			
Loss after taxation for the year ended 31 December 2009	-	(58,706)	(58,706)
Other comprehensive income for the year			
Exchange adjustments on revaluation of capital	194,141	-	194,141
Balance as at 31 December 2009	<u><u>3,203,140</u></u>	<u><u>(355,564)</u></u>	<u><u>2,847,576</u></u>

The annexed notes 1 to 44 form an integral part of these financial statements.

Acting Country Manager

Manager Finance

Oman International Bank S.A.O.G - Pakistan Branches

Notes to the Financial Statements

For the year ended 31 December 2009

1. STATUS AND NATURE OF BUSINESS

- 1.1** Oman International Bank S.A.O.G. is an Omani Joint Stock Company incorporated and domiciled in the Sultanate of Oman. The Oman International Bank S.A.O.G. presently operates through three branches in Pakistan i.e. at Karachi, Lahore and Gawadar. The Pakistan branches (the Bank) operate as branches of a foreign entity in Pakistan and are engaged in banking activities permissible under the Banking Companies Ordinance, 1962. The registered office of the Bank is located at Nadir House, I.I. Chundrigar Road, Karachi.
- 1.2** The Bank obtained a rating of BBB for its medium to long-term debt and A2 for short-term debt, from JCR-VIS Credit Rating Agency.

2. BASIS OF PRESENTATION

- 2.1** In accordance with the directives of the Federal Government regarding shifting of the banking system to the Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible form of trade related mode of financing includes purchase of goods by the bank from its 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.
- 2.2** Consistent with prior years, expenses of the head office allocable to the Pakistan branches are not incorporated in the books of account.

3. STATEMENT OF COMPLIANCE

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

The SBP, vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for banking companies till further instructions. Further, according to a notification of Securities and Exchange Commission of Pakistan dated April 28, 2008, International Financial Reporting Standard (IFRS) 7 "Financial Instruments Disclosure" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for certain financial assets and derivative financial instruments which are stated at fair values.

The financial statements are presented in Pakistan Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to nearest thousand.

4.1 Use of estimates and judgments

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Bank's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. Judgments made by management in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment are explained in note 42 to these financial statements.

5. 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 2010:

- 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 is not likely to have an effect on the Bank's financial statements.
- IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 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 – 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.

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 2010 financial statements. These amendments are unlikely to have an impact on the Bank's financial statements.

- Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Currently effective IFRSs requires attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment transaction to account for the transaction in its separate or individual financial statements.
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Bank's financial statements.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Bank's financial statements.
- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 1 January 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on the Bank's financial statements.

- Improvements to IFRSs 2008 – Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – (effective for annual periods beginning on or after 1 July 2009). The amendments specify that – if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any impact on the Bank's financial statements.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Changes in accounting policies

Starting January 1, 2009, the Bank has changed its accounting policies in the following areas:

The Bank has applied "Revised IAS 1 Presentation of Financial Statements (2007)" which became effective from January 1, 2009. This standard required the Bank to present in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

The Bank has applied "IFRS 8 Operating Segments" from January 1, 2009.

The Bank determines and presents operating segments based on the information that is internally provided to the Country Manager, who is the Bank's chief operating decision maker which is in detail and has been aggregated in line with the format issued by SBP. The accounting policy disclosed in note 6.20 has no impact on segments previously disclosed.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the changes in accounting policies only affect presentation of financial statements, there is no impact on earnings per share.

6.2 Cash and cash equivalents

Cash and cash equivalents, for the purpose of cash flow statement, represent cash and balances with treasury banks, balances with other banks in current, deposit and savings accounts.

6.3 Lendings / borrowings to financial institutions

The Bank enters into transactions of reverse repos and repos at contracted rates for a specified period of time. These are recorded as under:

6.4 Purchase under resale obligation

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet. Amounts paid under these obligations are included in reverse repurchase agreement lendings. The difference between purchase and resale price is accrued as income over the term of the reverse repos agreement.

6.5 Sale under repurchase obligation

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investments. Amounts received under these agreements are recorded as repurchase agreement borrowings. The difference between sale and repurchase price is amortised as expense over the term of the repos agreement.

6.6 Other lendings/ borrowings

These are recorded at the time of receipt / payment. Mark-up received / paid on such lending / borrowings is charged to the profit and loss account over the period of lending / borrowings.

6.7 Advances

Advances are stated at cost less any amount written off and specific and general provisions made, if any. Specific provision is made for non-performing advances in accordance with the requirements of the Prudential Regulations issued by SBP the State Bank of Pakistan and according to the Bank's own criteria. General provisions are made based on the requirements of the Central Bank of Oman.

Non-performing advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful. The Bank determines write-offs in accordance with the criteria prescribed by SBP vide BPRD Circular No. 06 of 2007 dated June 05, 2007.

6.8 Investments

All investments acquired by the Bank are initially recognised at fair value.

The Bank classifies its investment portfolio into held-for-trading, held-to-maturity and available-for-sale portfolios as follows:

- Held-for-trading – These are securities which are acquired with the intention to trade by taking advantage of short-term market / interest rate movements and are to be sold within 90 days. These are carried at market value, with the related surplus / deficit being taken to profit and loss account.
- Held-to-maturity – These are securities with fixed or determinable payments and fixed maturity that are held with the intention and ability to hold to maturity. These are carried at amortised cost, less provision for impairment in value, if any.
- Available-for-sale – These are investments that do not fall under the held-for-trading or held-to-maturity categories. These are carried at market value with the surplus / deficit taken to 'surplus/deficit on revaluation of assets' account below equity.

On derecognition or impairment in available for sale investments the cumulative gain or loss previously reported as 'Surplus / (deficit) on revaluation of assets' is included in the income statement for the year.

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

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

6.9 Operating fixed assets and depreciation

Tangible

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to income applying the straight line method whereby the cost of an asset is written off over its estimated useful life. The rates used are specified in note 11.1 to the financial statements.

Capital work in progress is stated at cost.

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

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

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

Intangible

These are stated at cost less accumulated amortisation and impairment losses, if any. The cost of the intangible assets represents their purchase cost, together with any incidental costs. Amortisation is charged to income applying the straight line method whereby the cost of an asset is written off over the estimated useful life at the rates specified in note 11.2 to the financial statements.

6.10 Taxation

Income tax expense comprises of current and deferred tax. Income tax expenses are recognised in profit and loss account except to the extent that it relates to the items recognised directly in equity, in which case it is recognised in equity.

Current

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustments to the tax payable in respect of previous years.

Deferred

Deferred tax is provided using the balance sheet liability method providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and the credits can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

6.11 Staff retirement benefits

Defined benefit plan - Employees' Gratuity Fund

The Bank operates an approved funded gratuity scheme. Annual contribution to the scheme are made on the basis of actuarial valuation using Projected Unit Credit Method. Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses exceed 10% of the higher of defined benefit obligation and the fair value of plan assets. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

Defined contribution plan - Employees' Provident Fund

The Bank operates an approved contributory provident fund for all its permanent employees. Contributions are made monthly in accordance with the fund rules.

6.12 Provisions

Provision for guarantee claims and other off balance sheet obligations is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognised by debiting the customer's account. Charge to profit and loss account is stated net-of expected recoveries.

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

6.13 Contingent assets and liabilities

Contingent assets are not recognised, and are also not disclosed unless an inflow of economic benefits is probable and contingent liabilities are not recognised, and are disclosed unless the probability of an outflow of resources embodying economic benefits are remote.

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

6.14 Revenue recognition

Mark-up income and expenses are recognized on a time proportion basis taking into account effective yield on the instrument, except in case of advances classified under the Prudential Regulations issued by the State Bank of Pakistan on which mark-up is recognized on receipt basis.

Fee, commission and brokerage income are recognized as services are performed.

Gains and losses on sale of investments and operating fixed assets are recognised in the profit and loss account, when the risks and rewards of ownership are transferred.

All exchange differences are recognised in income.

6.15 Foreign currencies

Foreign currency transactions are translated into rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into rupees at the exchange rates prevailing at the balance sheet date. Outstanding forward foreign exchange contracts and foreign bills purchased are valued at the market rates applicable to the respective maturities. Exchange gains and losses are included in income currently.

6.16 Off Setting of financial assets and financial liabilities

Financial assets and financial liabilities are only off-set and the net amount reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Bank intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

6.17 Impairment of non-financial assets

The carrying amount of the Bank's assets (other than deferred tax asset) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

6.18 Derivatives

Derivative financial instruments are recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value using appropriate valuation techniques. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the balance sheet. The resultant gains and losses are taken to income currently.

6.19 Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Bank in these financial statements.

6.20 Segment reporting

Segment reporting is based on operating (business) segments of the Bank. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components. An operating segment's operating results are reviewed regularly by the country manager, which have been presented according to the functional basis and the guidance of SBP, to make decisions about resources to be allocated to the segment and assess its performance, and for which financial information is available. These have been presented as per the Bank's functional structure and guidance of SBP. The segments of the bank are as follows:

Business segments

Retail banking

It consists of retail lending, deposits and banking services to private individuals and small businesses. The retail banking activities includes provision of banking and other financial services, such as current and savings accounts, etc to individual customers, small merchants and SMEs.

Commercial banking

The commercial banking represents provision of banking services including International Trade related activities to large corporate customers, multinational companies, government and semi government departments and institutions and SMEs treated as corporate under the Prudential Regulations issued by the State Bank of Pakistan.

Trading & sales

Trading business represents lending and borrowing from money markets and other treasury operations.

Geographical segments

The Bank operates in Pakistan only.

7. CASH AND BALANCES WITH TREASURY BANKS		2009	2008
		(Rupees in '000)	
In hand:			
Local currency		8,807	20,103
Foreign currency		11,332	5,014
		20,139	25,117
With State Bank of Pakistan in:			
Local currency current account	7.1	88,989	40,778
Local US Dollar collection account	7.2	1,294	1,162
Foreign currency deposit account:			
Capital deposit with the SBP		3,203,140	3,008,999
Cash reserve	7.3	3,791	3,561
Special cash reserve - remunerative	7.4	10,669	9,224
		3,307,883	3,063,724
		3,328,022	3,088,841

- 7.1** This represents statutory cash reserve maintained under Section 36 of the State Bank of Pakistan Act, 1956.
- 7.2** This represents US Dollar settlement account opened with the State Bank of Pakistan in accordance with FE Circular No. 2 and is remunerated nil (2008: 0.90%)
- 7.3** This represents statutory cash reserve (at nil return) in the current account maintained with the SBP under the requirements of the SBP.
- 7.4** This represents statutory cash reserve maintained against foreign currency deposits mobilised under FE 25 Circular issued by the SBP and is remunerated nil (2008: 0.90%)

8. BALANCES WITH OTHER BANKS		2009	2008
		(Rupees in '000)	
In Pakistan			
On current accounts		221	700
Outside Pakistan			
On current accounts - remunerative	8.1	52,560	38,210
		52,781	38,910

- 8.1** This includes Rs. 9.258 million (2008: Rs. 9.719 million) held with the Bank's head office Oman International Bank S.A.O.G., Muscat, Sultanate of Oman.

9. LENDINGS TO FINANCIAL INSTITUTIONS	2009	2008
	(Rupees in '000)	
Call money lendings	150,000	-
Repurchase agreement lendings (Reverse Repo)	-	-
Others (to be specified)	-	-
	150,000	-
9.1 Particulars of lending		
In local currency	150,000	-
In foreign currencies	-	-
	150,000	-
10. ADVANCES		
Loans, cash credits, running finances, etc.		
- In Pakistan	<i>10.1</i> 420,101	300,585
- Outside Pakistan	-	-
	420,101	300,585
Bills discounted and purchased (excluding treasury bills)		
- Payable in Pakistan	-	-
- Payable outside Pakistan	5,007	15,217
	5,007	15,217
Advances - gross	425,108	315,802
Provision for non-performing advances		
- specific	<i>10.4</i> (34,294)	(35,905)
- general	<i>10.4</i> (3,591)	(2,808)
	(37,885)	(38,713)
Advances - net of provision	387,223	277,089
10.1 This includes a personal loan to the Acting Country Manager - Pakistan of Rs.0.210 million (2008: NIL) carried a mark-up rate of 5% per annum.		
10.2 Particulars of advances (Gross)		
10.2.1 In local currency	420,101	300,585
In foreign currencies	5,007	15,217
	425,108	315,802
10.2.2 Short term (for upto one year)	425,108	315,802
Long term (for over one year)	-	-
	425,108	315,802

10.3 Advances include Rs.83.218 million (2008: Rs. 36.416 million) which have been placed under non-performing status as detailed below:

	2009								
	Classified Advances			Specific Provision Required			Specific Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- (Rupees in '000) -----								
Category of Classification									
Substandard	57,101	-	57,101	12,389	-	12,389	12,389	-	12,389
Doubtful	3,951	-	3,951	-	-	-	-	-	-
Loss	22,166	-	22,166	21,905	-	21,905	21,905	-	21,905
	83,218	-	83,218	34,294	-	34,294	34,294	-	34,294

	2008								
	Classified Advances			Specific Provision Required			Specific Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- (Rupees in '000) -----								
Category of Classification									
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Loss	36,416	-	36,416	35,905	-	35,905	35,905	-	35,905
	36,416	-	36,416	35,905	-	35,905	35,905	-	35,905

10.3.1 Change in accounting estimate

During the year the Bank has revised its accounting estimate in accordance with the directives issued by SBP, and has considered the benefit of 40% (2008: 30%) of FSV of pledged stocks and mortgaged residential, commercial and industrial properties (land and building only) (2008: pledged stocks and mortgaged residential and commercial properties) held as collateral against all Non Performing Loans (NPLs), Benefit of FSV, calculated in accordance with these directives has resulted in reversal of provision of Rs. 3.862 million during the year. Total accumulated benefit as at 31 December 2009 amounts to Rs. 3.862 million. The additional impact on profitability from this benefit is not available for remittance to head office.

10.4 Particulars of provision against non-performing advances

	2009			2008		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
Opening balance	35,905	2,808	38,713	55,905	4,537	60,442
Charge for the year	12,389	1,604	13,993	-	-	-
Amounts written off	-	-	-	-	-	-
Recoveries	(14,000)	-	(14,000)	(20,000)	-	(20,000)
Reversals	-	(821)	(821)	-	(1,729)	(1,729)
Closing balance	34,294	3,591	37,885	35,905	2,808	38,713

10.4.1 Particulars of provisions against non-performing advances

	2009			2008		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
In local currency	34,294	3,591	37,885	35,905	2,808	38,713
In foreign currencies	-	-	-	-	-	-
	34,294	3,591	37,885	35,905	2,808	38,713

10.4.2 The Central Bank of Oman vide its Circular No. BM 977 requires that all banks create a 1% and 2% general provision on its corporate and retail loans respectively. To meet this requirement, the Bank has created the said provision.

10.5 Particulars of write offs

In terms of sub-section 3 of section 33A of the Banking Companies Ordinance, 1962, there were no written off loans or any other financial relief allowed to a person(s) during the year ended 31 December 2009.

10.6 PARTICULARS OF LOANS AND ADVANCES TO ACTING COUNTRY MANAGER, ASSOCIATED COMPANIES, ETC.

	2009	2008
	----- (Rupees in '000) -----	
Debts due by country manager, executives or officers of the Bank or any of them either severally or jointly with any other persons		
Balance at beginning of year	-	5,117
Loans granted during the year	234	-
Repayments	(24)	(5,117)
Balance at end of year	210	-

11. OPERATING FIXED ASSETS	2009		2008
	(Rupees in '000)		
Property and equipment - tangible	11.1	4,738	5,911
Intangible assets	11.2	5,723	9,160
		10,461	15,071

11.1 Property and equipment - tangible

	2009							Rate of Depreciation %
	COST			ACCUMULATED DEPRECIATION			Book Value	
	As at 01 January 2009	Additions/ (Deletions)	As at 31 December 2009	As at 01 January 2009	Charge for the year / (Deletions)	As at 31 December 2009	as at 31 December 2009	
	(Rupees in '000)							
Leasehold improvements	11,059	-	11,059	10,602	85	10,687	372	10
Furniture and fixture	5,461	-	5,461	5,023	75	5,098	363	10
Electrical, office and computer equipments	13,697	458	14,155	10,920	725	11,645	2,510	20
Vehicles	6,338	-	6,338	4,099	746	4,845	1,493	20
	36,555	458	37,013	30,644	1,631	32,275	4,738	

	2008							Rate of Depreciation %
	COST			ACCUMULATED DEPRECIATION			Book Value	
	As at 01 January 2008	Additions/ (Deletions)	As at 31 December 2008	As at 01 January 2008	Charge for the year / (Deletions)	As at 31 December 2008	as at 31 December 2008	
	(Rupees in '000)							
Leasehold improvements	10,804	255	11,059	10,268	334	10,602	457	10
Furniture and fixture	5,081	380	5,461	4,860	163	5,023	438	10
Electrical, office and computer equipments	11,962	1,735	13,697	10,316	604	10,920	2,777	20
Vehicles	5,966	372	6,338	3,385	714	4,099	2,239	20
	33,813	2,742	36,555	28,829	1,815	30,644	5,911	

11.1.1 The gross carrying value of fully depreciated items in use amounts to Rs. 27.964 million (2008: Rs. 27.654 million).

11.1.2 The fair value of property and equipment as per the managements estimate is not materially different from the carrying amount.

11.2 Intangible assets

	2009							Rate of Amortisation %
	COST			ACCUMULATED AMORTISATION			Book Value	
	As at 01 January 2009	Additions/ (Deletions)	As at 31 December 2009	As at 01 January 2009	Charge for the year / (Deletions)	As at 31 December 2009	as at 31 December 2009	
	(Rupees in '000)							
Computer software	10,899	-	10,899	1,739	3,437	5,176	5,723	33.33
	10,899	-	10,899	1,739	3,437	5,176	5,723	

	2008							Rate of Amortisation %
	COST			ACCUMULATED AMORTISATION			Book Value	
	As at 01 January 2008	Additions/ (Deletions)	As at 31 December 2008	As at 01 January 2008	Charge for the year / (Deletions)	As at 31 December 2008	as at 31 December 2008	
	(Rupees in '000)							
Computer software	1,297	9,602	10,899	635	1,104	1,739	9160	33.33
	1,297	9,602	10,899	635	1,104	1,739	9,160	

11.2.1 The gross carrying value of fully amortized intangible assets in use amounts to Rs. 0.632 million (2008: Rs. 0.536 million).

12. DEFERRED TAX ASSETS

At year end net deductible temporary differences amounted to Rs. 36.525 million (2008: Rs. 43.376 million) which result in a net deferred tax asset of Rs. 12.789 million (2008: Rs. 15.182 million). Furthermore, as at year-end unused tax losses amounted to Rs. 223.400 million (2008: Rs. 152.269 million), which results in a deferred tax asset of Rs.78.190 million (2008: Rs.53.294 million). However, the net deferred tax asset has not been recognised for, as per the accounting policy of the Bank, as it is not probable that taxable profits will be available in the future against which the deductible temporary differences and tax losses can be utilised.

	2009	2008
	(Rupees in '000)	
13. OTHER ASSETS		
Income / mark-up accrued in local currency	13,912	12,443
Advances, deposits, advance rent and other prepayments	3,209	6,443
Advance taxation (payments less provisions)	180	168
Stationery and stamps in hand	278	363
Others	299	3,420
	<u>17,878</u>	<u>22,837</u>
Provision held against other assets	13.1 (914)	(801)
Other assets (net of provisions)	<u>16,964</u>	<u>22,036</u>
13.1 Provision against other assets		
Opening balance	801	3,337
Charge for the year	151	38
Reversals	(38)	(2,574)
Amount written off	113	(2,536)
Closing balance	-	-
	<u>914</u>	<u>801</u>
14. BILLS PAYABLE		
In Pakistan	7,577	4,036
Outside Pakistan	-	-
	<u>7,577</u>	<u>4,036</u>
15. BORROWINGS		
In Pakistan	382,008	28,130
Outside Pakistan	-	158,276
	<u>382,008</u>	<u>186,406</u>
15.1 Particulars of borrowings with respect to currencies		
In local currency	382,008	28,130
In foreign currencies	-	158,276
	<u>382,008</u>	<u>186,406</u>
15.2 Details of borrowings		
<i>Secured</i>		
Borrowings from the State Bank of Pakistan under export refinance scheme	15.2.1 32,008	8,130
<i>Unsecured</i>		
Call borrowings	15.2.2 350,000	20,000
Borrowing from Head Office	15.2.3 -	158,276
	<u>382,008</u>	<u>186,406</u>
15.2.1	These represents borrowings from SBP under export refinance scheme (both P-I & P-II) at the rate of 7% and 6.5% respectively. (2008: 6.5% on P-II) per annum.	
15.2.2	These represents borrowings at the rate of 12.45% (2007: 18.5%) per annum having maturities upto January 2010.	
15.2.3	These represents borrowing amounting to Nil (2008: USD 2.0 million @ 1.5% p.a).	

16. DEPOSITS AND OTHER ACCOUNTS	2009	2008
	(Rupees in '000)	
Customers		
Fixed deposits	240,229	314,885
Savings deposits	100,077	68,404
Current accounts - Remunerative	100,916	57,580
Current accounts - Non-remunerative	152,351	72,338
Margin deposits	93,519	6,529
	687,092	519,736
Financial Institutions		
Remunerative deposits	1,030	59
Non-remunerative deposits	2,074	1,779
	3,104	1,838
	690,196	521,574
16.1 Particulars of deposits		
In local currency	625,370	476,566
In foreign currencies	64,826	45,008
	690,196	521,574
16.2	This includes deposit of Rs. 0.395 million (2008: Rs.0.925 million) held by the Bank's Head Office Oman International Bank, S.A.O.G, Muscat, Oman.	
17. OTHER LIABILITIES		
Mark-up / return / interest payable in local currency	7,379	5,975
Accrued expenses	1,519	2,114
Due to Head Office	8,904	8,904
Unrealized loss on forward foreign exchange contracts	-	310
Payable to defined benefit plan	-	166
Others	292	321
	18,094	17,790
17.1	Represent expenses incurred by the Head Office at the time of establishment of branches in Pakistan.	
18. HEAD OFFICE CAPITAL ACCOUNT		
Capital held as:		
Interest free deposit in foreign currency		
Remitted from Head Office	2,058,929	2,058,929
Revaluation surplus allowed by the State Bank of Pakistan	1,144,211	950,070
	3,203,140	3,008,999
18.1	Represents an amount of US Dollar 38.022 million (2008: US Dollar 38.022 million) deposited with the SBP in compliance with sub-section (3) of Section 13 of the Banking Companies Ordinance, 1962 and the requirements of the SBP issued from time to time.	
19. CONTINGENCIES AND COMMITMENTS		
19.1 Direct credit substitutes		
Includes general guarantees of indebtedness, bank acceptances guarantees, serving as financial guarantees for loans and securities issued in favour of:		
Government	23,119	23,298
Others	25,842	27,928
	48,961	51,226

19.2 Transaction-related contingent liabilities	2009	2008
	(Rupees in '000)	
Including performance bonds, bid bonds issued in favour of:		
Government	14,464	19,184
Others	989	989
	15,453	20,173
19.3 Trade-related contingent liabilities		
Short-term self-liquidating trade-related arising from the movement of goods, such as documentary credits where the underlying shipment is used as security.		
Letter of credit - others	297,852	63,086
19.4 Other contingencies		
Claims against the Bank not acknowledged as debts	10,000	10,000
19.5 Commitments in respect of forward exchange contracts		
Purchase	-	316,552
Sale	-	158,276
19.6 Commitments in respect of forward lending		
Commitments to extend credit	78,155	106,306
19.7 Commitments for the acquisition of operating fixed assets	-	3,900

20. DERIVATIVE INSTRUMENTS

The Bank carried out derivative transactions in respect of forward foreign exchange contracts and foreign exchange swaps.

The management is committed to managing risk and controlling business and financial activities in a manner which enables it to maximize profitable business opportunities, avoid or reduce risks, which can cause loss or reputation damage, ensure compliance with applicable laws and regulations and resilience to external events. The Bank's business is conducted within a develop control framework, duly approved by the management. The management has developed a structure that clearly defined roles, responsibilities and reporting lines.

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

Accounting policies in respect of derivative financial instruments are prescribed in note 6.12.

21. MARK-UP / RETURN / INTEREST EARNED	2009	2008
	(Rupees in '000)	
On loans and advances to:		
Customers	42,467	26,528
Financial institutions	9,232	8,108
On deposits with financial institutions	5,008	5,790
	56,707	40,426
22. MARK-UP / RETURN / INTEREST EXPENSED		
Deposits	33,522	33,998
Other short term borrowings	42,047	16,082
	75,569	50,080

23. OTHER INCOME		2009	2008
		(Rupees in '000)	
Service charges		1,838	888
Others	<i>23.1</i>	1,709	763
		3,547	1,651
23.1	Includes income from various general banking services such as cheque book charges, cheque return charges, cheque handling charges, recovery of telex, courier and postage charges.		
24. ADMINISTRATIVE EXPENSES			
Salaries, allowances, etc.		20,529	21,291
Charge for defined benefit plan	<i>30.1.6</i>	143	256
Contribution to defined contribution plan		726	595
Rent, taxes, insurance, electricity, etc.		7,590	7,733
Legal and professional charges		418	2,182
Communications		4,281	4,081
Repairs and maintenance		5,340	2,638
Stationery and printing		561	1,054
Advertisement and publicity		500	574
Auditors' remuneration	<i>24.1</i>	990	914
Depreciation	<i>11.1</i>	1,631	1,815
Amortization	<i>11.2</i>	3,437	1,104
Brokerage and commission		272	163
Fees and subscription		1,768	1,873
Travelling & entertainment		2,086	2,664
Vehicle running expenses		278	281
Security charges		1,091	1,388
Training		89	30
Bank charges		1,533	1,158
Others		1,885	5,486
		55,148	57,280
24.1 Auditors' remuneration			
Audit fee - statutory		300	300
Special certifications, reviews and other services		500	500
Out-of-pocket expenses		190	114
		990	914
25. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		3,121	5,608
26. TAXATION			

As the Bank has accumulated tax losses amounting to Rs. 222.800 million (2008 : Rs. 152.269) as on 31 December 2009, no provision for taxation is required. Assessments for the assessment years 1996-1997 to 2005 have been finalised. Appeals had been filed against the orders of Taxation Officer (TO) to Commissioner Income-Tax (Appeals) [CIT-A]. Subsequent to the orders of CIT-A for assessment years 1996-1997 to 2005 appeals have been filed by the tax department and the Bank to the Income Tax Appellate Tribunal (ITAT) against orders of CIT-A. These appeals have been decided by the ITAT partly in favour and partly against the Bank. The Bank has now filed a reference to the High Court through the ITAT for the assessment years 1996-1997, 1997-1998, 1998-1999 and 1999-2000 in respect of matters decided against the Bank.

The orders have been finalised by the ITAT for the assessment year 2000-2001, 2001-2002 and 2002-2003 and approval of the final order is pending. The returns for the tax years 2006, 2007, 2008 and 2009 have been filed and the same is deemed as assessed, as per Section 120 of the Income Tax Ordinance, 2001. However, the cases of the tax years 2003, 2004 and 2005 has been re-opened under section 122 of the Income Tax Ordinance, 2001 of which appeals are pending.

27. EARNINGS / (LOSS) PER SHARE

The Bank operates as a branch of a foreign entity and does not have share capital. Hence, no figures of basic and diluted earnings / (loss) per share have been reported in these financial statements.

		2009	2008
		(Rupees in '000)	
28.	CASH AND CASH EQUIVALENTS		
	Cash and balance with treasury banks	7	3,328,022
	Balance with other banks	8	3,088,841
		<u>52,781</u>	<u>38,910</u>
		<u>3,380,803</u>	<u>3,127,751</u>

		2009	2008
		(Number)	
29.	STAFF STRENGTH		
	Permanent	29	32
	Temporary / on contractual basis	3	3
	Total Staff Strength	<u>32</u>	<u>35</u>

30. DEFINED BENEFIT AND CONTRIBUTION PLAN

30.1 Defined benefit plan

30.1.1 General description

The scheme provides for terminal benefits for all its permanent employees, equivalent to thirty days of last drawn basic salary for each year of service or part thereof for employees who have completed the qualifying period of three years.

Annual contribution is based on actuarial valuation carried out on 31 December 2009, using the Projected Unit Credit Method. An actuarial valuation is conducted once every three years.

30.1.2 Principal actuarial assumptions

Following are significant actuarial assumptions used in the valuation:

	2009	2008
Discount rate - percent (per annum)	15	15
Estimated rate of increase in salaries of the employees - percent (per annum)	14	14
Estimated rate of return on plan assets - percent (per annum)	15	15
Normal retirement age - years	58	58

30.1.3 Reconciliation of payable to defined benefit plan

	2009	2008
	(Rupees in '000)	
Present value of defined benefit obligations	1,130	932
Fair value of plan assets	(2,892)	(2,733)
Net actuarial gain not recognised	1,762	1,967
Payable to defined benefit plan	<u>-</u>	<u>166</u>

30.1.4 Movement in defined benefit obligation	2009	2008
	(Rupees in '000)	
Opening balance	932	1,484
Current service cost	507	512
Interest cost	177	149
Benefits paid	(486)	(621)
Actuarial gain	-	(592)
Closing balance	<u>1,130</u>	<u>932</u>

30.1.5 Movement in fair value of plan assets

Opening balance	2,733	3,189
Expected return	420	306
Contribution made by bank	309	90
Benefits paid	(486)	(621)
Actuarial loss	(84)	(231)
Closing balance	<u>2,892</u>	<u>2,733</u>

30.1.6 Charge for defined benefit plan

Current service cost		507	512
Interest cost		177	149
Expected return on plan assets		(420)	(306)
Actuarial (gain) / loss recognized		(121)	(99)
	24	<u>143</u>	<u>256</u>

30.1.7 Actual return on plan assets

	<u>336</u>	<u>75</u>
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30.1.8 Five year data on surplus / (deficit) of the plans and experience adjustments

	2009	2008	2007	2006	2005
	----- (Rupees in '000) -----				
Defined benefit obligation	1,130	932	1,484	1,553	1,779
Fair value of plan assets	(2,892)	(2,733)	(3,189)	(3,506)	(2,860)
(Surplus) / deficit	<u>(1,762)</u>	<u>(1,801)</u>	<u>(1,705)</u>	<u>(1,953)</u>	<u>(1,081)</u>
Experience adjustments (loss) / gain - net	<u>121</u>	<u>99</u>	<u>114</u>	<u>56</u>	<u>50</u>

30.2 Defined contribution plan

The Bank operates a contributory provident fund for all its permanent employees. Equal contributions are made monthly by the Bank and the employees at the rate of 10% of basic salary.

31. COMPENSATION OF COUNTRY MANAGER AND EXECUTIVES

	Acting Country Manager		Executives	
	2009	2008	2009	2008
	(Rupees in '000)		(Rupees in '000)	
Fees	-	-	-	-
Managerial remuneration	936	1,627	1,853	570
Charge for defined benefit plan	-	-	154	54
Contribution to defined contribution plan	-	76	185	57
Rent and house maintenance	375	651	741	228
Utilities	94	163	185	57
Medical	73	96	179	49
Bonus	78	70	154	50
	1,556	2,683	3,451	1,065
	(Number)		(Number)	
Number of persons	1	1	3	1

31.1 The Country Manager and certain executives have been provided with free use of Bank maintained cars in accordance with their terms of employment.

31.2 Executives means employees, other than Acting Country Manager, whose basic salary exceeds five hundred thousand rupees in a financial year.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

32.1 Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

The table below as set out carrying value and estimated fair value of on-balance sheet and off-balance sheet financial instruments.

On-balance sheet financial instruments

	2009		2008	
	Book value	Fair value	Book value	Fair value
	------(Rupees in '000)-----			
Assets				
Cash balances with treasury banks	3,328,022	3,328,022	3,088,841	3,088,841
Balances with other banks	52,781	52,781	38,910	38,910
Lending to financial institutions	150,000	150,000	-	-
Investments	-	-	-	-
Advances	387,223	387,223	277,089	277,089
Other assets	14,211	14,211	15,863	15,863
	3,932,237	3,932,237	3,420,703	3,420,703
Liabilities				
Bills payable	7,577	7,577	4,036	4,036
Borrowings	382,008	382,008	186,406	186,406
Deposits and other accounts	690,196	690,196	521,574	521,574
Sub-ordinated loans	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-
Other liabilities	16,575	16,575	15,366	15,366
	1,096,356	1,096,356	727,382	727,382
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	-	-	316,552	316,552
Forward sale of foreign exchange	-	-	158,276	158,276

Fair value of fixed term financing, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for non-performing advances has been calculated in accordance with the Bank's accounting policy as stated in note 6.7 of these financial statements.

In the opinion of the management, the fair value of the financial assets and financial 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 financing and deposits are frequently repriced.

33. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

	Trading & Sales	Retail Banking	Commercial Banking	Total
	----- (Rupees in '000) -----			
31 December 2009				
Total income	10,199	2,307	61,798	74,304
Total expenses	41,455	10,391	81,164	133,010
Net loss	(31,256)	(8,084)	(19,366)	(58,706)
Segment assets (gross)	3,530,854	42,236	411,160	3,984,250
Segment non performing loans	-	16,166	67,052	83,218
Segment provision required	-	15,905	18,389	34,294
Segment liabilities	351,734	238,465	507,676	1,097,875
Segment return on net assets (ROA) (%)	0.29	5.46	15.03	
Segment cost of funds (%)	11.79	4.36	15.99	
31 December 2008				
Total income	9,450	1,206	39,319	49,975
Total expenses	16,273	9,310	65,656	91,239
Net profit / (loss)	(6,823)	(8,104)	(26,337)	(41,264)
Segment assets (gross)	3,127,986	20,703	332,772	3,481,461
Segment non performing loans	-	16,416	20,000	36,416
Segment provision required	-	15,958	22,755	38,713
Segment liabilities	178,603	166,156	385,047	729,806
Segment return on net assets (ROA) (%)	0.30	5.83	11.82	
Segment cost of funds (%)	9.11	5.60	17.05	

34. RELATED PARTY TRANSACTIONS

Transactions with related parties comprise of transactions in the normal course of the business with the Bank's head office Oman International Bank S.A.O.G, Muscat, Sultanate of Oman and key management personnel. Transactions with related parties are carried at commercial terms except for compensation to key management personnel which are on employment terms.

The details of transactions with related parties are as follows:

	2009			2008		
	Key management personnel	Oman International Bank S.A.O.G - Muscat	Total	Key management personnel	Oman International Bank S.A.O.G -	Total
	----- (Rupees in '000) -----					
Bank balances						
At 01 January	-	9,719	9,719	-	21,851	21,851
Deposited during the year	-	696,179	696,179	-	340,970	340,970
Withdrawn during the year	-	(697,267)	(697,267)	-	(359,402)	(359,402)
Exchange adjustment	-	627	627	-	6,300	6,300
At 31 December	-	9,258	9,258	-	9,719	9,719
Advances						
At 01 January	144	-	144	5,117	-	5,117
Disbursed during the year	5,234	-	5,234	150	-	150
Repaid during the year	(380)	-	(380)	(5,123)	-	(5,123)
At 31 December	4,998	-	4,998	144	-	144
Deposits						
At January 01	116	925	1,041	263	330	593
Received during the year	9,800	57,119	66,919	6,167	104,032	110,199
Withdrawn during the year	(9,846)	(57,650)	(67,496)	(6,314)	(103,437)	(109,751)
At December 31	70	394	464	116	925	1,041
Borrowings						
At January 01	-	158,276	158,276	-	-	-
Borrowed during the year	-	4,953,406	4,953,406	-	1,163,330	1,163,330
Paid during the year	-	(5,121,889)	(5,121,889)	-	(1,005,054)	(1,005,054)
Exchange adjustment	-	10,207	10,207	-	-	-
At December 31	-	-	-	-	158,276	158,276
Mark-up / return / interest earned	88	7	95	41	325	366
Mark-up / return / interest expensed	-	1,233	1,233	-	1,098	-
Remuneration paid	5,007	-	5,007	3,748	-	3,748
Post employment benefits	-	-	-	76	-	76
Staff provident fund	-	-	726	-	-	595
Staff gratuity fund	-	-	143	-	-	256

35. CAPITAL ASSESSMENT AND ADEQUACY - BASEL II SPECIFIC

35.1 Scope of application

The Oman International Bank S.A.O.G. - Pakistan Branches operate as branches of a foreign entity in Pakistan to which BASEL II capital adequacy framework applies.

35.2 Capital structure

The Bank's Tier I capital comprises paid-up capital/assigned capital by Head office at Muscat, deposited with State Bank of Pakistan and unappropriated profit.

	2009	2008
	(Rupees in '000)	
<i>Tier I Capital</i>		
Capital	3,203,140	3,008,999
Reserves	-	-
Unappropriated profits	(355,564)	(296,858)
Less: Adjustment for intangible assets	(5,723)	(9,160)
Total Tier I Capital	2,841,853	2,702,981
<i>Tier II Capital</i>		
Subordinated debt (upto 50% of total Tier I Capital)	-	-
General provisions subject to 1.25% of total risk weighted assets	3,591	2,808
Foreign exchange translation reserve	-	-
Revaluation reserve (upto 45%)	-	-
Total Tier II Capital	3,591	2,808
<i>Eligible Tier III Capital</i>	-	-
Total Regulatory Capital	2,845,444	2,705,789

35.3 Capital adequacy

State Bank of Pakistan requires that banks doing business in Pakistan should maintain regulatory capital for credit, market, and operational risks, the amount of which should at least be equal to 10% of their risk weighted assets.

The Bank calculates capital requirement as per Basel II regulatory framework, using the following approaches:

Credit risk	Standardized Approach
Market risk	Standardized Approach
Operational risk	Basic Indicator Approach

State Bank of Pakistan (SBP), requires branches of foreign banks operating in Pakistan (FBs) to increase their assigned capital to Rs. 10 billion (net of losses) within the timelines prescribed. However, those FBs, whose Head Offices hold Paid up Capital (free of losses) of at least equivalent to US\$ 300 million and have a CAR of at least 8% or minimum prescribed by their home regulator, whichever is higher, will be allowed with the prior approval of SBP to maintain the following MCR:

- FBs, operating with upto 5 branches are required to raise their assigned capital to Rs. 3 billion latest by 31 December 2010.
- FBs, operating / desirous of operating with 6 to 20 branches are required to raise their assigned capital to Rs. 6 billion by 31 December 2010.

Total regulatory capital should be at least 10% of risk-weighted assets, and the Bank's capital adequacy ratio is well over this requirement as shown below.

However continuous financial support will be available to meet the minimum capital requirements.

The capital requirements for the Bank as per major risk categories are given below:

	<u>Capital Requirements</u>		<u>Risk Weighted Assets</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	----- (Rupees in '000) -----			
<i>Credit Risk</i>				
Corporates	41,428	24,456	414,281	296,683
Banks	4,434	1,237	44,335	13,741
Retail	358	136	3,581	1,510
Residential mortgages	155	22	1,547	247
Equity exposures	-	-	-	-
Other assets	2,742	2,587	27,425	27,947
	49,117	28,438	491,169	340,128
<i>Market Risk</i>				
Interest rate risk	-	-	-	-
Foreign exchange risk	1,684	2,545	21,050	28,279
	1,684	2,545	21,050	28,279
<i>Operational Risk</i>				
	1,581	1,307	19,761	14,524
Total :	52,382	32,290	531,980	382,931
<i>Capital Adequacy Ratio</i>				
Total eligible regulatory capital				
held (Note: 34.2) (a)	2,845,444	2,705,789		
Total risk weighted assets (b)	531,980	382,931		
Capital Adequacy Ratio [(a) / (b) x 100]	534.88%	706.60%		

36. RISK MANAGEMENT

The primary objective of the Risk Management system is to safeguard the Bank's capital, its financial resources and profitability from various risks. The Bank's risk management policies are designed to identify and analyze all risks, to set appropriate risk limits and controls, to measure and monitor the same through reliable Management Information system.

This section presents information about the Bank's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments. Most of the functions specified below have been performed at Head Office level.

36.1 Credit risk

Credit Risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loan and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board of Directors at head office has delegated responsibility for the management of credit risk to the Board Credit Committee (BCC) which is responsible for the oversight of the Bank's credit risk.

- Formulating Credit policies
- Establishing the authorization structure
- Reviewing and assessing credit risk
- Limiting concentration of exposure to counterparties
- Developing and maintaining the Bank's risk grading
- Reviewing compliance of business units
- Providing advice, guidance and specialist skills to promote best practice in the management of credit risk.

Credit Approval Process

The Credit process requires all credit applications from Corporate & Commercial Banking unit (Pakistan) to be vetted by Risk Management Department (Head Office) which recommends the application for approval or decline to the appropriate Credit Committee in terms of delegated authority levels. The Risk Credit Committee (RCC) of the Management approves applications within its delegated limits and recommends applications above its delegated limit to the Board Credit Committee. All declines are also forwarded to the Board Credit Committee for information / confirmation of the decision.

All Retail applications in excess of the Branch Manager's authority or outside pre-defined product norms are approved by the Credit Sanctioning Unit at Head Office.

Collateral and Credit Enhancements

It is the policy of the Bank to obtain collaterals for all corporate credits, unless the business case warrants clean lending. Collaterals stipulated are usually mortgages, charge over business, stock and debtors, financial instruments and cash. Security is however recognized only as a fall back option and repayment of facilities are primarily sought from the cash flow of the borrower's business. However collateral may be an important mitigate of risk.

Large exposures and Concentration

Exposure to a person, company or group (i.e. the Single Borrower Lending Limit - SBLL) is restricted to maximum 15 % of the Bank's net worth. Further, the per party exposure limit and group exposure limit as prescribed by the State Bank of Pakistan is also adhered to. Exposure to various segments of the industry is also taken into consideration to avoid concentration risks and exposure to industries subject to high volatility is limited.

Credit quality of Loans and Advances

There is an established system for continuous monitoring of credit exposures and follow-up of any past due loans with the respective business units. All past due loans, including trade bills, are reviewed on regular basis and pursued for recovery. Specific provisions on credit portfolio are determined in accordance with Prudential Regulations of the State Bank of Pakistan. The Bank also maintain general provision in accordance with Central Bank of Oman guidelines. Particulars of provisions against advances are given in note 10.4.

Credit Administration

Credit Administration Department ensures that security documentation of loans and advances are perfected to protect the Bank's interest. The department is responsible for maintaining all limits and disbursements. This segregation ensures that the credit marketing function and credit operations are independent and control is effectively exercised.

Its main focus is on compliance with terms of sanction of credit facilities, compliance with Prudential Regulations and the Bank's internal policies and procedures, scrutiny of documentation, monitoring of collateral, and maintenance of borrowers' limits, mark-up rates, and security details.

36.1.1 Credit Risk: General Disclosures - Basel II Specific

All credit risk exposures of the Bank are subject to the Standardized Approach , with Simple Approach for credit risk mitigation.

36.1.2 Credit Risk: Disclosures on Portfolio Subject to Simple Approach - Basel II Specific

The Bank uses the ratings issued by The Pakistan Credit Rating Agency Limited (PACRA) and JCR-VIS Credit Rating Company Limited (JCR-VIS) for its local currency exposures and ratings issued by S&P for its foreign currency exposures. These External Credit Assessments Institutions (ECAIs) have been approved by the State Bank of Pakistan.

Types of exposures and ECAIs Used – 2009

Types of exposures	JCR-VIS (Local Currency)	PACRA (Local Currency)	Standard & Poors (Foreign Currency)
Corporates	x	x	-
Banks	x	x	x
Sovereigns	-	-	-
Small and Medium Enterprises	-	-	-
Securitized	-	-	-
Others (public sector enterprises)	-	-	-

Given below are the Bank's outstanding (rated & unrated) in each risk bucket, deductions on account of credit risk mitigation, and net amount thereafter.

Credit Exposures Subject to Simple Approach

Risk buckets	Amount outstanding/ credit equivalent (Rated and Unrated)	CRM deduction	Net amount
	------(Rupees in '000)-----		
0%	3,328,022	-	3,328,022
20%	198,530	-	198,530
35%	4,419	-	4,419
50%	9,519	-	9,519
75%	15,384	10,783	4,601
100%	393,168	476	392,692
150%	-	-	-
	<u>3,949,042</u>	<u>11,259</u>	<u>3,937,783</u>

CRM: Credit Risk Mitigation

Credit Risk: Disclosures on Credit Risk Mitigation for Simple Approach – Basel II Specific

Eligible collaterals used by the Bank for credit risk mitigation are cash margins and cash deposits, government securities, financial guarantees, listed shares, and other listed, quoted or rated securities. The Bank requires perfection of collaterals by marking lien on cash margins and deposits, pledging of shares and other securities, and verifying the authenticity of guarantees received. Shares and securities including marketable government securities are taken at market value, and other government securities are taken at encashment value.

36.2 Segments by class of business

	2009					
	Advances (Gross)		Deposits			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	68,969	16.22	164	0.02	-	-
Chemical and pharmaceuticals	-	-	69,326	10.04	112,404	31.03
Automobile and transportation equipment	47,485	11.17	16,846	2.44	14,592	4.03
Power (electricity), gas, water, sanitary	-	-	1,511	0.22	-	-
Wholesale and retail trade	-	-	87,141	12.63	141,613	39.09
Financial	55,556	13.07	14,053	2.04	-	-
Insurance	-	-	1,189	0.17	-	-
Services	22,073	5.19	64,335	9.32	4,310	1.19
Individuals	40,976	9.64	236,682	34.29	150	0.04
Agribusiness & food processing	-	-	2,737	0.40	75	0.02
Wires and cables	27	0.01	-	-	2,806	0.77
Information technology	-	-	585	0.08	-	-
Health and education	-	-	34,443	4.99	740	0.20
Iron and steel	93,013	21.88	15,020	2.18	56,472	15.59
Electrical machinery and apparatus	-	-	6,445	0.93	6,618	1.83
Packaging	87,050	20.48	2,253	0.33	15,021	4.15
Manufacturing of Plastic Goods	9,959	2.34	1,972	0.29	-	-
Trust and funds	-	-	134,752	19.52	-	-
Others	-	-	742	0.11	7,465	2.06
	425,108	100	690,196	100	362,266	100

Segments by class of business

	2008					
	Advances (Gross)		Deposits			
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Textile	48,898	15.48	24	-	51,231	38.09
Chemical and pharmaceuticals	-	-	347	0.07	12,649	9.41
Automobile and transportation equipment	47,316	14.98	6,406	1.23	-	-
Power (electricity), gas, water, sanitary	-	-	4,956	0.95	-	-
Wholesale and retail trade	4,490	1.42	-	-	-	-
Financial	76,645	24.27	1,482	0.28	-	-
Insurance	-	-	358	0.07	4,039	3.00
Services	2,640	0.84	50,542	9.69	150	0.11
Individuals	31,562	9.99	182,801	35.05	75	0.06
Agribusiness & food processing	-	-	-	-	989	0.74
Wires and cables	1	-	-	-	-	-
Information technology	-	-	3	-	740	0.55
Health and education	-	-	34,770	6.67	10,412	7.74
Iron and steel	53,841	17.05	5,011	0.96	6,617	4.92
Electrical machinery and apparatus	6,498	2.06	-	-	28,722	21.36
Packaging	43,911	13.91	2	-	17,915	13.32
PVC Pipes	-	-	-	-	-	-
Trust and funds	-	-	201,174	38.57	-	-
Others	-	-	33,698	6.46	946	0.70
	315,802	100	521,574	100	134,485	100

36.3 Segment by sector

		2009			
		Advances (Gross)		Deposits	
		(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government		-	-	1,511	0.22
Private		425,108	100.00	688,685	99.78
		425,108	100.00	690,196	100.00

		2008			
		Advances (Gross)		Deposits	
		(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / government		-	-	4,956	0.72
Private		315,802	100.00	516,618	74.85
		315,802	100.00	521,574	75.57

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

	2009		2008	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
----- (Rupees in '000) -----				
Individuals	16,166	15,905	16,416	15,905
Financial	55,556	18,389	20,000	20,000
Wholesale & Retail	3,951	-	-	-
Textile	7,545	-	-	-
	83,218	34,294	36,416	35,905

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

Public / government	-	-	-	-
Private	83,218	34,294	36,416	35,905
	83,218	34,294	36,416	35,905

37. GEOGRAPHICAL SEGMENT ANALYSIS

	2009			Contingencies and commitments
	Loss before taxation	Total assets employed	Net assets employed	
----- (Rupees in '000) -----				
Pakistan	(58,706)	3,945,451	2,847,576	362,266
	(58,706)	3,945,451	2,847,576	362,266

Total assets employed includes intra group items of Rs. 9.258 million.

	2008			Contingencies and commitments
	Loss before taxation	Total assets employed	Net assets employed	
----- (Rupees in '000) -----				
Pakistan	(41,264)	3,441,947	2,712,141	134,485
	(41,264)	3,441,947	2,712,141	134,485

Total assets employed includes intra group items of Rs. 9.719 million.

38. MARKET RISK

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity indices, and others which may be only indirectly observable such as volatilities and correlations. The Bank warehouses market risk for customer facilitation, and also positions itself in the financial markets for proprietary trading. The Bank's policy is that all market risk taking activity is undertaken within approved market risk limits, and that the Bank's standards / guiding principles are upheld at all times.

Market Risk Management is an independent control function with clear segregation of duty and reporting line with the business-line. It means responsibility is to ensure that the risk-taking units manage the Bank's market risk exposure within a robust market risk framework and within the Bank's risk appetite. The Bank standard systems are used to furnish senior trading and Market Risk staff with risk exposures. All trading activities and any business proposal that commit or may commit the Bank (legally or morally) to deliver risk sensitive products require approval by independent authorised risk professionals or committees, prior to commitment.

The Bank uses the Standardized Approach to calculate capital charge for market risk as per Basel II regulatory framework. Details of capital charge for market risk are given in note 35.3.

38.1 Foreign Exchange Risk

The Bank has a comprehensive system for the measurement and management of foreign exchange risk. Part of this risk management process involves managing the Bank's exposure to fluctuations in foreign exchange rates in order to minimize its exposure to currency and risk to acceptable levels as determined by management. The management sets limits on the level of exposure by currency and in total for overnight positions. Positions are monitored on regular basis and hedging strategies are used to ensure positions are maintained within established limits.

2009			
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
----- (Rupees in '000) -----			
Pakistan rupee	658,573	1,033,963	-
United States dollar	3,281,623	59,510	-
Great Britain pound	5,020	5,139	-
Swiss Francs	212	-	-
Japanese yen	64	-	-
Euro	873	177	-
	3,946,365	1,098,789	-
			(375,390)
			3,222,113
			(119)
			212
			64
			696
			2,847,576
2008			
Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
----- (Rupees in '000) -----			
Pakistan rupee	360,560	526,524	(158,276)
United States dollar	3,076,527	199,824	158,276
Great Britain pound	3,272	2,785	-
Swiss Francs	166	-	-
Japanese yen	272	-	-
Euro	1,150	673	-
	3,441,947	729,806	-
			(324,240)
			3,034,979
			487
			166
			272
			477
			2,712,141

38.2 Yield / interest Rate Risk

The Bank has clear objectives, strategies, and risk tolerance level in order to protect it from interest rate risk. To achieve this objective, the Bank matches the interest rate sensitivity of its assets and liabilities by placing them into various time buckets according to the earlier of contractual re-pricing or maturity dates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies. The Bank has also a system in place to monitor the effectiveness of its policies and limits.

38.3 Yield / interest rate risk in the banking book – Basel II Specific

The Bank holds financial assets and financial liabilities with different maturities or repricing dates and linked to different benchmark rates, thus creating exposure to unexpected changes in the level of interest rates. Interest rate risk in the banking book refers to the risk associated with interest-bearing financial instruments.

Repricing gap analysis presents the Bank's interest sensitive assets (ISA) and interest sensitive liabilities (ISL), categorized into various time bands based on the earlier of their contractual repricing or maturity dates (or settlement dates for off-balance sheet instruments). Deposits with no fixed maturity dates (for example, saving deposits and treasurer's call deposits) are included in the lowest, one-month time band, but these are not expected to be payable within a one-month period. The difference between ISA and ISL for each time band signifies the gap in that time band, and provides a workable framework for determining the impact on net interest income.

The Bank reviews the repricing gap analysis periodically to monitor and manage interest rate risk in the banking book.

38.4 Equity Position Risk

As of the balance sheet date, the Bank is not exposed to equity position risk.

39. 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 and maturity date and for off-balance sheet instruments is based on settlement date.

		2009										Non-interest bearing financial instruments
Effective Yield / Interest rate %	Total	Exposed to Yield / Interest risk										
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years		
(Rupees in '000)												
On-balance sheet financial instruments												
<i>Assets</i>												
	3,328,022	-	-	-	-	-	-	-	-	-	3,328,022	
Cash and balances with treasury banks	52,781	52,560	-	-	-	-	-	-	-	-	221	
Balances with other banks	150,000	150,000	-	-	-	-	-	-	-	-	-	
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	
Investments	-	-	-	-	-	-	-	-	-	-	-	
Advances	387,223	190,103	188,019	-	137	261	456	1,966	5,637	644	-	
Other assets	14,211	-	-	-	-	-	-	-	-	-	14,211	
	3,932,237	392,663	188,019	-	137	261	456	1,966	5,637	644	3,342,454	
<i>Liabilities</i>												
	7,577	-	-	-	-	-	-	-	-	-	7,577	
Bills payable	382,008	350,000	10,000	22,008	-	-	-	-	-	-	-	
Borrowings	690,196	259,798	17,987	28,083	89,136	-	-	-	-	-	295,192	
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	
Other liabilities	16,575	-	-	-	-	-	-	-	-	-	16,575	
	1,096,356	609,798	27,987	50,091	89,136	-	-	-	-	-	319,344	
On-balance sheet gap	2,835,881	(217,135)	160,032	(50,091)	(88,999)	261	456	1,966	5,637	644	3,023,110	
Off-balance sheet financial instruments												
Forward purchase of foreign exchange	-	-	-	-	-	-	-	-	-	-	-	
Forward sale of foreign exchange	-	-	-	-	-	-	-	-	-	-	-	
Forward commitment to extend credit	78,155	78,155	-	-	-	-	-	-	-	-	-	
Off-balance sheet gap	78,155	78,155	-	-	-	-	-	-	-	-	-	
Total Yield / Interest Risk Sensitivity Gap		(138,980)	160,032	(50,091)	(88,999)	261	456	1,966	5,637	644		
Cumulative Yield / Interest Risk Sensitivity Gap		(138,980)	21,052	(29,039)	(118,038)	(117,777)	(117,321)	(115,355)	(109,718)	(109,074)		
		2008										
Effective Yield / Interest rate %	Total	Exposed to Yield / Interest risk									Non-interest bearing financial instruments	
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years		
(Rupees in '000)												
On-balance sheet financial instruments												
<i>Assets</i>												
	3,088,841	10,387	-	-	-	-	-	-	-	-	3,078,454	
Cash and balances with treasury banks	38,910	38,210	-	-	-	-	-	-	-	-	700	
Balances with other banks	-	-	-	-	-	-	-	-	-	-	-	
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-	-	
Investments	-	-	-	-	-	-	-	-	-	-	-	
Advances	277,089	185,058	90,447	60	747	189	48	96	241	203	-	
Other assets	15,863	-	-	-	-	-	-	-	-	-	15,863	
	3,420,703	233,655	90,447	60	747	189	48	96	241	203	3,095,017	
<i>Liabilities</i>												
	4,036	-	-	-	-	-	-	-	-	-	4,036	
Bills payable	186,406	178,276	-	8,130	-	-	-	-	-	-	-	
Borrowings	521,574	294,755	9,159	21,045	81,013	-	-	-	-	-	115,602	
Deposits and other accounts	-	-	-	-	-	-	-	-	-	-	-	
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-	-	
Other liabilities	15,366	-	-	-	-	-	-	-	-	-	15,366	
	727,382	473,031	9,159	29,175	81,013	-	-	-	-	-	135,004	
On-balance sheet gap	2,693,321	(239,376)	81,288	(29,115)	(80,266)	189	48	96	241	203	2,960,013	
Off-balance sheet financial instruments												
Forward purchase of foreign exchange	316,552	316,552	-	-	-	-	-	-	-	-	-	
Forward sale of foreign exchange	(158,276)	(158,276)	-	-	-	-	-	-	-	-	-	
Forward commitment to extend credit	106,306	106,306	-	-	-	-	-	-	-	-	-	
Off-balance sheet gap	264,582	264,582	-	-	-	-	-	-	-	-	-	
Total Yield / Interest Risk Sensitivity Gap		25,206	81,288	(29,115)	(80,266)	189	48	96	241	203		
Cumulative Yield / Interest Risk Sensitivity Gap		25,206	106,494	77,379	(2,887)	(2,698)	(2,650)	(2,554)	(2,313)	(2,110)		

39.1 Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature or reprice in a given period. The Bank manages these mismatches through risk management strategies where significant changes in gap positions can be adjusted.

39.2 The interest rate exposure taken by the Bank arises from investing in corporate, small medium enterprises, consumer financing, investment banking and interbank activities where variation in market interest rates may affect the profitability of the Bank. This risk is addressed by the management which reviews the interest rate dynamics at regular intervals and decides repricing of assets and liabilities ensuring that the spread of the Bank remains at acceptable level.

39.3 The advances and deposits of the Bank are repriced on a periodical basis based on the interest rates scenario.

40. MATURITIES OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities at the year end have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. Assets and liabilities not have a contractual maturity are assumed to mature on the expected date on which the assets / liabilities will be realised / settled.

	2009									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years
	----- (Rupees in '000) -----									
<i>Assets</i>										
Cash and balances with treasury banks	3,328,022	124,882	-	-	-	-	-	-	-	3,203,140
Balances with other banks	52,781	52,781	-	-	-	-	-	-	-	-
Lending to financial institutions	150,000	150,000	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Advances	387,223	190,103	111,606	66,202	10,348	261	456	1,966	5,637	644
Operating fixed assets	10,461	424	848	1,272	2,491	3,882	1,010	419	115	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	16,964	8,961	5,788	402	238	763	24	-	788	-
	3,945,451	527,151	118,242	67,876	13,077	4,906	1,490	2,385	6,540	3,203,784
<i>Liabilities</i>										
Bills payable	7,577	7,577	-	-	-	-	-	-	-	-
Borrowings	382,008	350,000	10,000	22,008	-	-	-	-	-	-
Deposits and other accounts	690,196	554,990	17,987	28,083	89,136	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	18,094	5,120	1,859	1,166	925	120	-	-	-	8,904
	1,097,875	917,687	29,846	51,257	90,061	120	-	-	-	8,904
<i>Net assets</i>	2,847,576	(390,536)	88,396	16,619	(76,984)	4,786	1,490	2,385	6,540	3,194,880
Head office capital account	3,203,140									
Accumulated loss	(355,564)									
	2,847,576									

	2008									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Over 10 years
	----- (Rupees in '000) -----									
<i>Assets</i>										
Cash and balances with treasury banks	3,088,841	79,842	-	-	-	-	-	-	-	3,008,999
Balances with other banks	38,910	38,910	-	-	-	-	-	-	-	-
Lending to financial institutions	-	-	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	-	-
Advances	277,089	185,114	119	18,413	72,633	222	48	96	241	203
Operating fixed assets	15,071	432	863	1,295	2,591	5,129	4,355	166	166	74
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	22,036	9,467	7,463	1,289	2,164	865	-	-	788	-
	3,441,947	313,765	8,445	20,997	77,388	6,216	4,403	262	1,195	3,009,276
<i>Liabilities</i>										
Bills payable	4,036	4,036	-	-	-	-	-	-	-	-
Borrowings	186,406	178,276	-	8,130	-	-	-	-	-	-
Deposits and other accounts	521,574	403,828	15,688	21,045	81,013	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	17,790	6,898	1,868	-	-	120	-	-	-	8,904
	729,806	593,038	17,556	29,175	81,013	120	-	-	-	8,904
<i>Net assets</i>	2,712,141	(279,273)	(9,111)	(8,178)	(3,625)	6,096	4,403	262	1,195	3,000,372
Head office capital account	3,008,999									
Accumulated loss	(296,858)									
	2,712,141									

40.1 Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market destruction of credit downgrades, which may cause certain sources of fundings to become unavailable. To guard against this risk the Bank's assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities. The maturity profile is monitored to ensure adequate liquidity is maintained.

The Bank seeks to ensure that it has access to funds at reasonable cost even under adverse conditions, by managing its liquidity risk across all class of assets and liabilities in accordance with regulatory guidelines and to take advantage of any lending opportunities as they arise.

The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. Management monitors the maturity profile to ensure that adequate liquidity is maintained.

In accordance with SBP regulations, the Bank maintains a statutory cash reserve requirement (CRR) with SBP equal to weekly average of 5% (subject to daily minimum of 4%) of total Demand Liabilities (including Time Deposits with tenor of less than 1 year). In addition to that, the Bank maintains statutory liquidity requirement (SLR) of 19% (excluding CRR) of total Time and Demand Liabilities. The Bank have successfully manages its CRR and SLR requirements.

41. OPERATIONAL RISK

The Bank's operational risk is related to possible losses which may be incurred as a result of failures occurring in the Bank's day to day operations, such as breakdown in electronic and telecommunication, routines or other systems - additional factors being insufficient levels of professional skills or human errors. In order to keep the Bank's operational risks to a minimum level, various suites of risk tools are used to manage operational risk using a common categorization of risk.

Bank's approach to operational risk is not designed to eliminate risk, rather, to contain it within the acceptable levels, as determined by senior management, and to ensure that the bank has sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses.

41.1 OPERATIONAL RISK DISCLOSURES - BASEL II SPECIFIC

The Bank uses Basic Indicator Approach to calculate capital charge for operational risk as per Basel II regulatory framework. This approach is considered to be most suitable in view of the business model of the Bank.

42. ACCOUNTING ESTIMATES AND JUDGMENTS

Provision against non-performing loans and advances

The Bank reviews its loan portfolios to assess amount of non-performing loans and advances and provision required there against on a quarterly basis. The specific provision is made in accordance with the Prudential Regulations issued by the State Bank of Pakistan. The Bank also maintain general provision in accordance with Central Bank of Oman guidelines.

Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past.

The Finance Act, 2009, has made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001. The deduction for provisions for doubtful and loss categories of advances and off balance sheet items is allowed upto a maximum of 1% of total advances. The amount of bad debts classified as OAEM (in agriculture) and Substandard under Prudential Regulation issued by State Bank of Pakistan would not be allowed as an expense. Provisioning in excess of 1% of total advances would be allowed to be carried over to succeeding years.

Property and equipment

The Bank reviews the rate of depreciation, useful life, residual value and value of assets for possible impairment on an annual basis. Any change in the estimates in future years might effect the carrying amounts of the respective items of property and equipments with a corresponding effect on the depreciation charge and impairment.

Intangible assets

The Bank reviews the rate of amortisation and value of intangible assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of intangible assets with a corresponding affect on the amortisation charge and impairment, if any.

Retirement benefits

The Bank contributes to the staff gratuity fund on the basis of actuarial valuation which takes into account certain assumptions regarding interest rate, increase in salary and inflation rate etc. Any change in these estimates in future years might effect the Bank's liability with corresponding effect on the charge for the retirement benefit plan.

Fair value of derivatives

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

43. GENERAL

- 43.1** Captions, as prescribed by BSD Circular No. 04 of 2006 dated 17 February 2006 issued by the State Bank of Pakistan, in respect of which there are no amounts, have not been reproduced in these financial statements, except for the captions of the balance sheet and profit and loss account.

44. DATE OF AUTHORIZATION

These financial statements were authorized for issue on _____ by the management of the Bank.

Acting Country Manager

Manager Finance