



Excellence in
Value

Financial Statements 2008

Balance Sheet

As at December 31, 2008

2007	2008		Note	2008	2007
US Dollars in '000				Rupees in '000	
ASSETS					
1,200,927	1,348,149	Cash and balances with treasury banks	6	106,503,756	94,873,249
474,340	485,375	Balances with other banks	7	38,344,608	37,472,832
271,704	216,811	Lendings to financial institutions - net	8	17,128,032	21,464,600
2,672,735	2,162,310	Investments - net	9	170,822,491	211,146,038
4,307,835	5,227,681	Advances - net	10	412,986,865	340,318,930
328,139	306,553	Operating fixed assets	11	24,217,655	25,922,979
-	40,564	Deferred tax assets - net	12	3,204,572	-
392,341	563,928	Other assets	13	44,550,347	30,994,965
9,648,021	10,351,371			817,758,326	762,193,593
LIABILITIES					
89,391	129,355	Bills payable	14	10,219,061	7,061,902
136,901	512,138	Borrowings	15	40,458,926	10,815,176
7,492,500	7,910,621	Deposits and other accounts	16	624,939,016	591,907,435
-	-	Sub-ordinated loans		-	-
425	320	Liabilities against assets subject to finance lease	17	25,274	33,554
64,530	-	Deferred tax liabilities - net	12	-	5,097,831
391,646	501,985	Other liabilities	18	39,656,831	30,940,041
8,175,393	9,054,419			715,299,108	645,855,939
1,472,628	1,296,952	NET ASSETS		102,459,218	116,337,654
REPRESENTED BY					
103,219	113,541	Share capital	19	8,969,751	8,154,319
199,647	252,418	Reserves		19,941,047	15,772,124
573,977	664,003	Unappropriated profit	(i)	52,456,204	45,344,188
876,843	1,029,962			81,367,002	69,270,631
595,785	266,990	Surplus on revaluation of assets - net	20 & (i)	21,092,216	47,067,023
1,472,628	1,296,952			102,459,218	116,337,654
CONTINGENCIES AND COMMITMENTS					
			21		

(i) The above surplus on revaluation of assets include impairment loss (net of tax) of Rs.1,782 million in respect of listed equity securities / mutual funds held under 'Available-for-sale' category of investments as allowed under BSD Circular No. 4 dated February 13, 2009 of the SBP. The said impairment loss has been determined on the basis of valuation of such listed equity securities / mutual funds using the market prices quoted on the stock exchange / net assets values as of December 31, 2008. Had the impairment loss been fully charged to profit and loss account, the 'Surplus on revaluation of assets' (net of tax) would have been higher by Rs.1,782 million and the unappropriated profit would have been lower by the same amount (See note 20.2).

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

Chairman & President

Director

Director

Director

Profit and Loss Account

For the year ended December 31, 2008



Excellence in Value

2007	2008		Note	2008	2007
US Dollars in '000				Rupees in '000	
640,120	771,428	Mark-up / return / interest earned	23	60,942,798	50,569,481
214,431	302,339	Mark-up / return / interest expensed	24	23,884,768	16,940,011
425,689	469,089	Net mark-up / interest income		37,058,030	33,629,470
59,786	134,096	Provision against non-performing advances	10.3	10,593,565	4,723,084
(509)	4,725	Provision for / (reversal of) diminution in the value of investments	9.11	373,249	(40,248)
-	51	Provision against off balance sheet obligations	18.1	4,000	-
505	-	Bad debts written off directly		-	39,899
59,782	138,872			10,970,814	4,722,735
365,907	330,217	Net mark-up / interest income after provisions		26,087,216	28,906,735
NON MARK-UP / INTEREST INCOME					
85,844	100,321	Fee, commission and brokerage income		7,925,370	6,781,683
41,307	36,442	Dividend income		2,878,932	3,263,246
13,200	50,241	Income from dealing in foreign currencies		3,969,057	1,042,827
29,642	5,005	Gain on sale and redemption of securities - net	25	395,427	2,341,690
(405)	22	Unrealized gain / (loss) on revaluation of investments classified as Held-for-trading	9.12	1,707	(31,964)
1,865	15,764	Other income	26	1,245,369	147,363
171,453	207,795	Total non mark-up / interest income		16,415,862	13,544,845
537,360	538,012			42,503,078	42,451,580
NON MARK-UP / INTEREST EXPENSES					
179,822	230,015	Administrative expenses	27	18,171,198	14,205,911
2,127	9,462	Other provisions / write offs		747,521	168,027
217	7,384	Other charges	28	583,361	17,141
182,166	246,861	Total non mark-up / interest expenses		19,502,080	14,391,079
355,194	291,151			23,000,998	28,060,501
-	-	Extra ordinary / unusual items		-	-
355,194	291,151	PROFIT BEFORE TAXATION		23,000,998	28,060,501
105,209	148,894	Taxation - Current		11,762,650	8,311,500
4,956	-	- Prior years		-	391,497
4,098	(53,421)	- Deferred		(4,220,242)	323,731
114,263	95,473		29	7,542,408	9,026,728
240,931	195,678	PROFIT AFTER TAXATION		15,458,590	19,033,773
		[see note (i) & 20.2]		45,344,188	32,074,677
406,009	573,977	Unappropriated profit brought forward			
494	1,651	Transfer from surplus on revaluation of fixed assets on account of incremental depreciation	20.3	130,456	39,007
647,434	771,306	Profit available for appropriation [see note 10.4.1 & 20.2]		60,933,234	51,147,457
----- US Dollars -----		----- Rupees -----			
0.27	0.22	Basic earnings per share	30	17.23	21.22
0.27	0.22	Diluted earnings per share	31	17.23	21.22

(i) The profit for the year does not include impairment loss (net of tax) of Rs. 1,782 million in respect of listed equity securities / mutual funds held under 'Available-for-sale' category of investments in accordance with the treatment allowed under BSD Circular No. 4 dated February 13, 2009 of the SBP. The said impairment loss has been determined on the basis of valuation of such listed equity securities / mutual funds using the market prices quoted on the stock exchange / net assets values as of December 31, 2008 and has been taken to 'Surplus on revaluation of assets' (net of tax) account as shown in the balance sheet. Had the impairment loss been fully charged to profit and loss account, profit after tax for the year would have been lower by Rs. 1,782 million and earnings per share would have been lower by Rs. 1.99 (See note 20.2).

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

Chairman & President

Director

Director

Director

Cash Flow Statement

For the year ended December 31, 2008

2007	2008		2008	2007
US Dollars in '000		Note	Rupees in '000	
355,194	291,151	CASH FLOWS FROM OPERATING ACTIVITIES	23,000,998	28,060,501
(41,307)	(36,442)	Profit before taxation	(2,878,932)	(3,263,246)
313,887	254,709	Less: Dividend income	20,122,066	24,797,255
7,001	9,477	Adjustments:		
43	37	Depreciation	748,690	553,114
59,786	134,096	Amortization	2,885	3,409
(509)	4,725	Provision against non-performing advances	10,593,565	4,723,084
-	51	Provision for / (reversal of) diminution in the value of investments	373,249	(40,248)
(34)	(92)	Provision against off balance sheet obligations	4,000	-
116	136	Gain on sale of fixed assets	(7,289)	(2,702)
505	-	Financial charges on leased assets	10,750	9,183
2,127	9,462	Bad debts written off directly	-	39,899
69,035	157,892	Other provisions / write offs	747,521	168,027
382,922	412,601		12,473,371	5,453,766
19,597	54,286	(Increase) / decrease in operating assets	32,595,437	30,251,021
(5,734)	(2,831)	Lendings to financial institutions - net	4,288,568	1,548,132
(371,262)	(1,053,943)	Held-for-trading securities	(223,610)	(453,020)
(37,322)	(131,386)	Advances - net	(83,261,500)	(29,329,677)
(394,721)	(1,133,874)	Other assets (excluding advance tax)	(10,379,475)	(2,948,435)
(44,858)	39,964	Increase / (decrease) in operating liabilities	(89,576,017)	(31,183,000)
(15,865)	384,315	Bills payable	3,157,159	(3,543,761)
1,139,686	418,121	Borrowings	30,360,866	(1,253,323)
54,031	109,340	Deposits and other accounts	33,031,581	90,035,192
1,132,994	951,740	Other liabilities (excluding current taxation)	8,637,877	4,268,464
(123,557)	(198,272)		75,187,483	89,506,572
(116)	(136)	Income tax paid	(15,663,472)	(9,760,991)
(123,673)	(198,408)	Financial charges paid	(10,750)	(9,183)
997,522	32,059		(15,674,222)	(9,770,174)
(859,267)	133,680	Net cash from operating activities	2,532,681	78,804,419
29,263	29,860	CASH FLOWS FROM INVESTING ACTIVITIES		
41,307	36,442	Net proceeds from / (investments in)		
(12,991)	(20,708)	Available-for-sale securities	10,560,682	(67,882,071)
256	-	Net proceeds from held-to-maturity securities	2,358,937	2,311,757
111	279	Dividend income received	2,878,932	3,263,246
(801,321)	179,553	Investment in operating fixed assets	(1,635,957)	(1,026,266)
		Investment in subsidiaries, associates and joint venture	-	20,195
		Sale proceeds of property and equipment disposed off	22,032	8,747
		Net cash from / (used in) investing activities	14,184,626	(63,304,392)
(174)	(204)	CASH FLOWS FROM FINANCING ACTIVITIES		
(35,847)	(77,277)	Payments of lease obligations	(16,078)	(13,751)
(36,021)	(77,481)	Dividend paid	(6,104,894)	(2,831,895)
(133)	33,203	Net cash used in financing activities	(6,120,972)	(2,845,646)
160,047	167,334	Effects of exchange rate changes on cash and cash equivalents	2,623,064	(10,513)
1,503,964	1,664,011	Increase in cash and cash equivalents	13,219,399	12,643,868
1,664,011	1,831,345	Cash and cash equivalents at beginning of the year	131,456,989	118,813,121
		Cash and cash equivalents at end of the year	144,676,388	131,456,989

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

Chairman & President

Director

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Statement of Changes in Equity

For the year ended December 31, 2008



Excellence in Value

	Share capital	Reserves		Unappropriated profit	Total	
		Capital	Revenue			
	Exchange translation	Statutory	General			
----- (Rupees in '000) -----						
Balance as at January 1, 2007	7,090,712	3,374,825	9,983,097	521,338	32,074,677	53,044,649
Exchange adjustments on translation of net assets of foreign branches	-	(10,513)	-	-	-	(10,513)
Transfer from surplus on revaluation of fixed assets - incremental depreciation - net of tax	-	-	-	-	39,007	39,007
Net income recognised directly in equity	-	(10,513)	-	-	39,007	28,494
Profit after taxation for the year ended December 31, 2007	-	-	-	-	19,033,773	19,033,773
Total recognised income and expense for the year	-	(10,513)	-	-	19,072,780	19,062,267
Issue of bonus shares 15%	1,063,607	-	-	-	(1,063,607)	-
Cash dividend (Rs.4 per share)	-	-	-	-	(2,836,285)	(2,836,285)
Transfer to statutory reserve	-	-	1,903,377	-	(1,903,377)	-
Balance as at December 31, 2007	<u>8,154,319</u>	<u>3,364,312</u>	<u>11,886,474</u>	<u>521,338</u>	<u>45,344,188</u>	<u>69,270,631</u>
Balance as at January 1, 2008	8,154,319	3,364,312	11,886,474	521,338	45,344,188	69,270,631
Exchange adjustments on translation of net assets of foreign branches	-	2,623,064	-	-	-	2,623,064
Transfer from surplus on revaluation of fixed assets - incremental depreciation - net of tax	-	-	-	-	130,456	130,456
Net income recognised directly in equity	-	2,623,064	-	-	130,456	2,753,520
Profit after taxation for the year ended December 31, 2008	-	-	-	-	15,458,590	15,458,590
Total recognised income and expense for the year	-	2,623,064	-	-	15,589,046	18,212,110
Issue of bonus shares 10%	815,432	-	-	-	(815,432)	-
Cash dividend (Rs.7.5 per share)	-	-	-	-	(6,115,739)	(6,115,739)
Transfer to statutory reserve	-	-	1,545,859	-	(1,545,859)	-
Balance as at December 31, 2008	<u>8,969,751</u>	<u>5,987,376</u>	<u>13,432,333</u>	<u>521,338</u>	<u>52,456,204</u>	<u>81,367,002</u>

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

Chairman & President

Director

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Director



Notes to the Financial Statements

For the year ended December 31, 2008

1. STATUS AND NATURE OF BUSINESS

National Bank of Pakistan (the bank) was incorporated in Pakistan under the National Bank of Pakistan Ordinance, 1949 and is listed on all the stock exchanges in Pakistan. It's registered and head office is situated at I.I. Chundrigar Road, Karachi. The bank is engaged in providing commercial banking and related services in Pakistan and overseas. The bank also handles treasury transactions for the Government of Pakistan (GoP) as an agent to the State Bank of Pakistan (SBP). The bank operates 1,254 (2007: 1,243) branches in Pakistan and 22 (2007: 18) overseas branches (including the Export Processing Zone branch, Karachi). Under a Trust Deed, the bank also provides services as trustee to National Investment Trust (NIT) and Long-term Credit Fund (LTCF).

2. BASIS OF PRESENTATION

2.1 In accordance with the directives of the Federal Government of Pakistan regarding the shifting of the banking system to Islamic modes, the SBP has issued various circulars from time to time. Permissible form of trade related mode of financing includes purchase of goods by the bank from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and the appropriate portion of mark-up thereon.

The financial position and results of the Islamic banking branches of the bank have been disclosed in Annexure III to these financial statements.

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

2.3 The US Dollar amounts shown on the balance sheet, profit and loss account and cash flow statement are stated as additional information solely for the convenience of readers. For the purpose of conversion to US Dollars, the rate of Rs.79.00 to one US Dollar has been used for both 2008 and 2007 as it was the prevalent rate as on December 31, 2008.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and Islamic Financial Accounting Standards (IFAS) issued by the Institute of Chartered Accountants of Pakistan as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan. Wherever the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or directives issued by the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan differ with the requirements of IFRS or IFAS, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 or the requirements of the said directives shall prevail.

3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Further, according to the notification of SECP dated April 28, 2008, the IFRS - 7 "Financial Instruments: Disclosures" has not been made applicable for banks. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirement of various circulars issued by SBP.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except for revaluation of land and buildings and valuation of certain investments and derivative financial instruments at fair value.

Notes to the Financial Statements

For the year ended December 31, 2008



5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks in current and deposit accounts less overdrawn nostro accounts.

5.2 Investments

Investments other than those categorised as held-for-trading are initially recognised at fair value which includes transactions costs associated with the investments. Investments classified as held-for-trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account.

All regular way purchases/sales of investment are recognised on the trade date, i.e., the date the bank commits to purchase/sell the investments. Regular way purchases or sales of investment require delivery of securities within the time frame generally established by regulation or convention in the market place.

The bank has classified its investment portfolio, except for investments in subsidiaries, associates and joint ventures, into 'held-for-trading', 'held-to-maturity' and 'available-for-sale' portfolios as follows:

- Held-for-trading – These are securities which are acquired with the intention to trade by taking advantage of short-term market/interest rate movements and are to be sold within 90 days. These are carried at market value, with the related surplus/(deficit) on revaluation being taken to profit and loss account.
- Held-to-maturity – These are securities with fixed or determinable payments and fixed maturity that are held with the intention and ability to hold to maturity. These are carried at amortised cost.
- Available-for-sale – These are investments that do not fall under the held-for-trading or held-to-maturity categories. These are carried at market value except for incase of unquoted securities where market value is not available, which are carried at cost less provision for diminution in value, if any. Surplus / (deficit) on revaluation is taken to 'surplus / (deficit) on revaluation of assets' account shown below equity. Provision for diminution in value of investments in respect of unquoted shares is calculated with reference to book value of the same. On derecognition or impairment in quoted available-for-sale investments, the cumulative gain or loss previously reported as 'surplus / (deficit) on revaluation of assets' below equity is included in the profit and loss account for the period. However, for the current year, the impairment loss has been treated as explained in note 20.2.

Provision for diminution in value of investments for unquoted debt securities is calculated with reference to the time-based criteria as per the SBP's Prudential Regulations.

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

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

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

5.3 Repurchase and resale agreements

Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the balance sheet and are measured in accordance with accounting policies for investment securities. The counterparty liability for amounts received under these agreements is included in borrowings. The difference between sale and repurchase price is treated as mark-up / return / interest expense and accrued over the life of the repo agreement using effective yield method.

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet, as the bank does not obtain control over the securities. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is treated as mark-up / return / interest income and accrued over the life of the reverse repo agreement using effective yield method.



Notes to the Financial Statements

For the year ended December 31, 2008

5.4 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the dates on which the derivative contracts are entered into and are subsequently re-measured at fair value using appropriate valuation techniques. All derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of derivative instruments is taken to the profit and loss account.

5.5 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the bank becomes a party to the contractual provisions of the instrument. A financial asset is derecognised where (a) the rights to receive cash flows from the asset have expired; or (b) the bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (i) the bank has transferred substantially all the risks and rewards of the asset, or (ii) the bank has neither transferred nor retained substantially all the risk and rewards of the asset, but has transferred control of the asset. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Any gain or loss on derecognition of the financial assets and financial liabilities are taken to income currently.

5.6 Advances

Advances are stated net off specific and general provisions. Provisions are made in accordance with the requirements of Prudential Regulations issued by SBP and charged to the profit and loss account. These regulations prescribe an age based criteria (as supplemented by subjective evaluation of advances by the banks) for classification of non-performing loans and advances and computing provision / allowance thereagainst. Such regulations also require the bank to maintain general provision / allowance against consumer advances at specified percentage of such portfolio. Advances are written off where there are no realistic prospects of recovery.

5.7 Operating fixed assets and depreciation

Property and equipment

Owned assets

Fixed assets except land and buildings are stated at cost less accumulated depreciation and impairment losses, if any. Land is stated at revalued amount. Buildings are stated at revalued amount less accumulated depreciation and impairment. Depreciation is charged to income applying the diminishing balance method except vehicles, computers and furnishing provided to executives, which are depreciated on straight-line method at the rates stated in note 11.2. Depreciation is charged from the month in which the assets are brought into use and no depreciation is charged from the month the assets are deleted.

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

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

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

Land and buildings' valuation are carried out by professionally qualified valuers with sufficient regularity to ensure that their carrying amount does not differ materially from their fair value.

The surplus arising on revaluation of fixed assets is credited to the "Surplus on Revaluation of Assets account" shown below equity. The bank has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the requirements of the Companies Ordinance, 1984 and SECP's SRO 45(1)/2003 dated January 13, 2003:

- depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the Profit and Loss Account; and

Notes to the Financial Statements

For the year ended December 31, 2008



- an amount equal to incremental depreciation for the year net of deferred taxation is transferred from "Surplus on Revaluation of Fixed Assets account" to accumulated profit through Statement of Changes in Equity to record realization of surplus to the extent of the incremental depreciation charge for the year.

Leased assets

Assets subject to finance lease are accounted for by recording the assets and the related liability. These are recorded at lower of fair value and the present value of minimum lease payments at the inception of lease and subsequently stated net of accumulated depreciation. Depreciation is charged on the basis similar to the owned assets. Financial charges are allocated over the period of lease term so as to provide a constant periodic rate of financial charge on the outstanding liability.

Ijarah

Assets leased out under 'Ijarah' are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Assets under Ijarah are depreciated over the period of lease term. However, in the event the asset is expected to be available for re-ijarah, depreciation is charged over the economic life of the asset using straight line basis.

Ijarah income is recognised on a straight line basis over the period of Ijarah contract.

Intangible assets

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Amortization is charged to income applying the straight-line method at the rates stated in note 11.3.

Capital work-in-progress

Capital work-in-progress is stated at cost. These are transferred to specific assets as and when assets are available for use.

Impairment

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the fixed assets are written down to their recoverable amounts.

The resulting impairment loss is taken to profit and loss account except for impairment loss on revalued assets which is adjusted against the related revaluation surplus to the extent that the impairment loss does not exceed the surplus on revaluation of assets.

5.8 Taxation

Current

Provision of current taxation is based on taxable income for the year determined in accordance with the prevailing laws of taxation on income earned for local as well as foreign operations, as applicable to the respective jurisdictions. The charge for the current tax also includes adjustments wherever considered necessary relating to prior year, arising from assessments framed during the year.

Deferred

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

The carrying amount of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit or taxable temporary differences will be available to allow all or part of the deferred income tax asset to be utilised.



Notes to the Financial Statements

For the year ended December 31, 2008

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to gain / loss recognized in surplus on revaluation of assets is charged / credited to such account.

5.9 Employee benefits

5.9.1 Defined benefit plans

Pension scheme

The bank operates approved funded pension scheme for its eligible employees. The bank's costs are determined based on actuarial valuation carried out using Projected Unit Credit Method. Actuarial gains / losses exceeding, the higher of 10% of present value of defined benefit obligation or 10% of the fair value of plan assets are recognized as income or expense over the estimated working lives of the employees. Where the fair value of plan assets, exceeds the present value of defined benefit obligation together with unrecognized actuarial gains or losses and unrecognized past service cost, the bank reduces the resulting asset to an amount equal to the total of present value of any economic benefit in the form of reduction in future contributions to the plan and unrecognized actuarial losses and past service costs.

Benevolent scheme

The bank also operates an un-funded benevolent scheme for its eligible employees. Provision is made in the financial statements based on the actuarial valuation using the Projected Unit Credit Method. Actuarial gains / losses are recognized in the period in which they arise.

Gratuity scheme

The bank also operates an un-funded gratuity scheme for its eligible contractual employees. Provision is made in the financial statements based on the actuarial valuation using the Projected Unit Credit Method. Actuarial gains / losses are accounted for in a manner similar to pension scheme.

Post retirement medical benefits

The bank operates an un-funded post retirement medical benefits scheme for all of its employees. Provision is made in the financial statements for the benefit based on actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gains / losses are recognised over the estimated working lives of employees.

5.9.2 Other employee benefits

Employees' compensated absences

The bank accounts for all accumulating compensated absences when employees render service that increases their entitlement to future compensated absences. The liability is determined based on actuarial valuation carried out using the Projected Unit Credit Method.

5.10 Revenue recognition

Mark-up / return / interest on advances and return on investments are recognized on accrual basis except in case of advances and investments classified under the Prudential Regulations on which mark-up is recognized on receipt basis.

Interest/mark-up on rescheduled/restructured advances and investments is recognized in accordance with the Prudential Regulations of SBP.

Fee, commission and brokerage income and remuneration for trustee services are recognized upon performance of services.

Dividend income on equity investments and mutual funds is recognized when right to receive is established.

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

Notes to the Financial Statements

For the year ended December 31, 2008



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

5.11 Foreign currencies translation

The bank's financial statements are presented in Pak Rupees (Rs.) which is the bank's functional and presentation currency.

Foreign currency transactions are converted into Rupees applying the exchange rate at the date of the respective transactions. Monetary assets and liabilities in foreign currencies and assets / liabilities of foreign branches are translated into Rupees at the rates of exchange prevailing at the balance sheet date.

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

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

5.12 Provision for off balance sheet obligations

Provision for guarantees, claims and other off balance sheet obligations is made when the bank has legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of amount can be made. Charge to profit and loss account is stated net of expected recoveries.

5.13 Off setting

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

5.14 Fiduciary assets

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

5.15 Dividend and other appropriations

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

5.16 Segment Reporting

A segment is a distinguishable component of the Bank that is engaged either in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

5.16.1 Business segments

Corporate finance

Corporate banking includes, services provided in connection with mergers and acquisition, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Retail banking

It includes retail lending and deposits, banking services, trust and estates, private lending and deposits, banking service, trust and estates investment advice, merchant / commercial and private labels and retail.



Notes to the Financial Statements

For the year ended December 31, 2008

Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, factoring, lending, guarantees, bills of exchange and deposits.

Payment and settlement

It includes payments and collections, funds transfer, clearing and settlement.

Agency services

It includes escrow, depository receipts, securities lending (customers), corporate actions, issuer and paying agents.

5.16.2 Geographical segments

The Bank operates in following geographical regions:

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

5.17 Earnings per share

The bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no dilutive potential ordinary shares in issue at December 31, 2008.

5.18 Accounting estimates and judgments

The preparation of financial statements in conformity with Approved Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. The estimates/judgments and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas of estimate and judgements in relation to these financial statements are as follows:

a) Provision against non-performing loans and advances

The bank reviews its loan portfolio to assess amount of non-performing loans and determine provision required there against on a quarterly basis. While assessing this requirement various factors including the past dues, delinquency in the account, financial position of the borrower, value of collateral held and requirements of Prudential Regulations are considered.

The amount of general provision against consumer advances is determined in accordance with the relevant prudential regulations and SBP directives. During the year, the management has changed the method of computing provision against non-performing loans as allowed under Prudential Regulations and explained in note 10.4.1.

b) Fair value of derivatives

The fair values of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest and exchange rates over the term of the contract.

Notes to the Financial Statements

For the year ended December 31, 2008



c) Impairment of Available-for-sale investments

The bank considers that Available-for-sale equity investments and mutual funds are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance. As of the balance sheet date the management has determined an impairment loss on available-for-sale securities as explained in note 20.2.

d) Held-to-maturity investments

The bank follows the guidance provided in SBP circulars on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the bank evaluates its intention and ability to hold such investments to maturity.

e) Income taxes

In making the estimates for current and deferred income taxes, the management looks at the income tax law and the decisions of appellate authorities on certain issues in the past. There are certain matters where bank's view differs with the view taken by the income tax department and such amounts are shown as contingent liability.

f) Employee' benefit plans

The liabilities for employee' benefits plans are determined using actuarial valuations. The actuarial valuations involve assumptions about discount rates, expected rates of return on assets, future salary increases and future pension increases as disclosed in note 34. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

5.19 Accounting standards, interpretations and amendments to approved accounting standards not yet effective.

The following revised standards and interpretations with respect to approved Accounting Standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards or interpretations.

Standards and Interpretations		Effective date (accounting periods beginning on or after)
IAS - 1	Presentation of Financial Statements (Revised)	01 January 2009
IAS - 23	Borrowings Costs (Revised)	01 January 2009
IAS - 27	Consolidated and Separate Financial Statements (Revised)	01 January 2009
IFRS 3	Business Combinations (Revised)	01 July 2009
IFRS 4	Insurance Contracts	01 January 2009
IFRS 8	Operating Segments	01 January 2009
IFRIC - 13	Customer Loyalty Programs	01 July 2008
IFRIC - 15	Agreements for the Construction of Real Estate	01 January 2009
IFRIC - 16	Hedges of a Net Investment in Foreign Operation	01 October 2008
IFRIC - 17	Distributions of Non - Cash Assets to Owners	01 July 2009
IFRIC - 18	Interim Financial Reporting and Impairment	01 July 2009

The bank considers that the above standards and interpretations are either not relevant or will have no material impact on its financial statements in the period of initial application other than to the extent of certain changes or enhancements in the presentation and disclosures in the financial statements provided that such changes do not conflict with the format of financial statements prescribed by SBP for banks.

In addition to the above, amendments and improvements to various accounting standards have also been issued by IASB which are generally effective for accounting periods beginning on or after 1 January 2009. The management is in the process of evaluating the impact of such amendments and improvements on the bank's financial statements for the ensuing periods.

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		6,315,312	5,965,309
Foreign currency		1,944,155	1,713,518
		8,259,467	7,678,827
With State Bank of Pakistan in			
Local currency current account	6.1	42,592,894	56,864,729
Local currency deposit account		29	29
		42,592,923	56,864,758
Foreign currency current account			
Foreign currency deposit account	6.2	1,443,548	1,492,188
Foreign currency collection account	6.2	4,348,570	1,182,316
Foreign currency placement accounts	6.3	23,891	488,669
		23,741,430	24,571,600
		29,557,439	27,734,773
With other central banks in			
Foreign currency current accounts	6.4	15,678,967	1,416,986
Foreign currency deposit accounts	6.5	10,414,960	1,177,905
		26,093,927	2,594,891
	32	106,503,756	94,873,249

6.1 This includes statutory liquidity reserves maintained with the SBP under Section 22 of the Banking Companies Ordinance, 1962.

6.2 These represent mandatory reserves maintained in respect of foreign currency deposits under FE-25 scheme, as prescribed by the SBP.

6.3 This represents US Dollar placements and carry interest at the rate of 4.21% per annum (2007: 6.5% per annum) with maturities within two months.

6.4 These balances pertain to the foreign branches and are held with central banks of respective countries. These include balances to meet the statutory and central bank regulatory requirements of respective countries.

6.5 These balances pertain to the foreign branches and are held with central banks of respective countries. These include balances to meet the statutory and central bank regulatory requirements. These carry mark-up at the rate of 2.0% per annum (2007: 3.5% per annum).

7. BALANCES WITH OTHER BANKS

In Pakistan			
On current accounts		83,728	669,458
On deposit account		1,600	1,600
		85,328	671,058
Outside Pakistan			
On current accounts		3,239,201	6,447,178
On deposit accounts	7.1	35,020,079	30,354,596
		38,259,280	36,801,774
	32	38,344,608	37,472,832

7.1 These include various deposits with correspondent banks and carry mark-up rates ranging from 0.05% to 12% per annum (2007: 0.07% to 10% per annum).

Notes to the Financial Statements

For the year ended December 31, 2008



	Note	2008 Rupees in '000	2007
8. LENDINGS TO FINANCIAL INSTITUTIONS - net			
Call money lendings	8.2	3,529,000	2,306,676
Repurchase agreement lendings (Reverse Repo)	8.3	13,461,032	19,157,924
Letter of placements	8.4	186,000	-
Lendings to financial institutions - gross	8.1	17,176,032	21,464,600
Less: Provision held against lendings		(48,000)	-
Lendings to financial institutions - net		<u>17,128,032</u>	<u>21,464,600</u>
8.1 Particulars of lendings - gross			
In local currency		17,176,032	21,464,600
In foreign currencies		-	-
		<u>17,176,032</u>	<u>21,464,600</u>

8.2 These carry mark-up at rates ranging from 11.5% to 19.5% per annum (2007: 9.9% to 10.5% per annum).

8.3 These carry mark-up at rates ranging from 9% to 16% per annum (2007: 9.3% to 9.9% per annum).

8.3.1 Securities held as collateral against lendings to financial institutions

	2008			2007		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	----- Rupees in '000 -----			----- Rupees in '000 -----		
Market Treasury Bills	9,199,422	-	9,199,422	18,567,924	-	18,567,924
Pakistan Investment Bonds	4,261,610	-	4,261,610	590,000	-	590,000
	<u>13,461,032</u>	<u>-</u>	<u>13,461,032</u>	<u>19,157,924</u>	<u>-</u>	<u>19,157,924</u>

8.3.2 Market value of the securities under repurchase agreement lendings amount to Rs.12,848 million (2007: Rs.19,235 million).

8.4 These carry mark-up at rates ranging from 18% to 18.5% per annum (2007: Nil).

Notes to the Financial Statements

For the year ended December 31, 2008

9. INVESTMENTS - net

		2008			2007			
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total	
		----- Rupees in '000 -----			----- Rupees in '000 -----			
9.1	Investments by type:	9.13						
	Held-for-trading securities							
	Ordinary shares of listed companies		7,496	-	7,496	785,593	-	785,593
	Ijarah Sukuk Bonds		1,000,000	-	1,000,000	-	-	-
	Total Held-for-trading securities		1,007,496	-	1,007,496	785,593	-	785,593
	Available- for- sale securities							
	Ordinary shares of listed companies		3,669,441	-	3,669,441	1,947,051	-	1,947,051
	Ordinary shares of unlisted companies		716,610	-	716,610	304,119	-	304,119
	Investment outside Pakistan	9.7	4,386,051	-	4,386,051	2,251,170	-	2,251,170
	Market Treasury Bills		463,295	-	463,295	463,295	-	463,295
	Preference shares		64,523,811	23,990,054	88,513,865	117,851,357	416,578	118,267,935
	Pakistan Investment Bonds		275,000	-	275,000	275,000	-	275,000
	Federal Investment Bonds	9.5	4,105,665	66,987	4,172,652	3,734,905	-	3,734,905
	GoP Foreign Currency Bonds		940,000	-	940,000	940,000	-	940,000
	Foreign Government Securities		1,212,348	-	1,212,348	850,853	-	850,853
	Term Finance Certificates / Musharika, Foreign Currency Debt Securities and Sukuk Bonds		1,657,303	-	1,657,303	-	-	-
	Investments in mutual funds		17,695,681	-	17,695,681	6,454,359	-	6,454,359
	NIT Units	9.6.1	993,897	-	993,897	1,312,083	-	1,312,083
	NIT Market Opportunity Fund	9.6.2	7,643,084	-	7,643,084	5,764,258	-	5,764,258
	Total Available- for- sale securities		1,800,000	-	1,800,000	-	-	-
	Held-to-maturity securities		105,696,135	24,057,041	129,753,176	139,897,280	416,578	140,313,858
	Government Compensation Bonds		2,331,182	-	2,331,182	2,331,182	-	2,331,182
	Provincial Government Securities		-	-	-	36,513	-	36,513
	Pakistan Investment Bonds	9.4	9,515,583	-	9,515,583	11,679,736	-	11,679,736
	GoP Foreign Currency Bonds		15,517,577	-	15,517,577	10,933,794	-	10,933,794
	Foreign Government Securities		3,150,553	-	3,150,553	5,418,086	-	5,418,086
	Debentures, Bonds, Participation Term Certificates and Term Finance Certificates		2,808,298	-	2,808,298	4,508,548	-	4,508,548
	Certificates of investment		-	-	-	800,000	-	800,000
	Total Held-to-maturity securities	9.3	33,323,193	-	33,323,193	35,707,859	-	35,707,859
	Investments in associates	9.8	959,669	-	959,669	959,669	-	959,669
	Investments in joint ventures	9.9	1,312,335	-	1,312,335	1,312,335	-	1,312,335
	Investments in subsidiaries	9.10	1,352,458	-	1,352,458	1,352,458	-	1,352,458
	Investments at cost		143,651,286	24,057,041	167,708,327	180,015,194	416,578	180,431,772
	Less: Provision for diminution in value of Investments	9.11	(1,542,273)	-	(1,542,273)	(1,173,593)	-	(1,173,593)
	Investments (net of provisions)		142,109,013	24,057,041	166,166,054	178,841,601	416,578	179,258,179
	Unrealized gain / (loss) on revaluation of investments classified as							
	Held-for-trading	9.12	1,707	-	1,707	(31,964)	-	(31,964)
	Surplus on revaluation of Available-for-sale securities	20.1	4,689,265	(34,535)	4,654,730	31,921,226	(1,403)	31,919,823
	Total investments at carrying value		146,799,985	24,022,506	170,822,491	210,730,863	415,175	211,146,038

Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

	Note	2008 Rupees in '000	2007
9.2 Investments by segments	9.13		
Federal Government Securities			
Market Treasury Bills		88,513,865	118,267,935
Pakistan Investment Bonds	9.4	13,688,235	15,414,641
Federal Investment Bonds	9.5	940,000	940,000
Government Compensation Bonds		2,331,182	2,331,182
GoP Foreign Currency Bonds		16,729,925	11,784,647
Ijarah Sukuk Bonds		1,000,000	-
		<u>123,203,207</u>	<u>148,738,405</u>
Provincial Government Securities		-	36,513
Foreign Government Securities		4,807,856	5,418,086
Fully Paid up Ordinary Shares			
- Listed Companies		3,676,937	2,732,644
- Unlisted Companies		716,610	304,119
		<u>4,393,547</u>	<u>3,036,763</u>
Debentures, Bonds, Participation Term Certificates, Term Finance Certificates, Musharika, Foreign Currency Debt Securities and Sukuk Bonds			
- Listed		1,594,635	852,898
- Unlisted		18,909,344	10,110,009
		<u>20,503,979</u>	<u>10,962,907</u>
Other Investments			
- NIT Units	9.6.1	7,643,084	5,764,258
- NIT Market Opportunity Fund	9.6.2	1,800,000	-
- Investments in mutual funds		993,897	1,312,083
- Preference Shares		275,000	275,000
- Certificates of Investment		-	800,000
- Investment outside Pakistan	9.7	463,295	463,295
Investments in associates	9.8	959,669	959,669
Investments in joint ventures	9.9	1,312,335	1,312,335
Investments in subsidiaries	9.10	1,352,458	1,352,458
Total investments at cost		<u>167,708,327</u>	<u>180,431,772</u>
Less : Provision for diminution in value of investments	9.11	<u>(1,542,273)</u>	<u>(1,173,593)</u>
Investments (Net of provisions)		<u>166,166,054</u>	<u>179,258,179</u>
Surplus / (deficit) on revaluation of Held-for-trading securities	9.12	1,707	(31,964)
Surplus on revaluation of Available-for-sale securities	20.1	4,654,730	31,919,823
Total investments at carrying value		<u>170,822,491</u>	<u>211,146,038</u>

9.3 Market value of held-to-maturity investments is Rs.27,407 million (2007: Rs.34,283 million).

9.4 These include Pakistan Investment Bonds amounting to Rs.75 million (2007: Rs.75 million) held by SBP as pledge against demand loans and TT / DD discounting facilities.

9.5 These represent Federal Investment Bonds provided to pay off liabilities relating to former Mehran Bank Limited.

9.6 Investment in Mutual Funds managed by NIT

9.6.1 NIT Units

The bank's investment in NIT consists of 453,120,795 units (2007: 361,545,322 units), which includes 333,746,836 units (2007: 333,746,836 units) covered under Letter of Comfort (LoC) and 119,373,959 (2007: 27,798,486 units) as Non-LoC units.

The LoC holding represents those units in respect of which the GoP had issued a Letter of Comfort dated December 30, 2008 stating that on bank's willingness to continue holding the units upto June 30, 2009 from the date of LoC, NIT will be facilitated to redeem these units at Rs.13.70 per unit. As of the balance sheet date the net assets value of the fund's units held by the bank amounted to Rs. 10,030 million (2007: Rs. 21,566 million). Rating of NIT mutual fund is 5 star (2007: 4 star) by PACRA.

Notes to the Financial Statements

For the year ended December 31, 2008

9.6.2 NIT Market Opportunity Fund

During the year, the bank invested Rs. 1,800 million (2007: Nil) in NIT Market Opportunity Fund against the aggregate investment commitment of Rs. 2,000 million (2007: Nil). The fund has been established during the year as an open end mutual fund for the special purpose of equity market stabilization and is managed by NIT Limited. As of the balance sheet date, the net assets value of the fund's units held by the bank amounted to Rs. 1,004 million (2007: Nil).

9.7 Investment outside Pakistan - Bank Al-Jazira

The bank holds 17,500,000 (2007: 13,125,000) shares in Bank Al-Jazira (BAJ) incorporated in the Kingdom of Saudi Arabia, representing 5.83% (2007: 5.83%) holding in total equity of BAJ. During the year, 4,375,000 ordinary shares were issued as bonus shares. The investment has been marked to market using closing price as quoted on the Saudi Stock Exchange in accordance with SBP concurrence vide letter No. BSD/SU-13/331/685/2006 dated February 17, 2006. Rating of Bank Al-Jazira is A- by Fitch Rating.

	Number of shares	Percentage holding	Note	2008 Rupees in '000	2007
9.8 Investments in associates					
Un-quoted					
Pakistan Emerging Venture Limited	12,500,000	33.33		51,415	51,415
Information System Associates Limited	2,300,000	21.89		1,719	1,719
National Fructose Company Limited	1,300,000	39.50		6,500	6,500
Pakistan Insulation Limited	494,500	24.79		695	695
Venture Capital Fund Management	33,333	33.33		-	-
Kamal Enterprises Limited	11,000	20.37		-	-
Mehran Industries Limited	37,500	32.05		-	-
Qurell Cassettes Limited	46,250	30.83		-	-
Tharparkar Sugar Mills Limited	2,500,000	21.50		-	-
Youth Investment Promotion Society	644,508	25.00		-	-
Khushhali Bank Limited	40,000,000	23.45	9.8.4	400,000	400,000
Dadabhoy Energy Supply Company Limited	9,900,000	23.11		32,105	32,105
K-Agricole Limited	5,000	20.00		-	-
New Pak Limited	200,000	20.00		-	-
Prudential Fund Management	150,000	20.00		-	-
				492,434	492,434
Quoted					
First Credit and Investment Bank Limited	20,000,000	30.77		157,429	157,429
National Fibres Limited	17,119,476	20.19		-	-
Taha Spinning Mills Limited	833,300	20.59		2,501	2,501
Land Mark Spinning Mills Limited	3,970,960	32.75		39,710	39,710
S.G. Fibres Limited	3,754,900	25.03		218,535	218,535
Nina Industries Limited	4,906,000	20.27		49,060	49,060
			9.8.1	467,235	467,235
				959,669	959,669
Less: Provision for diminution in value of investments				(402,240)	(402,240)
				557,429	557,429

9.8.1 Aggregate value of investments in associates (quoted) on the basis of latest available quoted prices amounts to Rs.331.989 million (2007: Rs.245.702 million). Due to low trade volumes of securities, management considers that there is no active market for these quoted investments, except for First Credit and Investment Bank Limited, and therefore provision for impairment has been made against the same.

9.8.2 Associates with zero carrying amount, represent the investments acquired from former NDFC which have negative equity or whose operations were closed at the time of amalgamation.

Notes to the Financial Statements

For the year ended December 31, 2008



9.8.3 The details of break-up value based on latest available financial statements of un-quoted investments in associates are as follows:

	Year / Period ended	Break-up value of bank's share Rupees in '000
Pakistan Emerging Venture Limited	June 30, 2008	1,906
Information System Associates Limited	June 30, 2008	24,219
Pakistan Insulation Limited	June 30, 2001	2,630
Mehran Industries Limited	June 30, 2001	5,681
Tharparkar Sugar Mills Limited	September 30, 2001	(83,140)
Khushhali Bank Limited	September 30, 2008	437,612
Prudential Fund Management	June 30, 2007	(2,482)
Dadabhoj Energy Supply Company Limited	June 30, 2007	103,952

9.8.4 During 2007, the Government of Pakistan, Finance Division (Investment Wing) vide their letter no. 4(3) Inv-I/2006 dated June 5, 2007 has advised the Bank to divest its shareholding in Khushali Bank through public announcement. Accordingly, the bank had initiated the process for such sale and has appointed a consultant to identify the prospective buyer and negotiate the strategic sale.

9.9 Investments in joint ventures	Note	2008	2007
		Rupees in '000	
United National Bank Limited	9.9.1	1,244,835	1,244,835
National Fullerton Asset Management Limited (NAFA)	9.9.2	67,500	67,500
		<u>1,312,335</u>	<u>1,312,335</u>

9.9.1 Under a joint venture agreement, the bank holds 13.5 million ordinary shares (45%) and United Bank Limited (UBL) holds 16.5 million ordinary shares (55%) in the venture. In addition to ordinary shares, four preference shares categories as "A", "B", "C" and "D" have been issued and allotted. The "B" and "D" category shares are held by the bank and category "A" and "C" are held by UBL. Dividends payable on "A" and "B" shares are related to the ability of the venture to utilize tax losses that have been surrendered to it on transfer of business from the bank or UBL as appropriate. Dividends payable on "C" and "D" shares are related to loans transferred to the venture by the bank or UBL that have been written-off or provided for at the point of transfer and the ability of the venture to realize in excess of such loan value.

9.9.2 NAFA has been set up for the purpose of providing asset management services with a paid-up capital of Rs.250 million (2007: Rs.250 million) as a joint venture between the bank, NIB Bank Limited and Alexandra Fund Management PTE Limited. The bank has 27% (2007: 27%) holding as at December 31, 2008.

During the year, process was initiated for merger of NAFA with PICIC Asset Management Company Limited. However, the current exceptional market conditions have prevented the formation of a meaningful view and hence a decision on whether or not this merger will take place has been deferred for the time being.

Notes to the Financial Statements

For the year ended December 31, 2008

	Percentage holding	2008 Rupees in '000	2007
9.10 Investments in subsidiaries			
NBP Leasing Limited (formerly NBP Capital Limited)	100.00	500,000	500,000
JSC Subsidiary Bank of NBP in Kazakhstan	100.00	419,488	419,488
NBP Exchange Company Limited	100.00	300,000	300,000
NBP Modaraba Management Company Limited	100.00	105,000	105,000
Taurus Securities Limited	58.32	24,725	24,725
National Agriculture Limited	100.00	2,000	2,000
Cast-N-Link Products Limited	76.51	1,245	1,245
		<u>1,352,458</u>	<u>1,352,458</u>
Less: Provision for diminution in value of investments		(3,245)	(3,245)
		<u>1,349,213</u>	<u>1,349,213</u>
9.11 Particulars of provision for diminution in the value of investments			
Opening balance		1,173,593	1,253,429
Charge for the year	20.2	394,409	-
Reversals		(21,160)	(40,248)
		<u>373,249</u>	<u>(40,248)</u>
Amount written off		(4,569)	(39,588)
Closing balance	9.11.1	<u>1,542,273</u>	<u>1,173,593</u>
9.11.1 Particulars of provision in respect of type and segments			
Available-for-sale securities			
Ordinary shares of listed companies and mutual funds		394,409	-
Ordinary shares of unlisted companies		115,514	115,514
Held-to-maturity securities			
Debentures, Bonds, Participation Term Certificates, and Term Finance Certificates		626,865	652,594
Associates		402,240	402,240
Subsidiaries		3,245	3,245
		<u>1,542,273</u>	<u>1,173,593</u>
9.12 Unrealized gain / (loss) on revaluation of investments classified as held-for-trading			
Ordinary shares of listed companies		(4,085)	(31,964)
Ijarah Sukuk Bonds		5,792	-
		<u>1,707</u>	<u>(31,964)</u>
9.13			
Detailed information relating to investments in shares of listed and unlisted companies, Preference Shares, Mutual Funds, Government Securities, Bonds, Debentures, Term Finance Certificates, Sukuks etc. including quality of available-for-sale securities is given in Annexure-I to the financial statements.			

Notes to the Financial Statements

For the year ended December 31, 2008



	Note	2008 Rupees in '000	2007 Rupees in '000
10. ADVANCES - net			
Loans, cash credits, running finances, etc.			
In Pakistan		389,997,489	324,868,072
Outside Pakistan		45,145,226	29,737,559
		435,142,715	354,605,631
Bills discounted and purchased (excluding Government treasury bills)			
Payable in Pakistan		2,973,812	2,673,256
Payable outside Pakistan		19,518,940	16,144,430
		22,492,752	18,817,686
Margin Financing / Continuous Funding System Financing	10.8	192,562	1,308,715
Advances - gross	10.1	457,828,029	374,732,032
Less: Provision against non-performing advances	10.3	(44,841,164)	(34,413,102)
Advances - net of provision		412,986,865	340,318,930
10.1 Particulars of advances - gross			
10.1.1 In local currency			
In local currency		384,740,056	328,850,043
In foreign currencies		73,087,973	45,881,989
		457,828,029	374,732,032
10.1.2 Short-term (for upto one year)			
Short-term (for upto one year)		334,558,974	248,623,476
Long-term (for over one year)		123,269,055	126,108,556
		457,828,029	374,732,032
10.2 Advances include Rs.56,462 million (2007: Rs.38,318 million) which have been placed under non-performing status as detailed below:			

	2008								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- Rupees in '000 -----								
Category of Classification									
Other Assets Especially									
Mentioned	667,170	-	667,170	-	-	-	-	-	-
Substandard	6,149,457	59,853	6,209,310	1,545,067	14,963	1,560,030	1,545,067	14,963	1,560,030
Doubtful	9,760,535	28,682	9,789,217	4,811,887	14,341	4,826,228	4,811,887	14,341	4,826,228
Loss	39,062,987	733,097	39,796,084	36,221,199	122,490	36,343,689	36,221,199	122,490	36,343,689
	55,640,149	821,632	56,461,781	42,578,153	151,794	42,729,947	42,578,153	151,794	42,729,947

	2007								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- Rupees in '000 -----								
Category of Classification									
Other Assets Especially									
Mentioned	565,889	-	565,889	-	-	-	-	-	-
Substandard	4,483,776	37,641	4,521,417	1,097,813	9,410	1,107,223	1,097,813	9,410	1,107,223
Doubtful	2,916,347	1,656	2,918,003	1,453,829	828	1,454,657	1,453,829	828	1,454,657
Loss	29,745,438	566,805	30,312,243	29,718,461	71,474	29,789,935	29,718,461	71,474	29,789,935
	37,711,450	606,102	38,317,552	32,270,103	81,712	32,351,815	32,270,103	81,712	32,351,815

Notes to the Financial Statements

For the year ended December 31, 2008

10.3 Particulars of provision against non-performing advances

	2008			2007		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
Opening balance	32,351,815	2,061,287	34,413,102	29,528,672	2,731,380	32,260,052
Exchange adjustments	20,507	65,613	86,120	809	13,387	14,196
Charge for the year	12,958,783	85,425	13,044,208	9,437,007	286,210	9,723,217
Reversal during the year	(2,373,121)	(77,522)	(2,450,643)	(4,030,443)	(969,690)	(5,000,133)
	10,585,662	7,903	10,593,565	5,406,564	(683,480)	4,723,084
Amounts written off	(590,858)	(23,586)	(614,444)	(1,525,294)	-	(1,525,294)
Other adjustments	362,821	-	362,821	(1,058,936)	-	(1,058,936)
Closing balance	42,729,947	2,111,217	44,841,164	32,351,815	2,061,287	34,413,102

10.4 Particulars of provisions against non-performing advances

	2008			2007		
	Specific	General	Total	Specific	General	Total
	----- Rupees in '000 -----					
In local currency	42,578,153	1,717,748	44,295,901	32,270,103	1,818,856	34,088,959
In foreign currencies	151,794	393,469	545,263	81,712	242,431	324,143
	42,729,947	2,111,217	44,841,164	32,351,815	2,061,287	34,413,102

10.4.1 During the year, the SBP vide its BSD Circular No. 2 dated January 27, 2009 has amended Prudential Regulations in respect of provisioning against non-performing advances. The revised regulations that are effective from December 31, 2008 allows reduction to the extent of 30% of forced sale value of pledged stock and mortgaged commercial and residential properties, held by the bank in determining the amount of provision against non-performing advances. Further, the regulations also allows consideration of 50% of the value of properties held against housing finance scheme. Accordingly, the aforesaid changes in the provisioning computation for the current year has resulted in reduction of provision of Rs. 485 million and a consequent increase in profit after tax of Rs. 315 million.

However, in accordance with the SBP directive, the increase in profit after tax of Rs. 135 million resulting from the reduction in provisioning (other than against housing finance scheme) shall not be available for payment of cash or stock dividend.

10.5 Particulars of write offs

	Note	2008 Rupees in '000	2007 Rupees in '000
10.5.1 Against provisions	10.3	614,444	1,525,294
Directly charged to Profit and Loss account		-	39,899
		614,444	1,565,193
10.5.2 Write offs of Rs.500,000 and above	10.6	584,160	1,544,971
Write offs of below Rs.500,000		30,284	20,222
		614,444	1,565,193

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

In terms of sub-section 3 of section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of Rs.500,000 or above allowed to a person(s) during the year ended December 31, 2008 is given in Annexure-II.

Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

	Note	2008 Rupees in '000	2007
10.7 Particulars of loans and advances to directors, associated companies, etc.			
Debts due by directors, executives, officers & staff of the bank or any of them either severally or jointly with any other person			
Balance at beginning of year		14,326,577	13,316,110
Loans granted during the year		6,322,024	4,284,598
Repayments		(3,500,353)	(3,274,131)
Balance at end of year		<u>17,148,248</u>	<u>14,326,577</u>
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of year		199,391	222,759
Loans granted during the year		-	-
Repayments / other adjustments		(199,391)	(23,368)
Balance at end of year		<u>-</u>	<u>199,391</u>
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of year		2,301,502	2,319,290
Loans granted during the year		-	100,496
Repayments		(349,274)	(118,284)
Balance at end of year		<u>1,952,228</u>	<u>2,301,502</u>
10.8 These are secured against shares of listed companies, market value of which amounted to Rs.80.735 million (2007: Rs.1,309 million) at the balance sheet date. These carry mark-up ranging from 0.47% to 17% per annum (2007: 10.7% to 18% per annum).			
II. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	1,016,513	459,487
Property and equipment	11.2	23,195,217	25,454,914
Intangible assets	11.3	5,925	8,578
		<u>24,217,655</u>	<u>25,922,979</u>
11.1 Capital work-in-progress			
Civil works		481,881	374,511
Equipment		2,249	10,870
Advances to suppliers and contractors		108,267	74,106
License Fee for core banking software		424,116	-
		<u>1,016,513</u>	<u>459,487</u>

Notes to the Financial Statements

For the year ended December 31, 2008

11.2 Property and equipment

	Cost/revalued amount			Accumulated depreciation				Book Value at December 31, 2008	Rate of depreciation	
	At January 1, 2008	Revaluation adjustments	Additions / (deletions)	At December 31, 2008	At January 1, 2008	Charge for the year / (deletions)	Revaluation adjustments			At December 31, 2008
----- Rupees in '000 -----										
Owned										
Land										
- freehold	11,055,039	(1,539,343)	350	9,516,046	-	-	-	-	9,516,046	Nil
- leasehold	9,501,737	(2,316,548)	15,688	7,200,877	-	-	-	-	7,200,877	Nil
Buildings on land:										
- freehold	1,830,776	695,070 (101,496)	27,381 (4,820)	2,446,911	-	101,657 (161)	(101,496)	-	2,446,911	5% on book value
- leasehold	1,345,116	499,402 (76,961)	162,290 (718)	1,929,129	-	77,215 (254)	(76,961)	-	1,929,129	5% on book value
Furniture and fixtures	1,297,922	-	165,123 (3,993)	1,459,052	855,417	63,453 (2,143)	-	916,727	542,325	10% to 30% on book value, 20% on straight-line on new furnishing limit to executives and refurbishment of branches
Computer & peripheral equipment	1,440,877	-	159,191 (134)	1,599,934	1,093,169	159,500 (69)	-	1,252,600	347,334	33% on cost
Electrical & office equipment	1,634,242	-	336,983 (264)	1,970,961	1,102,061	149,483 (147)	-	1,251,397	719,564	20% on book value
Vehicles	572,147	-	211,693 (43,105)	740,735	309,131	150,763 (35,517)	-	424,377	316,358	20% on cost
	28,677,856	(2,661,419) (178,457)	1,078,699 (53,034)	26,863,645	3,359,778	702,071 (38,291)	(178,457)	3,845,101	23,018,544	
Assets held under finance lease										
Vehicles	58,440	-	7,798	66,238	15,755	9,208	-	24,963	41,275	20% on cost
Assets given under Ijarah										
	95,358	-	78,658	174,016	1,207	37,411	-	38,618	135,398	33% on cost
2008	28,831,654	(2,661,419) (178,457)	1,165,155 (53,034)	27,103,899	3,376,740	748,690 (38,291)	(178,457)	3,908,682	23,195,217	

Notes to the Financial Statements

For the year ended December 31, 2008



Property and equipment

	Cost/revalued amount				Accumulated depreciation				Book Value at December 31, 2007	Rate of depreciation	
	At January 1, 2007	Revaluation adjustments	Additions / (deletions)	Adjustment	At December 31, 2007	At January 1, 2007	Charge for the year / (deletions)	Revaluation adjustments			At December 31, 2007
----- Rupees in '000 -----											
Owned											
Land											
- freehold	2,781,313	7,798,804	4,258	470,664	11,055,039	-	-	-	-	11,055,039	Nil
- leasehold	2,798,186	6,372,800	-	330,751	9,501,737	-	-	-	-	9,501,737	Nil
Buildings on and:											
- freehold	1,773,312	1,217,359 (551,335)	148,020	(35,000) (721,580)	1,830,776	482,973	75,362	(7,000) (551,335)	-	1,830,776	5% on book value
- leasehold	1,312,416	386,338 (409,136)	135,333	(79,835)	1,345,116	357,434	51,702	(409,136)	-	1,345,116	5% on book value
Furniture and fixtures	1,217,551	-	84,225 (3,854)	-	1,297,922	804,635	53,254 (2,472)	-	855,417	442,505	10% to 30% on book value, 20% on straight-line on new furnishing limit to executives and refurbishment of branches
Computer & peripheral equipment	1,267,416	-	174,081 (620)	-	1,440,877	938,599	155,190 (620)	-	1,093,169	347,708	33% on cost
Electrical & office equipment	1,442,105	-	195,707 (3,570)	-	1,634,242	968,661	136,199 (2,799)	-	1,102,061	532,181	20% on book value
Vehicles	488,836	-	101,520 (18,209)	-	572,147	253,658	69,790 (14,317)	-	309,131	263,016	20% on cost
	13,081,135	15,775,301 (960,471)	843,144 (26,253)	(35,000)	28,677,856	3,805,960	541,497 (20,208)	(967,471)	3,359,778	25,318,078	
Assets held under finance lease											
Vehicles	24,370	-	34,070	-	58,440	5,345	10,410	-	15,755	42,685	20% on cost
Assets given under Ijarah											
	-	-	95,358	-	95,358	-	1,207	-	1,207	94,151	33% on cost
2007	13,105,505	15,775,301 (960,471)	972,572 (26,253)	(35,000)	28,831,654	3,811,305	553,114 (20,208)	(967,471)	3,376,740	25,454,914	

Excellence in Value

Notes to the Financial Statements

For the year ended December 31, 2008

11.3 Intangible assets

	Cost		Accumulated amortization			Book value at December 31, 2008	Rate of amortization
	At January 1, 2008	Additions	At December 31, 2008	At January 1, 2008	Charge for the year		
	Rupees in '000						
Computer software	15,851	232	16,083	7,273	2,885	10,158	33.33%
2008	15,851	232	16,083	7,273	2,885	10,158	on cost
Computer software - 2007	13,021	2,830	15,851	3,864	3,409	7,273	8,578

11.4 Revaluation of domestic properties

During the year a desktop revaluation of major properties was carried out to ascertain that assets are carried at no more than their recoverable amount. The desktop revaluations were carried out by M/s Younus Mirza & Co. and M/s Arch-e-Decon (Pvt.) Limited. This has resulted in deficit of Rs.2,661 million. Had there been no revaluation, the carrying amount of revalued assets at December 31, 2008 would have been as follows:

	Rupees in '000
Freehold land	284,529
Leasehold land	385,674
Buildings on freehold land	120,786
Buildings on leasehold land	250,947

11.5 The Islamic Banking Branches of the bank have entered into Ijarah transactions with customers during the year. The significant Ijarah transactions have been entered in respect of heavy duty earth moving machinery. The rate of profit is 3 months KIBOR + 3% and 6 months KIBOR + 1.5% (2007:6 months KIBOR + 1.5% per annum).

The Ijarah payments receivable from customers for each of the following periods under the terms of the respective agreements are given below:

	Rupees in '000
Not later than one year	61,369
Later than one year but not later than five years	96,030

Notes to the Financial Statements

For the year ended December 31, 2008



11.6 Details of disposals of property and equipment

Details of property and equipment whose original cost or the book value exceeds rupees one million or two hundred fifty thousand rupees, whichever is lower are given below:

Particulars of property and equipment	Original cost	Book value	Sale proceeds	Profit / (loss)	Mode of Disposal	Particulars of Purchaser
	----- Rupees in '000 -----					
Building on freehold land	3,420	3,306	3,501	195	Auction	Mr. Irshad Khan
Building on freehold land	1,400	1,353	913	(440)	Auction	Mr. Faizan Khan
Building on leasehold land	718	464	3,005	2,541	Auction	Mr. S. Muhammad Ali
Motor Vehicle	849	527	527	-	As per service rules on retirement	Mr. Mukhtar Hussain Jaskani - SVP
Motor Vehicle	879	521	835	314	Insurance Claim	National Insurance Company Limited
Motor Vehicle	939	331	331	-	As per service rules	Mr. Tahir Yaqoob - EVP
Motor Vehicle	924	322	322	-	As per service rules on retirement	Mr. Abdul Rauf - SVP
Motor Vehicle	895	287	287	-	As per service rules on retirement	Mr. Hamid Masood - SVP
Motor Vehicle	939	563	563	-	As per service rules on retirement	Mrs. Khurshed Maqsood Ali - EVP
Motor Vehicle	1,449	99	444	345	As per service rules on retirement	Mr. Amjad Rafi - SVP
Motor Vehicle	1,698	255	255	-	As per service rules on retirement	Mr. Ijaz Hussaini - SVP
Furniture and Fixtures	1,643	895	704	(191)	Auction	Mughal Furniture
Other assets (having book value of less than Rs.250,000 or cost of less than Rs.1,000,000)	37,281	5,820	10,345	4,525		
	<u>53,034</u>	<u>14,743</u>	<u>22,032</u>	<u>7,289</u>		

	Note	2008 Rupees in '000	2007 Rupees in '000
12. DEFERRED TAX ASSETS - net			
Deferred tax assets arising in respect of			
Provision for diminution in the value of investments		357,446	228,408
Provision against advances		4,093,904	636,600
Other provision		376,111	103,806
Charge against defined benefits plans		666,181	289,333
Provision against off-balance sheet obligation		116,622	115,222
		<u>5,610,264</u>	<u>1,373,369</u>
Less: Deferred tax (liabilities) arising in respect of			
Excess of accounting book value of leased assets over lease liabilities		(5,600)	(3,196)
Difference between accounting book value of fixed assets and tax base		(169,754)	(85,259)
Revaluation of securities	20.1	(895,673)	(5,395,899)
Revaluation of fixed assets	20.3	(1,334,665)	(986,846)
		<u>(2,405,692)</u>	<u>(6,471,200)</u>
Net deferred tax assets / (liabilities)		<u>3,204,572</u>	<u>(5,097,831)</u>

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
13. OTHER ASSETS			
Income / mark-up accrued in local currency		12,045,837	7,132,135
Income / mark-up accrued in foreign currencies		1,638,916	1,740,892
Advances, deposits, advance rent and other prepayments	13.1	2,721,269	2,496,095
Advance taxation (payments less provisions)		13,705,894	9,805,072
Receivable from GoP	13.2	283,871	283,871
Assets acquired from Corporate and Industrial Restructuring Corporation (CIRC)		622,857	786,453
Branch adjustment account - net		3,194,657	-
Derivatives:			
Un-realized gain on forward foreign exchange contracts		2,114,857	431,763
Un-realized gain on cross currency swaps		-	71,813
Commission receivable		1,821,645	1,822,685
Stationery and stamps on hand		369,709	319,020
Barter trade balances		195,399	195,399
Receivable on account of Government transactions	13.3	323,172	323,172
Receivable from Government under VHS scheme	13.4	417,875	416,355
Less: amount charged / provision		(417,875)	(416,355)
Receivable from pension fund	34.1.2	4,496,943	3,676,345
Prize bonds in hand		311,109	281,595
Receivable from brokers		-	33,686
Others		3,318,802	3,490,809
		<u>47,164,937</u>	<u>32,890,805</u>
Less: Provision held against other assets			
Income / mark-up accrued in local currency / foreign currencies		327,081	296,592
Advances, deposits, advance rent and other prepayments		400,000	-
Stationery and stamps on hand		51,200	51,200
Barter trade balances		195,399	195,399
Receivable on account of Government transactions		323,172	323,172
Others		1,317,738	1,029,477
	13.5	<u>2,614,590</u>	<u>1,895,840</u>
		<u>44,550,347</u>	<u>30,994,965</u>

13.1 This includes Rs.800 million advance against Pre-IPO placement of Term Finance Certificates.

13.2 Upon dissolution of CIRC and take over by the bank with effect from September 22, 2006, the said amount represents receivable from GoP.

13.3 This represents amount receivable from Government of Pakistan on account of encashment of various instruments handled by the bank for Government of Pakistan as an agent of SBP.

13.4 This represents payments made under the Voluntary Handshake Scheme (VHS), recoverable from Government of Pakistan. Due to uncertainty about its recoverability, full amount has been provided for.

13.5 Provisions against other assets

Opening balance		1,895,840	1,771,607
Charge for the year	13.5.1	722,905	130,374
Reversals		(4,155)	(6,141)
Closing balance		<u>2,614,590</u>	<u>1,895,840</u>

13.5.1 This includes Rs.400 million (2007:Nil) as provision against Pre-IPO placement of Term Finance Certificates.

Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

	Note	2008 Rupees in '000	2007
14. BILLS PAYABLE			
In Pakistan		10,147,427	6,922,717
Outside Pakistan		71,634	139,185
		<u>10,219,061</u>	<u>7,061,902</u>
15. BORROWINGS			
In Pakistan		38,724,616	8,217,114
Outside Pakistan		1,734,310	2,598,062
	15.1 & 15.2	<u>40,458,926</u>	<u>10,815,176</u>
15.1 Particulars of borrowings with respect to currencies			
In local currency		38,724,616	8,217,114
In foreign currencies		1,734,310	2,598,062
	15.2	<u>40,458,926</u>	<u>10,815,176</u>
15.2 Details of borrowings			
Secured			
Borrowings from State Bank of Pakistan:			
Under Export Refinance Scheme		4,921,924	3,213,430
Under Long-Term Financing under Export Oriented Project (LTF-EOP)		2,971,599	4,072,708
Under Locally Manufactured Machinery (LMM)		-	290
Finance to payoff liabilities relating to former MBL	15.2.1	188,000	376,000
		8,081,523	7,662,428
Repurchase agreement borrowings		23,875,317	383,886
		<u>31,956,840</u>	<u>8,046,314</u>
Unsecured			
Call borrowings		8,259,310	1,808,970
Overdrawn nostro accounts	32	171,976	889,092
Others		70,800	70,800
		8,502,086	2,768,862
		<u>40,458,926</u>	<u>10,815,176</u>

15.2.1 This comprises of balance of loan of Rs.940 million obtained in 1999. The loan is interest free and is repayable in five equal annual installments after an initial grace period of five years.

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

- The bank has entered into agreements with the SBP for extending export finance to customers. As per the terms of the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of finances by directly debiting the current account maintained by the bank with SBP. Export refinance loans from SBP are at the rate of 7.5% per annum (2007: 7.5% per annum).
- Call borrowings carry interest ranging from 12% to 16.5% per annum (2007: 8.0% to 10.25% per annum).
- Repurchase agreement borrowings carry mark-up at the rate of 8.75% to 15% per annum (2007: 8.10% per annum).
- Unsecured borrowings "Others" carry interest at the rate of 10% per annum (2007: 10% per annum).

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
16. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		141,949,041	128,403,278
Savings deposits		179,807,400	188,687,111
Current accounts - remunerative		50,893,400	76,708,879
Current accounts - non-remunerative		143,216,221	139,868,016
		515,866,062	533,667,284
Financial Institutions			
Remunerative deposits		38,438,503	31,180,729
Non-remunerative deposits		70,634,451	27,059,422
		109,072,954	58,240,151
	16.1	624,939,016	591,907,435
16.1 Particulars of deposits			
In local currency		470,716,922	486,881,474
In foreign currencies [including deposits of foreign branches of Rs.124,533 million (2007: Rs.81,489 million)]		154,222,094	105,025,961
		624,939,016	591,907,435

17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	----- Rupees in '000 -----			----- Rupees in '000 -----		
Not later than one year	17,796	2,567	15,229	18,869	3,451	15,418
Later than one year and not later than five years	11,335	1,290	10,045	20,225	2,089	18,136
	29,131	3,857	25,274	39,094	5,540	33,554

The bank has entered into lease agreements with various leasing companies for lease of vehicles. Lease rentals are payable in quarterly installments. Financial charges included in lease rentals are determined on the basis of discount factors applied at the rates ranging from 11.59% to 19.65% per annum and KIBOR + 2.25% to KIBOR + 4.00% per annum (2007: 11.59% to 12.94% per annum and KIBOR + 2.25% per annum). At the end of lease term, the bank has the option to acquire the assets subject to adjustment of security deposits.

Notes to the Financial Statements

For the year ended December 31, 2008



	Note	2008 Rupees in '000	2007
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		8,810,335	4,248,516
Mark-up / return / interest payable in foreign currencies		1,019,751	1,108,424
Unearned commission and income on bills discounted		132,522	99,741
Accrued expenses		1,927,588	1,580,010
Advance payments		11,664	41,338
Unclaimed dividends		23,494	12,649
Derivatives:			
Un-realized loss on forward foreign exchange contracts		2,657,506	508,468
Un-realized loss on cross currency swaps		2,065,687	-
Un-realized loss on interest rate swaps		-	77,954
Provision against off balance sheet obligations	18.1	429,824	425,824
Branch adjustment account - net		-	3,433,226
Employee benefits:			
Post retirement medical benefits	34.1.3	2,946,554	2,582,476
Compensated absences	34.2.1	2,246,752	1,662,930
Benevolent fund	34.1.4	765,748	759,957
Gratuity scheme	34.1.5	106,270	66,708
Staff welfare fund		424,880	659,336
Liabilities relating to:			
Bangladesh (former East Pakistan)		227,089	227,089
Barter trade agreements		11,001,952	8,775,910
Special separation package		78,422	78,422
Payable to GoP for acquisition of assets from CIRC		638,772	638,772
Payable to brokers		-	17,491
Others [(including provision of Rs.358 million (2007: Rs.178 million) for contingencies)]		4,142,021	3,934,800
		<u>39,656,831</u>	<u>30,940,041</u>
18.1 Provision against off balance sheet obligations			
Opening balance		425,824	425,824
Charge for the year		4,000	-
Closing balance	18.1.1	<u>429,824</u>	<u>425,824</u>

18.1.1 This represents provision against non-funded exposure of borrowers where the bank considers that the borrower will not be able to meet its contractual obligations at the time of amount becoming due.

19. SHARE CAPITAL

19.1 Authorized Capital

2007	2008		2008	2007
Number of shares			Rupees in '000	
<u>1,000,000,000</u>	<u>1,000,000,000</u>	Ordinary shares of Rs.10 each	<u>10,000,000</u>	<u>10,000,000</u>

19.2 Issued, subscribed and paid-up

140,388,000	140,388,000	Ordinary shares of Rs.10 each	1,403,880	1,403,880
675,043,989	756,587,100	Fully paid in cash	7,565,871	6,750,439
		Issued as fully paid bonus shares		
<u>815,431,989</u>	<u>896,975,100</u>		<u>8,969,751</u>	<u>8,154,319</u>

The Federal Government and the SBP held about 75.60% shares of the bank as at the year ended December 31, 2008 (2007: 75.60%).

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
20. SURPLUS ON REVALUATION OF ASSETS - net			
Available-for-sale securities	20.1	3,759,057	26,523,924
Fixed assets	20.3	17,333,159	20,543,099
		<u>21,092,216</u>	<u>47,067,023</u>
20.1 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax			
Federal Government securities		(820,863)	(37,626)
Term Finance Certificates		(87,983)	34,262
Quoted shares and mutual funds		(438,078)	2,574,809
GoP Foreign Currency Bonds		(679,108)	(73,531)
National Investment Trust Units		2,386,570	15,801,458
NIT Market Opportunity Fund		(796,196)	-
Investment outside Pakistan		5,090,388	13,620,451
		4,654,730	31,919,823
Deferred tax liability recognized	12	(895,673)	(5,395,899)
		<u>3,759,057</u>	<u>26,523,924</u>

20.2 During the year, the stock exchanges introduced 'floor mechanism' in respect of prices of equity securities based on the closing price as prevailing on August 27, 2008. Under the "floor mechanism", the individual security price of equity securities could vary within normal circuit breaker limit, but not below the floor price level. The mechanism was effective from August 28, 2008 and remained in place until December 15, 2008. During this period trading of securities effectively remained suspended on the stock exchanges. The trading resumed on December 15, 2008, however, the trading volumes upto December 31, 2008 were significantly low as compared to the volumes before the institution of floor mechanism. However, pursuant to the BSD Circular Letter No. 2 dated January 27, 2009 issued by the SBP, the listed equity securities and the mutual fund units held by the Bank under 'Available-for-sale' category have been valued at the prices quoted on the stock exchanges / net asset values as of December 31, 2008.

Furthermore, the SBP vide its BSD Circular No. 4 dated February 13, 2009, has allowed banks that the impairment loss, if any, resulting from the valuation of listed equity securities / mutual funds held under 'Available-for-sale' category of investments as of December 31, 2008 may be held under 'surplus on revaluation of assets' account as shown on the balance sheet. The impairment loss is required to be taken to the profit and loss account in the year 2009 on quarterly basis after adjustment for the effects of price movements in that year. However, for the purposes of distribution of dividend, the impairment loss as referred above shall be treated as a charge to the profit and loss for the year.

As of the balance sheet date, the impairment loss on listed equity securities and mutual fund investments held under 'Available-for-sale' category amounts to Rs. 2,373 million. In view of the SBP directive as aforesaid and management estimates regarding price recovery in equity market, the impairment loss to the extent of Rs. 394 million has been recognised in the profit and loss account for the current year (representing 25% of impairment loss excluding impairment loss on NIT Market Opportunity Fund) and balance of Rs. 1,979 million (net of tax of Rs. 1,782 million) is held under 'Surplus on revaluation of assets' account which shall be taken to the profit and loss account in the year 2009 as per the requirement of SBP directive explained in the preceding paragraph.

The recognition of full impairment loss in the profit and loss account of the current year would have had the following effect on these financial statements.

	2008 Rupees '000
Increase in provision for diminution in the value of investments	1,979,422
Decrease in profit before tax	1,979,422
Decrease in profit after tax	1,781,480
Increase in surplus on revaluation of assets – net of tax	1,781,480
Decrease in unappropriated profit	1,781,480
Increase in deferred tax charge	197,942
Decrease in earnings per share	Rs.1.99

Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

	Note	2008 Rupees in '000	2007
20.3 Surplus / (deficit) on revaluation of fixed assets - net of tax			
Surplus on revaluation on January 1,		21,529,945	5,814,655
Net (deficit) / surplus on revaluation of bank's properties during the year		(2,661,419)	15,775,301
Transferred to unappropriated profit in respect of incremental depreciation charged during the year -net of deferred tax		(130,456)	(39,007)
Related deferred tax liability		(70,246)	(21,004)
		(200,702)	(60,011)
		18,667,824	21,529,945
Less: Related deferred tax liability on:			
Revaluation as at January 1,		986,846	446,556
Revaluation of bank's properties during the year		418,065	561,294
Incremental depreciation charged during the year transferred to profit and loss account		(70,246)	(21,004)
	12	1,334,665	986,846
Surplus on revaluation on December 31,		17,333,159	20,543,099
21. CONTINGENCIES AND COMMITMENTS			
21.1 Direct credit substitutes			
Includes general guarantee of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities issued in favour of:			
- Government		15,444,979	15,096,694
- Financial institutions		5,873,517	6,898,062
- Others		11,762,514	17,271,257
		33,081,010	39,266,013
21.2 Transaction-related contingent liabilities			
Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credits related to particular transactions issued in favour of:			
- Government		18,660,550	17,235,612
- Financial institutions		5,060	6,034,302
- Others		7,904,339	7,502,582
		26,569,949	30,772,496
21.3 Trade-related contingent liabilities			
Letters of credit Issued in favour of			
- Government		133,467,937	139,367,158
- Financial institutions		1,007,327	187,561
- Others		36,292,676	59,601,103
		170,767,940	199,155,822
21.4 Other contingencies			
21.4.1 Claims against the bank not acknowledged as debts [including SBP liabilities on Bangladesh borrowing and interest thereon amounting to Rs.172 million (2007: Rs.170 million) and claims relating to former MBL amounting to Rs.965 million (2007: Rs.965 million)].		11,442,569	9,263,526



Notes to the Financial Statements

For the year ended December 31, 2008

21.4.2 Taxation

The income tax assessments of the bank for global operations and for Azad Kashmir have been finalized up to and including the Tax year 2008 (accounting year ended December 31, 2007).

Appeals filed by the bank and tax department for various assessment years are pending before various appellate forums/court of law. The major issues involved include taxability of interest credited to suspense account, disallowances of cost incurred in respect of employees' special separation scheme, disallowed/added provision against bad & doubtful debts, allocation of expenses relating to exempt income and revaluation loss of barter trade agreements.

During the year, the orders for the assessment years 1997-98, 1998-99 and 1999-2000 were given appeal effects in respect of interest in suspense account amounting to Rs.1,880 million the tax impact of which was Rs.1,090 million. Further, the assessments for Tax Years 2006, 2007 and 2008 were amended by the Taxation Authorities disallowing allocation of expenses relating to exempt income, provision against bad and doubtful debts, charge against medical and compensated absences and revaluation of barter balances, the tax impact of which amounts to Rs.5,471 million.

During the year, favourable recommendations by ADRC have been received, in respect of taxability of interest credited to suspense account, cost incurred in respect of employees' special separation scheme, allocation of expenses relating to exempt income, claim of Benevolent Fund and revaluation loss of barter trade agreements.

The aggregate financial effects of all matters in appeals against which tax provisions has not created in the books works out at Rs.14,024 million (December 31, 2007: Rs.9,643 million). No provision there against has been considered necessary by the Bank as the management, based on the opinion of tax lawyers and consultants, expects favorable outcome of the above matters.

21.4.3 Provident Fund

In 1977, in accordance with the GoP policy, the bank's employees' benefits were changed from the Provident Fund to an enhanced Pension Scheme and an option was given to the employees either to opt for the new scheme or retain the existing benefits. Almost all employees opted for the new scheme. The bank considered that in accordance with the policy decision of the Banking Council and Finance Division of GoP, the balance of bank's contribution lying in the members' account in the Provident Fund upto that date should have been transferred to the Pension Fund to partially cover the additional cost of the enhanced benefits.

Subsequently, three employees filed a writ petition in 1980 before a Single Bench of Lahore High Court claiming the balance lying in their Provident Fund Account. This petition was dismissed by the Single Bench in July, 1982. Against this decision of the Single Bench, the aggrieved employees filed Intra Court Appeal before the High Court which was heard by a Division Bench of the Lahore High Court on a number of dates, extending over 16 years. Appeal against the Order of Single Bench was finally dismissed by the Division Bench vide Order dated July 31, 1998. One employee filed an appeal in the Supreme Court against the judgment of the Lahore High Court. In 2003, such appeals were finally decided by the Supreme Court of Pakistan against the bank. The Supreme Court directed the bank that the employees shall be paid contribution made by the bank together with the interest upto the date of payment. The bank in accordance with the legal interpretation obtained, commenced settlement of dues of eligible employees who had joined service of the bank prior to 1977.

For the purpose of settlement, interest has been calculated in accordance with Rule 12 of the Provident Fund Rules at average redemption yield of Central Government Rupee Loans of twenty years maturity or thereabout and such interest has been calculated in accordance with Rule 19 i.e. to ex-employees upto the date of retirement or death and upto date of payment in case of serving employees.

Notes to the Financial Statements

For the year ended December 31, 2008



Some Ex-Employees not being satisfied with the payment filed contempt against the Bank in 2004. This case in the form of Criminal Original No. 7/2004 is pending before Supreme Court of Pakistan in which the petitioners claimed that the amount being paid to them against Bank's contribution is far less than that due to them. The Bank filed a reply and submitted before the Honorable Court that the rate of the interest which the petitioners are claiming is far higher than that due to them and the payment being made is in accordance with Provident Funds Rules. Pending outcome of the said contempt appeal, the Bank has decided not to claim excess fund lying in Provident Fund Account although as per legal opinion it would be lawful to the Bank to adjust the Banks Books of Accounts regarding excessive interest paid or accrued.

On one of the dates of hearing, the Court had already observed that the contempt proceedings are not meant to cover the amount, if according to petitioners the amount falls short of their expectations. Under contempt proceedings, their jurisdiction is only confined to punishing for disobedience of the order. The Court also put a direct question to the counsel for the petitioners to pinpoint the portion of the Order of Supreme Court which according to him, was disobeyed. The learned Counsel of the petitioners was unable to do so. The Court therefore expressed the view that proceedings of contempt were not competent. However, the matter is still awaiting the decision of Honourable Supreme Court's of Pakistan.

Pending outcome of the said application, the bank has decided not to claim excess fund lying in the Provident Fund, other than the one which pertains to former East Pakistan employees. The management is confident that the payments being made are in accordance with the Supreme Court's decision. The additional liability which may arise in case of different interpretation of the Honourable Supreme Court's decision cannot be estimated until such interpretation is made.

	2008	2007
	Rupees in '000	
21.5 Commitments in respect of forward exchange contracts		
Purchase	69,361,297	49,819,478
Sale	55,563,737	38,137,569
21.6 Commitments in respect of trading with government securities		
Purchase	5,200,000	-
Sale	5,200,000	-
21.7 Commitments for the acquisition of operating fixed assets	490,396	475,088
21.8 Other commitments		
- Equity futures sold	-	189,289
- Interest rates swaps	-	8,852,500
- Cross currency swaps	8,082,780	9,317,886
21.9 Commitments to inject capital in the following companies under share-holders agreement		
- Nishat Power Limited	-	300,000
- Nishat (Chunian) Limited	-	300,000
21.10 Commitments for purchase of NIT Market Opportunity Fund units	200,000	-
21.11 Commitments for investment in NIT State Enterprise Fund	7,000,000	-

Notes to the Financial Statements

For the year ended December 31, 2008

22. DERIVATIVE INSTRUMENTS

22.1 The bank is involved in derivative transactions including interest rate swaps, cross currency swaps and equity futures. The bank also enter into forward foreign exchange contracts, the un-realized gain and loss on such contracts are disclosed in note 13 and 18 respectively.

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

Accounting policies in respect of derivative financial instruments are mentioned in note 5.4.

22.2 Product Analysis

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

Counterparties	2007							
	Interest Rate Swaps		Cross Currency Swaps		Forward Rate Agreements		FX Options	
	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal
	(Rupees in '000)		(Rupees in '000)		(Rupees in '000)		(Rupees in '000)	
With Banks for								
Hedging	-	-	-	-	-	-	-	-
Market Making	6	4,400,000	-	-	-	-	-	-
With FIs other than banks								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	-	-	-	-	-	-
With other entities for								
Hedging	-	-	-	-	-	-	-	-
Market Making	7	4,452,500	9	9,317,886	-	-	-	-
Total								
Hedging	-	-	-	-	-	-	-	-
Market Making	13	8,852,500	9	9,317,886	-	-	-	-
	13	8,852,500	9	9,317,886	-	-	-	-

Notes to the Financial Statements

For the year ended December 31, 2008



22.3 Maturity Analysis

Interest Rate Swaps

2008
----- Rupees in '000 -----

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 month to 1 Year	-	-	-	-	-
1 to 2 Years	-	-	-	-	-
2 to 3 Years	-	-	-	-	-
3 to 5 Years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
Above 10 Years	-	-	-	-	-

2007
----- Rupees in '000 -----

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	8	6,642,772	56,574	8,281	(48,293)
6 month to 1 Year	5	2,209,728	31,776	2,115	(29,661)
1 to 2 Years	-	-	-	-	-
2 to 3 Years	-	-	-	-	-
3 to 5 Years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
Above 10 Years	-	-	-	-	-

Cross Currency Swaps

2008
----- Rupees in '000 -----

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 month to 1 Year	-	-	-	-	-
1 to 2 Years	-	-	-	-	-
2 to 3 Years	-	-	-	-	-
3 to 5 Years	2	1,475,890	5,085,538	3,976,549	(1,108,989)
5 to 10 years	8	6,606,890	5,057,839	4,101,141	(956,698)
Above 10 Years	-	-	-	-	-

2007
----- Rupees in '000 -----

Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 month to 1 Year	-	-	-	-	-
1 to 2 Years	-	-	-	-	-
2 to 3 Years	-	-	-	-	-
3 to 5 Years	-	-	-	-	-
5 to 10 years	9	9,317,886	334,095	405,908	71,813
Above 10 Years	-	-	-	-	-

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
23. MARK-UP / RETURN / INTEREST EARNED			
On loans and advances to:			
Customers		42,322,522	31,967,570
Financial institutions		726,789	1,219,581
		43,049,311	33,187,151
On investments in:			
Held-for-trading securities		1,306,934	-
Available-for-sale securities		9,737,215	8,473,696
Held-to-maturity securities		2,280,984	2,390,246
		13,325,133	10,863,942
On deposits with financial institutions		2,899,814	4,777,132
On securities purchased under resale agreements		1,546,488	1,472,295
On derivative financial instruments		122,052	268,961
		60,942,798	50,569,481
24. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		22,478,225	15,928,071
Securities sold under repurchase agreements		811,333	207,355
Short-term borrowings		495,710	590,924
On derivative financial instruments		99,500	213,661
		23,884,768	16,940,011
25. GAIN / (LOSS) ON SALE AND REDEMPTION OF SECURITIES - net			
Federal government securities			
Market Treasury Bills	25.1	41,987	(3,925)
Pakistan Investment Bonds		(32,861)	23,941
		9,126	20,016
NIT Units		-	1,775,003
Shares - listed	25.1	381,836	546,671
Ijarah Sukuk		4,465	-
		395,427	2,341,690
25.1			
This includes gain on market treasury bills and loss on shares amounting to Rs. 45.56 million and Rs. 69.94 million respectively, transferred from held-for-trading to available-for-sale investments in accordance with the BSD Circular Letter No. 7 of 2008 dated December 30, 2008.			
26. OTHER INCOME			
Rent on property		24,467	30,483
Profit on sale of property and equipment	11.6	7,289	2,702
Others	26.1	1,213,613	114,178
		1,245,369	147,363
26.1			
This includes Rs.987.610 million (2007: Nil) of compensation for delayed refunds determined under section 171 of the Income Tax Ordinance, 2001. The compensation on delayed adjustments / issuance of outstanding refund pertains to various assessment years from 1991-92 to 2001-2002.			

Notes to the Financial Statements

For the year ended December 31, 2008



Excellence in Value

	Note	2008 Rupees in '000	2007
27. ADMINISTRATIVE EXPENSES			
Salaries and allowances	27.3	11,294,744	8,993,228
Charge for defined benefit plans		1,014,601	330,161
Non-executive directors' fee, allowances and other expenses	35	8,476	2,993
Rent, taxes, insurance, electricity, etc.		1,004,921	839,072
Legal and professional charges		208,056	261,629
Communications		466,687	315,464
Repairs and maintenance		258,615	235,113
Financial charges on leased assets		10,750	9,183
Stationery and printing		578,491	384,262
Advertisement, sponsorship and publicity		171,093	294,493
Donations / Contributions	27.1	33,440	295
Auditors' remuneration	27.2	70,964	54,493
Depreciation	11.2	748,690	553,114
Amortization	11.3	2,885	3,409
Conveyance		112,549	91,924
Entertainment		34,299	31,583
Traveling		230,279	241,173
Security services		747,916	588,835
Outsourcing		284,337	266,102
Others		889,405	709,385
		<u>18,171,198</u>	<u>14,205,911</u>

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

Q.M. Fareed Memorial Library, Department of Economics - University of Karachi	-	200
Ali Hassan Mangi Memorial Trust	450	-
Establishment of Central Library at NAB Headquarter Islamabad	1,000	-
Fund Raising Campaign for Earthquake victims of Peoples Republic of China	1,000	-
Chief Minister (N.W.F.P.) Flood Relief Fund	7,000	-
Balochistan Chief Minister Earthquake Relief Fund	10,000	-
Home Department, Government of Sindh Police	13,990	-
	<u>33,440</u>	<u>200</u>

None of the directors/executives or their spouses have any interest in the donee.

27.2 Auditors' remuneration

	M.Yousuf Adil Saleem & Co.	Ford Rhodes Sidat Hyder & Co.	2008 Total	2007 Total
----- Rupees in '000 -----				
Audit fee	2,854	2,854	5,708	5,708
Review of interim financial statements	1,584	1,584	3,168	3,168
Fee for audit of domestic branches	3,990	3,990	7,980	5,980
Fee for special certifications and sundry advisory services	2,685	2,035	4,720	254
Fee for audit of overseas branches including advisory services and out-of-pocket expenses	-	-	46,388	36,867
Out-of-pocket expenses	1,500	1,500	3,000	2,516
	<u>12,613</u>	<u>11,963</u>	<u>70,964</u>	<u>54,493</u>

27.3 The salaries and allowances include charge for staff welfare fund which is based on estimated payments to be made out of current year's profits.

Notes to the Financial Statements

For the year ended December 31, 2008

	Note	2008 Rupees in '000	2007
28. OTHER CHARGES			
Penalties imposed by SBP		562,535	17,141
Others		20,826	-
		<u>583,361</u>	<u>17,141</u>
29. TAXATION			
For the year			
Current	29.1	11,762,650	8,311,500
Deferred		(4,220,242)	323,731
	29.2	<u>7,542,408</u>	<u>8,635,231</u>
For prior year			
Current		-	391,497
		<u>7,542,408</u>	<u>9,026,728</u>

29.1 Current taxation includes Rs.612 million (2007: Rs.543 million) of overseas branches.

29.2 Relationship between tax expense and accounting profit

Accounting profit before tax	23,000,998	28,060,501
Income tax at statutory rate @ 35% (2007: 35%)	8,050,349	9,821,175
Increase/(decrease) in taxes resulting from:		
Inadmissible differences	233,416	255,408
Income taxed at reduced rate	(826,357)	(889,953)
Income exempt from tax	-	(801,399)
Overseas taxation	85,000	250,000
Tax charge for current year	<u>7,542,408</u>	<u>8,635,231</u>

30. BASIC EARNINGS PER SHARE

		2008	2007
Profit after tax for the year	Rupees '000	<u>15,458,590</u>	<u>19,033,773</u>
Weighted average number of ordinary shares	Numbers '000	<u>896,975</u>	<u>896,975</u>
Basic earnings per share	Rupees	<u>17.23</u>	<u>21.22</u>

30.1 Earnings per share for the year 2007 has been restated for the effect of bonus shares issued during the year.

31. DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are same.

32. CASH AND CASH EQUIVALENTS

	Note	2008 Rupees in '000	2007
Cash and balances with treasury banks	6	106,503,756	94,873,249
Balances with other banks	7	38,344,608	37,472,832
Overdrawn nostros	15.2	(171,976)	(889,092)
		<u>144,676,388</u>	<u>131,456,989</u>

Notes to the Financial Statements

For the year ended December 31, 2008



	2008	2007
	Rupees in '000	
33. STAFF STRENGTH		
Permanent	14,408	13,237
Temporary / on contractual basis	796	842
Total Staff Strength	15,204	14,079

33.1 In addition to the above, the bank is utilizing the services of other companies for outsourcing purposes and the number of persons deployed by such companies as at year end are 6,010 (2007: 7,542).

34. EMPLOYEE BENEFITS

34.1 Defined benefit plans

34.1.1 General description

General description of the type of defined benefit plan and accounting policy for recognising actuarial gains and losses is disclosed in note 5.9 to the financial statements.

Principal actuarial assumptions

The financial assumptions used in actuarial valuation at December 31, 2008 of pension fund, post retirement medical benefits, benevolent fund and gratuity scheme are as follows:

	2008	2007
Salary increase	14% per annum	10% per annum
Discount rate	14% per annum	10% per annum
Expected rate of return on plan assets	14% per annum	10% per annum
Pension indexation rate	10% per annum	6% per annum
Rate of inflation in the cost of medical benefits	10% per annum	7% per annum
Exposure inflation rate	3% per annum	3% per annum
Number of employees covered under retirement benefit plan	14,344	12,999

	Note	2008	2007
		Rupees in '000	
34.1.2 Reconciliation of (recoverable from) pension fund			
Present value of defined benefit obligations		15,011,555	12,704,049
Fair value of plan assets		(17,738,992)	(19,503,391)
Net actuarial losses not recognized		(1,587,558)	3,122,997
Past Service Cost - Non Vested		(181,948)	-
	13	(4,496,943)	(3,676,345)

The recognized amount has been restricted to present value of any economic benefits available in the form of refunds from the plan or reduction in future contribution to the plan.

Movement in (recoverable from) pension fund

Opening net asset	(3,676,345)	(2,951,933)
Charge for the year	(157,789)	(197,568)
Contribution to the fund made during the year	(662,809)	(526,844)
	(4,496,943)	(3,676,345)
Charge for pension fund		
Current service cost	342,649	324,541
Interest cost	1,270,405	1,086,232
Expected return on plan assets	(1,950,339)	(1,560,058)
Actuarial gains recognized	(106,605)	(48,283)
Past Service Cost -Vested	286,101	-
	(157,789)	(197,568)
Actual return on plan assets	1,870,261	2,060,092

Notes to the Financial Statements

For the year ended December 31, 2008

34.1.2.1 Components of fair value of plan assets as a percentage of total fair value of plan assets

	2008 %	2007 %
Bonds	58.25	59.89
Equities	19.54	29.40
Cash and net current assets	22.21	10.71

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

	2008	2007	2006	2005	2004
	----- Rupees in '000 -----				
Present value of defined benefit obligations	15,011,555	12,704,049	12,069,249	10,085,072	8,889,166
Fair value of plan assets	(17,738,992)	(19,503,391)	(17,333,982)	(13,615,308)	(10,953,151)
Net actuarial (losses) / gains not recognized	(1,587,558)	3,122,997	2,312,800	1,006,568	16,126
Past Service Cost - Non Vested	(181,948)	-	-	-	-
	<u>(4,496,943)</u>	<u>(3,676,345)</u>	<u>(2,951,933)</u>	<u>(2,523,668)</u>	<u>(2,047,859)</u>

Note 2008 2007
Rupees in '000

34.1.3 Reconciliation of payable to medical benefit plan

Present value of defined benefit obligations	2,909,308	2,726,617
Fair value of plan assets	-	-
Net actuarial losses / (gains) not recognized	37,246	(144,141)
	18	<u>2,582,476</u>

Movement in net liability recognized

Opening net liability	2,582,476	2,276,586
Charge for the year	380,084	323,543
Benefits paid	(16,006)	(17,653)
	<u>2,946,554</u>	<u>2,582,476</u>

Charge for medical benefit plan

Current service cost	107,422	85,036
Interest cost	272,662	233,576
Actuarial losses recognized	-	4,931
	<u>380,084</u>	<u>323,543</u>

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

	2008	2007	2006	2005	2004
	----- Rupees in '000 -----				
Present value of defined benefit obligations	2,909,308	2,726,617	2,595,291	2,303,706	2,212,279
Net actuarial losses not recognized	37,246	(144,141)	(318,705)	(301,957)	(440,381)
	<u>2,946,554</u>	<u>2,582,476</u>	<u>2,276,586</u>	<u>2,001,749</u>	<u>1,771,898</u>

Effect of 1% movement in assumed medical cost trend rate

	2008		2007	
	Increase	Decrease	Increase	Decrease
	----- Rupees in '000 -----			
Impact on obligations	111,540	(86,842)	145,588	(111,073)
Impact on cost	22,685	(17,403)	23,191	(17,363)

Notes to the Financial Statements

For the year ended December 31, 2008



	Note	2008 Rupees in '000	2007 Rupees in '000
34.1.4 Movement in net liability recognized for benevolent fund			
Opening net liability		759,957	802,937
Charge for the year		53,256	22,756
Benefits paid	18	(47,465)	(65,736)
		<u>765,748</u>	<u>759,957</u>
Charge for benevolent fund			
Current service cost		18,592	19,567
Interest cost		75,996	72,264
Actuarial gains recognized		(41,332)	(69,075)
		<u>53,256</u>	<u>22,756</u>

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

	2008	2007	2006	2005	2004
	----- Rupees in '000 -----				
Opening net liability	759,957	802,937	729,725	733,572	638,103
Net charge for the year	53,256	22,756	129,185	56,242	162,032
Benefits paid	(47,465)	(65,736)	(55,973)	(60,089)	(66,563)
	<u>765,748</u>	<u>759,957</u>	<u>802,937</u>	<u>729,725</u>	<u>733,572</u>

	Note	2008 Rupees in '000	2007 Rupees in '000
34.1.5 Reconciliation of payable to gratuity benefit plan			
Present value of defined benefit obligations		116,216	82,098
Net actuarial losses not recognized		(9,946)	(4,309)
Unrecognized Past Service Cost		-	(11,081)
	18	<u>106,270</u>	<u>66,708</u>
Movement in net liability recognized			
Opening liability		66,708	33,409
Charge for the year		42,424	33,299
Benefits paid		(2,862)	-
		<u>106,270</u>	<u>66,708</u>
Charge for gratuity benefit plan			
Current service cost		23,133	16,980
Interest cost		8,210	5,238
Past service cost to be recognized		11,081	11,081
		<u>42,424</u>	<u>33,299</u>

34.2 Other employee benefits

34.2.1 Movement in net liability recognized for compensated absences

	Note	2008 Rupees in '000	2007 Rupees in '000
Opening net liability		1,662,930	1,639,708
Charge for the year		696,627	23,222
Benefits paid during the year		(112,805)	-
	18	<u>2,246,752</u>	<u>1,662,930</u>

Notes to the Financial Statements

For the year ended December 31, 2008

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

	2008	2007	2006	2005	2004
	----- Rupees in '000 -----				
Opening net liability	1,662,930	1,639,708	1,521,326	1,219,566	1,281,741
Net charge for the year	583,822	23,222	118,382	301,760	(62,175)
	<u>2,246,752</u>	<u>1,662,930</u>	<u>1,639,708</u>	<u>1,521,326</u>	<u>1,219,566</u>

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

	2009			
	Pension funds	Benevolent Scheme	Medical Scheme	Gratuity Scheme
	----- Rupees in '000 -----			
Contribution to be paid	(230,680)	94,588	380,083	42,423

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President		Directors		Executives	
	2008	2007	2008	2007	2008	2007
	----- Rupees in '000 -----					
Fees	-	-	8,476	2,993	-	-
Managerial remuneration	8,760	7,800	-	-	307,313	196,553
Charge for defined benefit plan	-	-	-	-	63,157	38,825
Rent and house maintenance	5,616	5,265	-	-	153,659	93,303
Utilities	1,593	1,029	-	-	36,965	19,719
Medical	222	1,061	-	-	35,015	28,200
Conveyance	-	-	-	-	84,701	46,450
Leave fare assistance	7,440	3,000	-	-	-	-
Bonus & others	28,441	25,812	-	-	220,694	162,788
	<u>52,072</u>	<u>43,967</u>	<u>8,476</u>	<u>2,993</u>	<u>901,504</u>	<u>585,838</u>
Number of persons	<u>1</u>	<u>1</u>	<u>6</u>	<u>8</u>	<u>377</u>	<u>239</u>

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

Executives mean officers, other than the chief executive and directors, whose basic salary exceeds five hundred thousand rupees in the financial year.

Notes to the Financial Statements

For the year ended December 31, 2008



36. FAIRVALUE OF FINANCIAL INSTRUMENTS

36.1 On-balance sheet financial instruments

	2008		2007	
	Book Value	Fair Value	Book Value	Fair Value
----- Rupees in '000 -----				
Assets				
Cash and balances with treasury banks	106,503,756	106,503,756	94,873,249	94,873,249
Balances with other banks	38,344,608	38,344,608	37,472,832	37,472,832
Lendings to financial institutions	17,128,032	17,128,032	21,464,600	21,464,600
Investments	170,822,491	164,906,298	211,146,038	209,771,977
Advances	412,986,865	412,986,865	340,318,930	340,318,930
Other assets	22,414,965	22,414,965	15,200,716	15,200,716
	<u>768,200,717</u>	<u>762,284,524</u>	<u>720,476,365</u>	<u>719,102,304</u>
Liabilities				
Bills payable	10,219,061	10,219,061	7,061,902	7,061,902
Borrowings	40,458,926	40,458,926	10,815,176	10,886,063
Deposits and other accounts	624,939,016	624,939,016	591,907,435	591,907,435
Liabilities against assets subject to finance lease	25,274	25,274	33,554	33,554
Other liabilities	29,451,859	29,451,859	21,658,733	21,658,733
	<u>705,094,136</u>	<u>705,094,136</u>	<u>631,476,800</u>	<u>631,547,687</u>

36.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	69,361,297	70,313,593	49,819,478	49,454,538
Forward sale of foreign exchange	55,563,737	51,907,012	38,137,569	38,601,892
Cross currency swaps and interest rate swaps	8,082,780	6,017,093	18,170,386	18,092,432
Equity futures sold	-	-	189,289	179,260

All quoted and unquoted investments have been valued in accordance with the accounting policy stated in note 5.2.

Fair value of loans and advances cannot be determined with reasonable accuracy due to absence of current and active market. Loans and advances are repriced frequently on market rates and are reduced for any impairment against non-performing advances determined in accordance with Prudential Regulations.

In the opinion of the management, fair value of other 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 deposits are frequently repriced.

Notes to the Financial Statements

For the year ended December 31, 2008

37. Segment Details with respect to Business Activities

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services
----- Rupees in '000 -----						
2008						
Total income	324,911	14,472,033	13,114,628	20,687,687	1,712,732	3,161,901
Total expenses	2,522	1,397,257	9,555,826	15,626,897	811,775	3,078,616
Net income	322,389	13,074,776	3,558,802	5,060,790	900,957	83,285
Segment Assets (Gross)	-	358,974,295	119,318,254	339,465,777	-	-
Segment Non Performing Loans	-	-	5,499,383	50,962,398	-	-
Segment Provision Required	-	-	4,077,787	40,763,377	-	-
Segment Liabilities	-	49,198,439	179,472,757	486,627,911	-	-
Segment Return on net Assets (ROA) (%)	-	5.57%	2.44%	1.34%	-	-
Segment Cost of funds (%)	-	5.52%	3.46%	4.16%	-	-
2007						
Total income	311,422	9,626,193	11,376,128	21,967,311	1,052,772	2,840,489
Total expenses	1,455	323,949	6,549,071	9,389,224	610,926	2,239,189
Net income	309,967	9,302,244	4,827,057	12,578,087	441,846	601,300
Segment Assets (Gross)	-	317,550,303	123,134,052	321,509,238	-	-
Segment Non Performing Loans	-	-	2,594,898	35,722,654	-	-
Segment Provision Required	-	-	1,238,286	31,113,529	-	-
Segment Liabilities	-	9,218,145	121,426,879	515,210,915	-	-
Segment Return on net Assets (ROA) (%)	-	3.35%	4.54%	3.19%	-	-
Segment Cost of funds (%)	-	4.90%	1.81%	3.02%	-	-

38. TRUST ACTIVITIES

38.1 National Investment Trust (NIT)

Under a trust deed, the bank provides services, as a trustee to NIT and is performing functions of sale/purchase of NIT units, safe custody and maintaining unit holders accounts. The bank is keeping approximately 1,500 million (2007: 1,400 million) shares with market value of Rs.45,570 million (2007: Rs.95,687 million) in safe custody / Central Depository Company on behalf of NIT.

38.2 Long-term Credit Fund (LTCF)

Consequent upon the NDFC amalgamation, the bank manages on behalf of the GoP, LTCF established from the proceeds of loans disbursed by various international funding agencies for financing private sector energy development projects. Fund assets are accounted for separately from those of the bank and amounted to Rs.40,000 million on December 31, 2008 (2007: Rs.36,000 million).

38.3 Endowment Fund

The Students Loan Scheme was launched by the GoP in collaboration with major commercial banks of Pakistan to facilitate meritorious students in acquiring education by offering markup free loans.

The scheme is administered by a high powered committee headed by the Deputy Governor, State Bank of Pakistan and the Presidents of NBP, HBL, UBL, MCB, ABL and the Deputy Secretary, Ministry of Finance. The State Bank has assigned National Bank of Pakistan to operate the scheme.

The committee in its meeting held on August 7, 2001 approved creation of Endowment Fund initially at an amount of Rs.500 million. Rs.396 million were transferred from the old Qarz-e-Hasna Fund, Rs.50 million contributed by GoP and Rs.54 million were contributed by participating banks (HBL, NBP & UBL 25% each, MCB 17.5% and ABL 7.5%).

The amount of the fund in investments stands at Rs.737 million as at December 31, 2008 (2007: Rs.728 million).

Notes to the Financial Statements

For the year ended December 31, 2008



39. RELATED PARTY TRANSACTIONS

The bank has related party relationship with its associated undertakings, subsidiary companies, employee benefit plans, and its key management personnel (including their associates). The details of investments in subsidiary companies and associated undertakings are stated in note 9 to these financial statements.

Transactions between the bank and its related parties are carried out under normal course of business except employee staff loans, provident fund and loan given to NBP Exchange Company Limited, that are as per agreement.

Detail of loans and advances to the companies or firms, in which the directors of the bank are interested as directors, partners or in case of private companies as members, are given in note 10.7 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to an approval in respect of staff retirement and other benefit plans as disclosed in note 34 to these financial statements. Remuneration to the executive and disposal of vehicles are disclosed in notes 35 and 11.6 to the financial statements.

	2008	2007
	Rupees in '000	
Balance outstanding at year end		
Advances to:		
Subsidiaries	682,730	786,382
Associates	1,269,498	1,515,120
Key management executives *	95,931	89,102
Debts due by company in which a director of the bank is interested as director	-	199,391
Placements with:		
Joint venture	420,535	759,343
Associates / subsidiaries	25,881	27,331
Lendings to:		
Subsidiary	113,983	-
*This includes loans extended to certain key management executives in accordance with the terms of employment.		
Deposits from:		
Subsidiaries		
Opening balance	255,952	14,167
Received during the year	-	241,785
Repaid during the year	(88,728)	-
Closing Balance	<u>167,224</u>	<u>255,952</u>
Pension fund		
Opening balance	2,088,976	3,077,536
Received during the year	12,055,094	1,990,643
Repaid during the year	(10,203,909)	(2,979,203)
Closing Balance	<u>3,940,161</u>	<u>2,088,976</u>
Provident fund		
Opening balance	8,078,395	7,397,487
Received during the year	1,351,602	1,325,349
Repaid during the year	(922,697)	(644,441)
Closing Balance	<u>8,507,300</u>	<u>8,078,395</u>
Borrowing from:		
Subsidiary	414,635	-

Notes to the Financial Statements

For the year ended December 31, 2008

2008 2007
Rupees in '000

Income for the year		
On advances/placements with:		
Subsidiaries	10,950	832
Associates	12,841	37,726
Joint venture	3,045	23,160
Debts due by company in which a director of the bank is interested as director	-	5,965
Expenses for the year		
Remuneration to key management executives	149,330	132,008
Charge for defined benefit plan	6,738	5,605
On deposits of:		
Subsidiaries	218	584
Provident fund	946,446	943,205
On Repo / call borrowing	41,476	-
Commission paid to subsidiaries	1,687	2,473
Other receivables	32,195	30,259
Other payables	11,594	11,154

39.1 Although the Federal Government and the SBP held about 75.60% shares of the bank (2007: 75.60%), the transactions with these entities have not been treated as related party transactions for the purpose of this disclosure.

40. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II

40.1 Statutory minimum capital requirement and management of capital

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the bank operates;
- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The State Bank of Pakistan through its BSD Circular No. 19 dated September 5, 2008 requires the minimum paid-up capital (net of losses) for Banks / DFIs to be raised to Rs. 23,000 million by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs. 5,000 million paid up capital (net of losses) by the end of the financial year 2008.

Minimum Paid up Capital (Net of losses) - Rs. in '000	Dead line by which to be increased
5,000,000	31-12-2008
6,000,000	31-12-2009
10,000,000	31-12-2010
15,000,000	31-12-2011
19,000,000	31-12-2012
23,000,000	31-12-2013

Notes to the Financial Statements

For the year ended December 31, 2008



The paid-up capital of the Bank for the year ended December 31, 2008 stood at Rs. 8,969 million and is in compliance with the SBP requirement for the said year. In addition the Banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 9% of the risk weighted exposure of the Bank whereas in December 2007, it was required as 8%.

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

- Tier I capital, which comprises of highest quality capital element and include fully paid up capital, share premium, reserve for bonus shares, general reserves and unappropriated profits.
- Tier II capital, which includes general reserve for loan losses, revaluation reserves, exchange translation reserves and subordinated debts.
- Tier III capital, which includes short term sub-ordinated debts. This capital is solely for the purpose of meeting a proportion of the capital requirements for market risk.

Various limits are applied to elements of the capital base. Qualifying tier II and tier III capital cannot exceed the tier I capital. Revaluation reserves are eligible upto 45 percent for treatment as tier II capital. There is also restriction on the amount of general reserve for loan losses upto 1.25 percent of total risk weighted assets. Subordinated debts cannot exceed 50 percent of tier I capital. Further tier III capital cannot exceed 250 percent of tier I capital.

Risk weighted assets are measured according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counter party, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet exposure, with some adjustments to reflect more contingent nature of potential losses.

Bank's policy is to maintain strong capital base so as to maintain, investor, creditor and market confidence and to sustain future development of the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the State Bank of Pakistan. The ratios compare the amount of eligible capital with the total of risk-weighted assets. The Bank monitors and reports its capital ratios under SBP rules, which ultimately determine the regulatory capital required to be maintained by Banks and DFIs.

There have been no material changes in the Bank's management of capital during the year.

Notes to the Financial Statements

For the year ended December 31, 2008

	2008	2007
	Rupees in '000	
40.2 Tier I Capital		
Fully paid-up capital	8,969,751	8,154,319
General reserves	13,953,671	12,407,812
Unappropriated profits	52,456,204	45,344,188
	75,379,626	65,906,319
Deductions:		
50% of the investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	1,609,489	1,609,489
Total eligible Tier I capital	73,770,137	64,296,830
Supplementary Capital		
Tier II Capital		
General Provisions subject to 1.25% of total Risk Weighted Assets	2,111,217	2,061,287
Revaluation Reserve (upto 45%)	9,963,386	20,994,681
Foreign exchange translation reserve	5,987,376	3,364,312
	18,061,979	26,420,280
Deductions:		
50% of the investments in equity and other regulatory capital of majority owned securities or other financial subsidiaries not consolidated in the balance sheet	1,609,489	1,609,489
Total eligible Tier II capital	16,452,490	24,810,791
Tier III Capital	-	-
Eligible Tier III Capital	-	-
Total eligible Capital	90,222,627	89,107,621

	Note	2008	2007	2008	2007
		Capital Requirements		Risk Weighted Assets	
----- Rupees in '000 -----					
Credit Risk					
Claim on					
Public sector entities		498,884	635,882	5,543,161	7,948,519
Banks		868,922	758,340	9,654,693	9,479,253
Corporates		18,398,158	15,144,222	204,423,975	189,302,774
Retail portfolio		5,663,301	3,577,740	62,925,571	44,721,755
Loans secured by residential property		608,970	470,928	6,766,331	5,886,604
Past due loans		1,087,289	472,353	12,080,993	5,904,413
Investment in fixed assets		2,179,589	2,073,838	24,217,655	25,922,979
Other assets		3,353,199	4,092,376	37,257,766	51,154,698
Off balance sheet - non-market related exposure		5,419,943	3,428,072	60,221,586	42,850,894
Off balance sheet - market related exposure		58,515	31,993	650,170	399,909
Equity exposure risk held in the banking book		226,564	66,957	2,517,377	836,957
		38,363,334	30,752,701	426,259,278	384,408,755
Market Risk					
Interest rate risk		311,277	386,389	3,458,631	4,829,859
Equity position risk		614	120,581	6,822	1,507,258
Foreign exchange risk		2,390,298	3,094,983	26,558,870	38,687,291
		2,702,189	3,601,953	30,024,323	45,024,408
Operational Risk		7,823,774	5,875,882	86,930,821	73,448,523
Total		48,889,297	40,230,536	543,214,422	502,881,686
Capital Adequacy Ratio					
Total eligible regulatory capital held (a) 40.2		90,222,627	89,107,621		
Total Risk Weighted Assets (b) 40.3		543,214,422	502,881,686		
Capital Adequacy Ratio (a) / (b)		16.61%	17.72%		



Notes to the Financial Statements

For the year ended December 31, 2008

40.4 Credit risk - General disclosures

The Bank uses the 'Standardised Approach' for all its Credit risk Exposures.

The Bank uses reputable and SBP approved rating agencies for deriving risk weight to specific credit exposures. These are applied consistently across the Bank credit portfolio for both on - balance sheet and off - balance sheet exposures. The methodology applied for using External Credit Assessment Institutions (ECAI's) inclusive of the alignment of alpha numerical scale of each agency used with risk bucket is as per SBP Basel II guidelines as is given below:

Exposures	2008	
	JCR - VIS	PACRA
Corporate	✓	✓
Banks	x	x
Sovereigns	x	x
SME's	x	x
Securitisation	N/A	N/A
Others	N/A	N/A

40.5 Credit Exposures subject to Standardised Approach

Exposures	Rating Category #	2008		2007		
		Amount Outstanding	Deduction CRM	Net Amount	Amount Outstanding	Net Amount
Cash and Cash Equivalents	-	8,259,467	-	8,259,467	7,678,827	7,678,827
Claims on Government of Pakistan	-	257,615,538	-	257,615,538	261,303,611	261,303,611
Foreign Currency claims on SBP	-	45,608,256	-	45,608,256	39,445,889	39,445,889
Claims on other' sovereigns and on GOP	-	30,664,369	-	30,664,369	8,012,977	8,012,977
PSE's	I	12,373,662	-	12,373,662	-	-
PSE's	I	6,136,857	-	6,136,857	15,897,038	15,897,038
Banks	Unrated	49,421,509	5,968,243	43,453,266	58,937,432	43,611,092
Corporates	I	4,228,253	734,028	3,494,225	-	-
Corporates	2	250,836	37,303	213,533	-	-
Corporates	Unrated	209,443,322	6,347,821	203,095,501	189,589,917	189,302,774
Retail portfolio	Unrated	90,656,761	6,756,000	83,900,761	76,248,450	59,629,007
Secured by residential property	-	19,332,375	-	19,332,375	16,818,868	16,818,868
Past due loans	-	13,731,834	-	13,731,834	5,965,736	5,965,736
Listed Equity investments - banks	-	1,615,733	-	1,615,733	554,049	554,049
Unlisted equity investments	-	601,096	-	601,096	188,605	188,605
Investments in fixed assets	-	24,217,655	-	24,217,655	25,922,979	25,922,979
Other assets	-	37,257,766	-	37,257,766	51,154,698	51,154,698
		811,415,289	19,843,395	791,571,894	757,719,076	725,486,150

Notes to the Financial Statements

For the year ended December 31, 2008

41. RISK MANAGEMENT

41.1 Credit risk

The bank is exposed to credit risk from the possibility that a borrower or counter-party may fail to meet its obligations in accordance with agreed terms, principally the failure to make required payments on loans or obligations due to the bank. The goal of credit risk management is to maintain a healthy asset portfolio.

In order to achieve this, the bank has adopted a credit policy that covers several aspects including credit initiation and approval, credit maintenance, credit risk monitoring, documentation, disbursement and remedial management as well as credit policies specific to various businesses and industries. This process is strengthened by post-disbursement measures used to detect deterioration in the credit risk profile of borrowers. The bank's product policy manuals, which details approved credit exposure, are reviewed by the Risk Management Division and approved by the Risk Management Committee and the Board of Directors.

The bank has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. Borrower limits are set by the Credit Committee upon the recommendation of the Credit Management Group, within the controlling parameters of the SBP's Prudential Regulations. The bank's credit risk policies for loans also apply to credit substitutes. The bank has a review process that ensures the proper level of review and approval depending, among other things, the tenure of the facility, the aggregate size of all facilities extended to the borrower and its related parties, the type of collateral and whether the borrower is on watch list. Where possible, all loans and advances are secured by acceptable form of collateral to mitigate credit risk.

Bank's primary rating tool is a Credit Risk Rating, which is an internal risk rating system designed to reflect the overall risk profile of the borrower or guarantor. Risk ratings are assigned according to the perception of risk on a numerical scale, determined through examining several criteria. It is a system that provides nationwide risk management infrastructure with a common language for assessing and monitoring risk in credit portfolio. The bank considers both financial and qualitative parameters, including, for example, key financial ratios, interest coverage, debt service coverage, liquidity, profit margin and debt-equity ratio. The borrower's risk rating is also reviewed periodically.

Once a loan is disbursed, the bank undertakes ongoing credit analysis and monitoring at several levels. If a borrower wishes to renew or roll over the loan, the bank applies substantially the same standards as the bank would granting a new loan. Typically, the bank performs an annual credit review of each loan customer and update the review during the course of the year as circumstances warrant.

Special Assets Management Group (SAMG) of the bank is responsible for monitoring the stuck up advances. It negotiates with the borrowers and takes legal actions against the delinquent borrowers.

41.1.1 SEGMENTAL INFORMATION

41.1.1.1 Segment by class of business

	2008					
	Advances (Gross)		Deposits		Contingencies & Commitments	
	Rupees in '000	Percentage %	Rupees in '000	Percentage %	Rupees in '000	Percentage %
Chemical and pharmaceuticals	5,213,257	1.14	959,264	0.15	8,721,107	3.78
Agribusiness	23,194,510	5.07	12,283,214	1.97	179,558	0.08
Textile	67,390,147	14.72	1,494,141	0.24	3,948,164	1.71
Cement	10,463,059	2.29	261,859	0.04	2,962,080	1.29
Sugar	7,480,998	1.63	95,576	0.02	59,454	0.03
Flour	1,769,715	0.39	41,252	0.01	-	-
Rice processing	8,750,800	1.91	746,816	0.12	14,718	0.01
Shoes & leather garments	775,247	0.17	142,520	0.02	91,502	0.04
Automobile and transportation equipment	3,666,980	0.80	1,110,266	0.18	164,102	0.07
Financial	9,637,810	2.11	93,847,141	15.02	8,514,092	3.70
Insurance	548,428	-	3,072,062	0.49	-	-
Transportation	18,826,039	4.11	3,940,498	0.63	532,754	0.23
Real Estate Construction	7,307,463	1.60	4,715,627	0.75	2,040,396	0.89
Electronics and electrical appliances	7,453,292	1.63	804,813	0.13	2,201,642	0.96
Production and transmission of energy	41,783,196	9.13	1,978,177	0.32	32,309,002	14.02
Food and tobacco	1,883,671	0.41	406,688	0.07	99,258	0.04
Fertilizer	12,836,593	2.80	407,107	0.07	2,699,057	1.17
Metal products	3,237,281	0.71	419,291	0.07	762,454	0.33
Oil, gas, petroleum and energy	25,398,022	5.55	18,092,743	2.90	6,550,049	2.84
Telecommunication	5,901,256	1.29	6,345,118	1.02	2,692,737	1.17
Hotel and services	10,633,240	2.32	18,956,793	3.03	207,968	0.09
Public sector commodity operations	34,656,493	7.57	13,173,246	2.11	4,705,571	2.04
Individuals	74,831,249	16.34	241,949,136	38.72	2,050,229	0.89
General traders	18,727,871	4.09	13,274,272	2.12	875,387	0.38
Others	55,461,412	12.22	186,421,396	29.80	148,037,618*	64.24
	457,828,029	100.00	624,939,016	100.00	230,418,899*	100.00

* This includes Rs.130.755 million against commitments for non-funded facilities extended to public sector.

Notes to the Financial Statements

For the year ended December 31, 2008



41.1.1.2 Segment by sector

	2008					
	Advances (Gross)		Deposits		Contingencies & Commitments	
	Rupees in '000	Percentage %	Rupees in '000	Percentage %	Rupees in '000	Percentage %
Public / Government	103,658,545	22.64	235,153,915	37.63	130,755,274	56.75
Private	354,169,484	77.36	389,785,101	62.37	99,663,625	43.25
	<u>457,828,029</u>	<u>100.00</u>	<u>624,939,016</u>	<u>100.00</u>	<u>230,418,899</u>	<u>100.00</u>

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

	2008		2007	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	----- Rupees in '000 -----			
Chemical and pharmaceuticals	3,883,528	2,793,899	1,528,242	1,496,988
Agribusiness	1,601,920	540,640	1,698,478	709,774
Textile	17,964,960	15,613,360	14,555,983	12,571,994
Cement	2,505,630	2,205,630	1,192,930	1,192,930
Sugar	1,720,970	1,363,230	1,340,425	1,340,425
Flour	179,670	176,500	169,787	144,113
Rice processing	1,805,700	1,488,930	818,768	600,694
Shoes & leather garments	264,430	205,260	107,908	106,609
Automobile and transportation equipment	934,510	593,860	361,852	328,000
Financial	105,200	30,200	60,235	60,235
Transportation	1,300,380	705,200	69,818	68,836
Real Estate Construction	271,300	172,730	334,860	254,511
Electronics and electrical appliances	2,716,020	916,140	168,013	148,225
Food and tobacco	376,770	274,030	968,742	867,133
Fertilizer	256,320	251,670	210,856	206,091
Metal products	2,535,450	2,502,610	1,993,805	1,989,868
Oil, gas, petroleum and energy	129,790	102,020	1,215,650	1,067,101
Hotel and services	417,210	168,600	56,624	34,057
Individuals	2,998,870	1,864,470	896,420	528,512
General traders	2,338,030	2,146,490	1,661,610	1,484,882
Others	12,155,123	8,614,478	8,906,546	7,150,837
	<u>56,461,781</u>	<u>42,729,947</u>	<u>38,317,552</u>	<u>32,351,815</u>

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

Public / Government	2,919,805	855,805	908,750	908,750
Private	53,541,976	41,874,142	37,408,802	31,443,065
	<u>56,461,781</u>	<u>42,729,947</u>	<u>38,317,552</u>	<u>32,351,815</u>

Notes to the Financial Statements

For the year ended December 31, 2008

41.1.1.5 Geographical segment analysis

	2008			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies & commitments
	----- Rupees in '000 -----			
Pakistan	21,253,662	651,781,956	89,964,148	220,821,158
Asia Pacific (including South Asia)	760,597	56,454,322	6,939,373	4,396,174
Europe	21,976	17,152,155	2,936,022	4,618,849
United States of America	303,085	15,448,822	1,802,237	582,718
Middle East	661,678	76,921,071	817,438	-
	23,000,998	817,758,326	102,459,218	230,418,899

41.2 Market risk

Market risk refers to the risk of loss arising from movements in market variables, including observable variables such as interest rates, exchange rates and equity indices, and other variables that are only indirectly observable, such as volatilities and correlations. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss and to reduce our exposure to the volatility inherent in financial instruments.

The Bank's risk review division, together with the Board of Directors and its risk management committee, approves market risk policies, including exposure limits for specific categories of investments, which are then implemented by the management. Market Risk Office is responsible for monitoring market risk exposure and for managing market risk activities on a day-to-day basis, however, any transaction or product that falls beyond the board-approved policy must be approved first by the Credit Committee / ALCO and then, if necessary by Board of Directors. Currently, Market Risk Office is focused on monitoring limits in our net open position, interest rate risk, intraday limits, revaluation limits, mark-to-market limit, contract limit, settlement limit, call and repo-reverse repo limit and foreign exchange gap limits.

A market risk policy and procedural manual has been approved by the risk management committee and the Board of Directors. The policy covers equity trading, foreign exchange, money market, fixed income and asset, liability management and liquidity risk.

41.2.1 Foreign exchange risk

	2008			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- Rupees in '000 -----			
Pakistan Rupee	633,563,353	543,423,134	(13,398,207)	76,742,012
United States Dollar	107,839,956	114,632,584	8,158,754	1,366,126
Great Britain Pound	6,943,653	8,877,392	2,736,007	802,268
Japanese Yen	29,500,604	26,413,129	(1,010,564)	2,076,911
Euro	17,216,599	13,802,198	3,506,470	6,920,871
Other currencies	22,694,161	8,150,671	7,540	14,551,030
	184,194,973	171,875,974	13,398,207	25,717,206
	817,758,326	715,299,108	-	102,459,218

Currency risk arises where the value of financial instrument changes due to changes in foreign exchange rates. In order to manage currency risk exposure the bank enters into ready, spot, forward and swap transactions with the SBP and in the inter bank market.

Notes to the Financial Statements

For the year ended December 31, 2008



The bank's foreign exchange exposure comprises of forward contracts, purchases of foreign bills, foreign currencies cash in hand, balances with banks abroad, foreign placements with SBP and foreign currencies assets and liabilities. The net open position is managed within the statutory limits, as fixed by the SBP. Counter-parties limits are also fixed to limit risk concentration. Appropriate segregation of duties exist between the front and back office functions while compliance with the net open position limit is independently monitored on an ongoing basis.

41.2.2 Equity position risk

Investments in equity are generally regarded as riskier relative to fixed income securities owing to the inherent volatility of stock market prices. The risk from various factors that include, but are not limited to:

- Changes in business cycle affecting the business of the company in which the investment is made. Change in business circumstances (i.e. fundamentals) of the company, its business sector, industry and/or economy in general.
- Mismanagement of the investee company, third party liability whether through class action or otherwise or occurrence of other events such as strikes, fraud, etc. in the company in which investment is made.
- Fluctuation in the shares' prices resulting from their dependence on market sentiment, speculative activity, supply and demand of shares and liquidity in the market.
- The possibility of defaults by participant or failure of the stock exchanges, the depositories, the settlement or the clearing system is discharging their fiduciary responsibilities.
- Any government or court order restraining payment of dividend by a company to its shareholders.

The bank mitigates the aforesaid risk as follows:

- Through diversification and capping maximum exposure in a single sector/company. Additionally continuous follow up of these sectors and companies through self monitoring and fundamentals research from reputable brokerage houses.
- Compliances with the SECP Corporate Governance Rules by the investee company prudent investing practices (focus on dividend payout history).
- The bank will refrain from speculative trading and the investment will be made as per the guidelines on liquidity and growth as per investment policy manual or set by the Board of Directors.
- The bank follows a delivery versus payment settlement system thereby minimizing risk available in relation to settlement risk.



Notes to the Financial Statements

For the year ended December 31, 2008

41.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The bank is exposed to interest/mark-up rate risk as a result of mismatches or gaps in the amount of interest/mark-up based assets and liabilities that mature or re-price in a given period. The bank manages this risk by matching/re-pricing of assets and liabilities. The bank is not excessively exposed to interest/mark-up rate risk as its assets and liabilities are re-priced frequently. The Assets and Liabilities Committee (ALCO) of the bank monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the bank.

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

As part of risk reporting, an interest rate sensitivity statement is prepared on a monthly basis. This statement classifies the interest rate-sensitive assets and liabilities into various maturity groups enabling the management to monitor the impact of interest rate movements on the balance sheet positions.

Effective Yield / Interest rate	Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Exposed to Yield / Interest risk		Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments
						Over 1 to 2 Years	Over 2 to 3 Years				
1.57%	106,503,756	30,466,388	23,741,430	29	673,906	-	-	-	-	-	52,295,909
7.33%	38,344,608	20,314,183	11,591,669	2,440,321	2,900,000	-	-	-	-	-	3,274,529
10.92%	171,120,022	11,479,090	2,748,992	2,900,000	2,681,330	8,814,513	4,098,962	9,146,462	-	-	3,336,650
10.53%	170,822,491	43,971,045	64,715,061	11,728,347	93,009,241	6,020,019	12,372,873	3,464,011	104,653	-	583,413
Advances - net	412,986,865	128,439,703	97,710,479	65,501,295	93,009,241	6,020,019	12,372,873	3,464,011	104,653	-	6,414,591
11.44%	22,414,965	-	-	-	-	-	-	-	-	-	22,414,965
Other assets	788,200,717	234,670,409	200,507,581	79,679,992	99,264,677	14,834,532	16,471,835	12,610,473	3,641,303	-	99,571,911
Liabilities											
Bills payable	10,219,061	-	16,224,270	-	183,629	-	-	70,800	-	-	10,219,061
Borrowings	40,458,976	23,620,251	22,587,557	38,627,748	39,471,223	21,6819	974,000	3,985,448	500,000	-	359,976
Deposits and other accounts	624,939,016	304,725,549	-	-	-	-	-	-	-	-	213,850,672
Sub-ordinated loans	-	-	-	25,274	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	25,274	-	-	-	-	-	-	-	-	-	-
Other liabilities	795,094,136	328,345,800	38,811,827	38,627,748	39,654,852	21,6819	974,000	4,056,248	500,000	-	29,451,859
Off-balance sheet financial instruments	631,065,581	(93,675,391)	(61,742,672)	41,028,970	59,609,825	14,617,713	15,447,835	8,534,225	3,141,303	-	6,998,004
Off-balance sheet financial instruments											
Cross currency swaps	8,082,780	33,665,071	28,050,570	3,258,961	4,386,695	-	-	1,475,890	6,606,890	-	-
Forward purchase of foreign exchange	69,361,297	20,141,567	23,993,431	8,423,123	1,599,814	-	-	-	-	-	-
Forward sale of foreign exchange	53,583,737	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap	133,007,814	53,806,638	53,444,001	11,888,086	5,986,309	-	-	1,475,890	6,606,890	-	-
Total Yield / Interest Risk Sensitivity Gap	196,114,395	(39,868,753)	215,139,755	52,715,056	65,996,134	14,617,713	15,447,835	10,020,115	9,748,193	6,998,004	(154,309,657)
Cumulative Yield / Interest Risk Sensitivity Gap	(39,868,753)	175,271,002	227,986,038	293,882,192	308,199,905	323,647,740	333,677,855	343,428,048	350,424,052	196,114,395	-



Notes to the Financial Statements

For the year ended December 31, 2008

2007

Effective Yield / Interest rate	Total	Exposed to Yield / Interest risk										Non-interest bearing financial instruments
		Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years			

On-balance sheet financial instruments

Assets

Cash and balances with treasury banks	94,873,249	3,205,059	14,742,960	10,889,466	-	-	-	-	-	-	-	-	-	66,035,744
Balances with other banks	37,472,832	16,529,278	12,725,102	7,622,098	338,118	1,600	-	-	-	-	-	-	-	7,116,636
Lending to financial institutions - net	21,464,600	15,672,337	1,443,081	4,349,182	-	-	14,689,731	2,013,422	4,834,818	8,576,579	-	-	-	42,573,117
Investments - net	10,000	25,051,729	29,446,778	35,708,606	82,344,884	5,739,696	10,884,531	1,383,180	1,380,787	1,380,787	-	-	-	152,000,716
Advances - net	340,318,930	95,414,186	78,517,308	64,654,358	-	-	-	-	-	-	-	-	-	-
Other assets	15,200,716	-	-	-	130,177,928	20,431,027	-	12,897,953	6,217,998	9,957,366	-	-	-	756,332
	720,476,365	155,872,589	136,875,229	116,363,730	301,177,928	20,431,027	-	12,897,953	6,217,998	9,957,366	-	-	-	130,926,213

Liabilities

Bills payable	7,061,902	-	-	-	-	-	-	-	-	-	-	-	-	7,061,902
Borrowings	10,815,176	2,192,856	7,286,428	-	-	-	-	-	-	-	-	-	-	1,265,092
Deposits and other accounts	591,907,435	395,048,259	9,291,403	20,511,104	129,231	-	-	-	70,800	-	-	-	-	166,977,438
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	33,554	-	4,297	4,297	8,113	12,735	-	4,112	-	-	-	-	-	21,658,733
Other liabilities	21,658,733	-	-	-	-	-	-	-	-	-	-	-	-	-
	631,476,800	397,241,115	16,582,128	20,515,501	137,344	12,735	-	4,112	70,800	-	-	-	-	196,913,165
	88,999,565	(241,368,526)	(120,293,101)	95,848,329	(130,040,584)	20,418,292	-	12,893,841	6,147,198	9,957,366	-	-	-	(65,986,952)

On-balance sheet gap

Off-balance sheet financial instruments

Cross currency and interest rate swaps	18,170,386	-	-	6,669,022	2,183,478	-	-	-	-	-	-	-	-	-
Equity futures	189,289	-	-	189,289	-	-	-	-	-	-	-	-	-	-
Forward purchase of foreign exchange	49,619,478	15,459,204	1,107,536	12,940,963	10,345,775	-	-	-	-	-	-	-	-	-
Forward sale of foreign exchange	38,137,569	17,018,360	7,820,977	12,891,619	406,613	-	-	-	-	-	-	-	-	-

Off-balance sheet gap

Total Yield / Interest Risk Sensitivity Gap	195,316,287	(208,890,962)	139,376,903	128,349,933	142,976,450	20,418,292	-	12,893,841	6,147,198	19,275,252	-	-	-	756,332
Cumulative Yield / Interest Risk Sensitivity Gap	(208,890,962)	(69,514,059)	58,835,874	201,812,324	222,230,616	235,124,457	241,271,655	260,546,907	261,303,239	195,316,287	-	-	-	-



Notes to the Financial Statements

For the year ended December 31, 2008

41.3 Liquidity Risk

Liquidity risk is the risk that the bank will be unable to meet its liability when they fall due. To limit this risk, management has arranged diversified funded sources, manages assets with liquidity in mind and monitors liquidity on daily basis. In addition, the bank mainrain statutory deposits with central banks inside and outside Pakistan.

The purpose of liquidity management is to ensure sufficient cash flow to meet all of our liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to our business franchises, as well as to capitalize on opportunities for business expansion. This includes Bank's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature and to make new loans and investments as opportunities arise.

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

41.3.1 Maturities of Assets and Liabilities

2008

	Total	Rupees in '000									
		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
Assets											
Cash and balances with treasury banks	106,503,756	82,762,297	23,741,430	29	673,906	-	-	-	-	-	-
Balances with other banks	38,344,608	23,638,712	11,591,669	2,440,321	2,900,000	-	-	-	-	-	
Lending to financial institutions - net	17,128,032	11,479,091	2,748,941	4,552,586	7,953,889	21,132,154	13,945,026	20,368,725	4,627,948	3,177,461	
Investments - net	170,822,491	45,513,318	49,551,424	49,829,748	93,692,185	23,945,962	24,592,275	39,904,633	28,541,411	6,284,774	
Advances - net	412,986,865	76,906,008	69,289,869	-	-	-	-	-	-	24,217,655	
Operating fixed assets	24,217,655	-	-	-	-	-	-	1,336,227	1,868,345	-	
Deferred tax assets - net	3,204,572	-	-	-	-	-	-	436,000	-	-	
Other assets	44,550,347	12,551,883	8,705,557	4,333,590	120,727	4,572,125	13,830,465	-	35,037,704	33,679,890	
	817,758,326	252,851,309	165,628,890	61,156,274	105,340,667	49,650,241	52,367,766	62,045,585	-	-	
Liabilities											
Bills payable	10,219,061	10,219,061	11,745,400	-	617,883	2,973,667	2,068	73,903	-	-	
Borrowings	40,458,926	24,287,339	43,435,302	758,666	37,129,732	1,086,513	2,158,990	6,461,373	671,501	21,780	
Deposits and other accounts	624,939,016	474,243,390	43,435,302	59,730,435	371,299,732	1,086,513	2,158,990	6,461,373	671,501	21,780	
Sub-ordinated loans	-	-	-	4,042	7,713	5,841	1,281	1,635	-	-	
Liabilities against assets subject to finance lease	25,274	-	4,762	-	-	-	-	-	-	-	
Deferred tax liabilities - net	-	-	-	-	-	-	-	-	-	-	
Other liabilities	39,656,831	17,222,606	-	3,499,130	-	12,637,269	338,772	-	-	5,959,054	
Net assets	715,299,108	525,972,396	55,185,464	63,992,273	37,755,328	16,703,290	2,501,111	6,536,911	671,501	5,980,834	
Share capital	102,459,218	(273,121,087)	110,443,426	(2,835,999)	67,585,339	32,946,951	49,866,655	55,508,674	34,366,203	27,699,056	
Reserves	8969,751	19,941,047	52,456,204	21,092,216	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	
Unappropriated profit	19,941,047	52,456,204	21,092,216	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	
Surplus on revaluation of assets - net	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	102,459,218	



Notes to the Financial Statements

For the year ended December 31, 2008

	2007									
	Total	Upto 1 to 3 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									
Assets										
Cash and balances with treasury banks	94,873,249	69,240,803	14,742,960	10,889,486	-	-	-	-	-	-
Balances with other banks	37,472,832	23,645,914	12,725,102	762,098	338,118	1,600	-	-	-	-
Lending to financial institutions - net	21,464,600	15,672,337	1,443,081	4,349,182	-	-	-	-	-	-
Investments - net	211,146,038	26,225,322	22,378,225	34,574,390	69,514,554	29,711,008	2,880,074	13,530,157	8,911,184	3,421,124
Advances - net	340,318,930	45,521,163	65,490,236	31,780,478	71,060,327	24,660,187	27,781,383	38,312,610	18,933,410	16,779,136
Operating fixed assets	25,922,979	-	-	-	-	-	-	-	-	-
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	30,994,965	5,749,637	6,832,640	4,015,798	116,124	3,767,886	9,962,363	550,517	27,844,594	46,123,239
Liabilities										
Bills payable	7,061,902	7,061,902	-	290,939	-	183,715	140,011	-	-	-
Borrowings	10,815,176	2,795,232	6,454,577	67,477,692	662,226	7,435,245	1,837,228	288,476	390,226	55,413
Deposits and other accounts	591,907,435	467,752,411	30,029,348	4,297	10,438,842	12,735	4,112	6,491,030	-	-
Sub-ordinated loans	33,554	-	4,297	4,297	8,113	-	-	-	-	-
Liabilities against assets subject to finance lease	5,097,831	-	-	-	-	-	-	3,575,368	1,537,169	(14,706)
Deferred tax liabilities - net	30,940,041	-	-	-	-	-	-	2,502,682	-	-
Other liabilities	645,855,939	11,771,154	1,225,194	3,487,529	11,109,181	10,201,606	1,981,351	1,285,556	1,927,395	1,751,876
Net assets	116,337,654	(303,325,523)	85,898,828	15,110,975	129,919,942	40,807,380	38,642,469	39,535,728	25,917,199	44,330,656
Share capital	8,154,319	-	-	-	-	-	-	-	-	-
Reserves	15,772,124	-	-	-	-	-	-	-	-	-
Unappropriated profit	45,344,188	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets - net	47,067,023	-	-	-	-	-	-	-	-	-
	116,337,654	-	-	-	-	-	-	-	-	-

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

41.4 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. The bank seeks to ensure that key operational risk are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The key objectives of Operational Risk measurement and management include:

- Ensuring continued solvency of the bank through capital adequacy and enhanced understanding and management of significant operational risk exposures.
 - Ensuring that customer impact is minimised through proactive and focused risk management practices.
 - Ensuring senior management attention on significant operational risk exposure areas and that risk mitigation is given prioritized focus.
- The bank has undertaken the following high-level strategic initiatives for the effective implementation of Operational Risk Management:
- Recruiting skilled resources for Operational Risk Management.
 - Developing policies, procedures and defining end to end information flow to establish a vigorous governance infrastructure.



Notes to the Financial Statements

For the year ended December 31, 2008

42. SUBSEQUENT EVENT

The Board of Directors has proposed a cash dividend of Rs.6.5 per share (2007: Rs.7.5 per share) amounting to Rs.5,830 million (2007: Rs.6,115 million) and bonus shares in the proportion of 20 ordinary shares per 100 ordinary shares held (2007: 10) amounting to Rs. 1,794 million (2007: Rs. 815 million) at its meeting held on March 18, 2009 for approval of the members at the annual general meeting to be held on April 28, 2009. These financial statements do not reflect this appropriation as explained in note 5.15.

43. GENERAL

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

43.2 Corresponding figures have been re-arranged and re-classified wherever necessary, for the purpose of comparison. Major reclassifications are as follows:

Statement	Component	Reclassification from	Reclassification to	Rupees in '000
Balance sheet	Assets	Advances	Investments (Available-for-sale securities)	358,170
Balance sheet	Liabilities	Borrowings	Other Liabilities	70,887

44. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on March 18, 2009 by the Board of Directors of the Bank.

Chairman & President

Director

Director

Director