Samba Bank Limited
ANNUAL REPORT 2010

World Class Banking

samba سامبا

Company Information

Board of Directors	Syed Sajjad Razvi	Chairman
	Mr. Zaki Abdulmohsen Al-Mousa	Executive Director
	Mr. Beji Tak - Tak	Executive Director
	Dr. Shujaat Nadeem	Executive Director
	Mr. Farhat Abbas Mirza	Independent Non Executive Director
	Mr. Humayun Murad	Independent Non Executive Director
	Mr. Javed Iqbal	Independent Non Executive Director
	Mr. Zahid Zaheer	Independent Non Executive Director
	Mr. Tawfiq A. Husain	President & CEO
Audit Committee	Mr. Javed Iqbal	Chairman
	Mr. Beji Tak - Tak	Member
	Mr. Zahid Zaheer	Member
Board Risk Committee*	Mr. Beji Tak - Tak	Chairman
	Syed Sajjad Razvi	Member
	Mr. Humayun Murad	Member
	Mr. Tawfiq A. Husain	Member
President & Chief Executive Officer	Mr. Tawfiq A. Husain	
Company Secretary	Saima Kamila Khan**	
Auditors	A. F. Ferguson & Co.	Chartered Accountants
Legal Advisors	Mohsin Tayebaly & Co.	Advocates & Legal Consultants
Head Office & Registered Office	6th Floor, Sidco Avenue Centre, M.D.M. Wafai Road, Karachi	
Share Registrar	Famco Associates (Pvt.) Limited 1st Floor, State Life Building No. 1-A, I.I. Chundrigar Road, Karachi - 74000	
Help Line	11 11 SAMBA (72622)	
Website	www.samba.com.pk	
Credit Rating by JCR-VIS	Medium to Long Term Credit Rating	A (single A)
	Short Term Rating	A-1 (A-One)

* Board Credit Committee renamed w.e.f. October 20th, 2010
** Appointed w.e.f. October 25th, 2010.

Chairman's Message

I am pleased to present the annual financial performance of your bank for the year 2010 and to share my views on the outlook for 2011.

This year was exceptionally challenging for Pakistan's economy, largely driven by the devastating impact of the unprecedented floods which hit Pakistan in mid 2010. The economy was further burdened by the devastation caused by the floods which impacted the agricultural and infrastructural base of the country from the North to South.

Despite the challenges in 2010, your bank made significant progress in a number of areas. When analyzing the banking sector's nine month financials for September 2010, you will be pleased to note that your bank's deposits grew by over 22% compared to single digit growth shown by the banking sector as whole. Your bank's net loans showed a positive growth while the banking sector posted a decline in net loans. Samba Bank Limited's (SBL's) Net Revenues from Funded Facilities (NRFF) grew by 59% versus a much lower banking industry growth. Your bank's provisioning (net of recoveries) showed a remarkable 96% decline which is much higher than the industry. Very importantly, SBL's net spread grew by 24% which is again far better than the industry.

These are all very encouraging directional indicators and a validation of the success of our long term and sustainable strategy for SBL. Samba Financial Group's (SFG) long term commitment to SBL and Pakistan remains strong and unwavering as evidenced by the PKR 3.2 billion equity injection by SFG into your bank during 2010 through a rights issue. It may be noted that SFG also acquired the unsubscribed portion of the rights issue, increasing its shareholding in your bank to 80.68%.

In my view, 2011 will be another challenging year for the banking sector with the sluggish economy, government borrowing crowding out the private sector, increasing cost of doing business and increasing NPLs contributing significantly. It will, therefore, be necessary for the bank to continue implementing its long term strategy of identifying new and sustainable revenue streams, keeping a close check on its expenses, and improving operational and service efficiencies, wherever possible. We will continue to invest in and grow our core businesses including Corporate and Investment Banking, Retail Banking and Global Markets to grow our balance sheet and strengthen the quality of our earnings – both by deepening our existing relationships and building new ones through diligent risk management and diversification. Our strategy is yielding positive results and we are confident that continued focus will make this bank a flourishing franchise.

On behalf of the Board of Directors and management of the bank, I would like to extend our deepest appreciation to our valued clients for their confidence in the "Samba" brand and for their invaluable support in helping build our franchise. I can assure them of the continued highest quality of service for which the brand is recognized. I would like to sincerely appreciate the relentless efforts, hard work and commitment of our management and staff, who, I am confident, will achieve the goals the board has set for them in 2011. Last but not least, I would like to take this opportunity to thank our board members and my colleagues in SFG for their support and invaluable contributions to this franchise.

Syed Sajjad Razvi
Chairman

Six Years' Performance Highlights

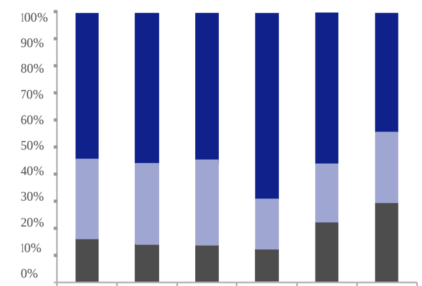
December 31	2005	2006	2007	2008	2009	2010
Balance Sheet		Restated				
	(Rupees in Million)					
Assets						
Cash and balances with treasury and other banks	950	915	1,067	1,106	1,669	2,446
Lending to financial institutions	778	493	8,566	2,313	3,123	1,389
Investments- Gross	2,352	2,473	4,277	4,232	6,224	11,347
Advances - Gross	5,332	4,013	7,105	8,606	12,343	14,747
Operating Fixed assets	831	846	854	1,158	1,112	1,001
Other assets - Gross	1,248	1,421	1,670	2,049	2,405	2,545
Total assets - Gross	11,491	10,161	23,539	19,464	26,876	33,476
Provisions against advances - specific & general	(1,608)	(1,618)	(2,413)	(2,443)	(2,620)	(2,610)
Provisions against diminution in value of investments	(191)	(245)	(329)	(402)	(416)	(256)
Provisions held against bad & doubtful other assets	(72)	(119)	(142)	(131)	(106)	(99)
Total assets - net of provision	9,620	8,179	20,655	16,488	23,734	30,511
Liabilities						
Customer deposits	5,985	5,578	12,645	9,860	12,521	14,872
Borrowings	1,259	442	183	438	3,141	6,535
Bills payable	57	51	1,057	55	78	116
Other liabilities	687	529	568	672	918	1,063
Total Liabilities	7,988	6,600	14,453	11,025	16,658	22,585
Net Assets / Liabilities	1,632	1,579	6,202	5,463	7,076	7,926
Share capital	2,216	2,770	8,770	8,770	8,770	14,335
Advance against proposed issue of shares	-	-	-	-	2,189	-
Reserves	136	43	43	43	43	43
Un - appropriated profit / (loss)	(741)	(1,220)	(2,594)	(3,336)	(3,929)	(6,442)
Equity	1,611	1,593	6,219	5,477	7,073	7,936
(Deficit)/ Surplus on revaluation of assets	21	(14)	(17)	(14)	3	(11)
Profitability						
Markup / Return / Interest earned	469	483	1,183	1,758	1,879	2,385
Markup / Rerurn / Interest expensed	403	552	838	1,071	1,259	1,350
Net Markup / Interest income	66	(69)	345	687	620	1,034
Fee, Commission, Brokerage and Exchange income	76	21	15	61	113	133
Capital gain & Dividend income	21	43	85	17	4	44
Other income	21	20	28	47	25	144
Non interest income	118	84	128	125	142	321
Gross income	184	15	473	812	762	1,356
Operating expenses	(514)	(681)	(893)	(1,510)	(1,456)	(1,462)
Profit / (Loss) before provisions	(330)	(666)	(420)	(698)	(694)	(107)
Provisions / direct write offs	(409)	(183)	(953)	(313)	(374)	(24)
Profit / (Loss) before taxation	(739)	(849)	(1,373)	(1,011)	(1,068)	(130)
Taxation	(5)	261	50	269	475	11
Profit / (Loss) after taxation	(744)	(588)	(1,323)	(742)	(593)	(120)

Six Years' Performance Highlights

December 31		2005	2006	2007	2008	2009	2010
Financial Ratios							
Return on equity (RoE)	%	-37.5%	-36.7%	-33.9%	-12.7%	-9.5%	-1.6%
Return on assets (RoA)	%	-7.4%	-6.6%	-9.2%	-4.0%	-2.9%	-0.4%
Profit before tax ratio (Profit before tax / Gross Income)	%	-403.9%	-5449.6%	-289.9%	-124.5%	-140.2%	-9.6%
Gross spread ratio	%	14.1%	-14.2%	29.2%	39.1%	33.0%	43.4%
Return on capital employed (ROCE)	%	-37.5%	-36.7%	-33.9%	-12.7%	-9.5%	-1.6%
Advances to deposits ratio (ADR)	%	62.2%	42.9%	37.1%	62.5%	77.7%	*81.6%
Income to expense ratio	Times	0.4	0.02	0.5	0.5	0.5	0.9
Efficiency Ratio (cost to revenue)	%	278.9%	4677.8%	188.5%	185.9%	191.1%	107.9%
Growth in gross income	%	-14.1%	-91.5%	2941.6%	71.5%	-6.2%	77.9%
Growth in net profit / (loss) after tax	%	-752.9%	21%	-125.1%	43.9%	20.1%	79.8%
Total assets to shareholders' funds	Times	6.0	5.1	3.3	3	3.4	3.8
Intermediation cost ratio	%	9.3%	11.8%	9.8%	13.4%	13.0%	10.7%
NPL ratio	%	38.9%	49.5%	26.4%	22.8%	22.1%	18.4%
Net infection ratio	%	13.3%	20.8%	1.7%	2.8%	1.9%	1.1%
Share Information							
Earning Per Share (EPS)	Rs.	(3.36)	(2.21)	(1.82)	(0.85)	(0.68)	(0.10)
Market value per share - at the end of the year	Rs.	15.40	15.10	20.95	4.94	3.31	1.96
Market value per share - highest / lowest during the year	Rs.	18.50/9.10	19.0/7.75	25.10/14.60	21.50/3.55	7.00/2.60	3.59/1.73
Book value per share	Rs.	7.4	5.7	7.1	6.2	8.1	5.5
Other Information							
Non - performing loans (NPLs)	Rs. in millions	2,073	1,987	1,872	1,961	2,726	2,711
Number of employees	Nos.	495	709	1,224	1,026	787	810
Number of branches	Nos.	18	18	28	28	28	28

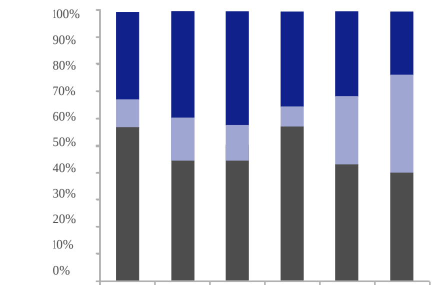
*ADR as per SBP BSD Circular No. 28 of 2008 dated Oct 26, 2008 is 48.4%.

Deposits Composition



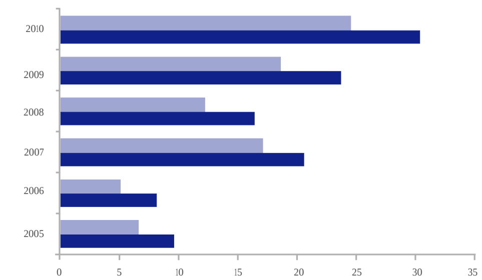
	2005	2006	2007	2008	2009	2010
Term	3,279	3,094	6,922	6,823	6,943	6,572
Saving	1,744	1,691	4,003	1,846	2,762	3,965
Current	961	793	1,720	1,191	2,816	4,335

Asset Composition



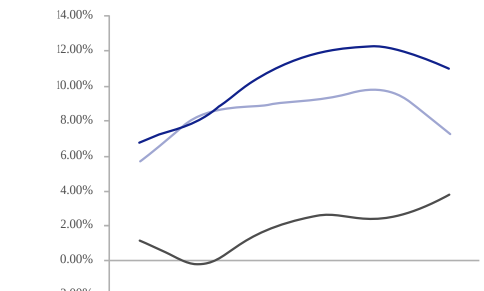
	2005	2006	2007	2008	2009	2010
Others	2,161	2,153	3,948	3,829	7,245	7,282
Investment-net	693	846	723	838	5,808	11,091
Advances-net	3,724	2,395	4,693	6,163	9,723	12,138

Assets



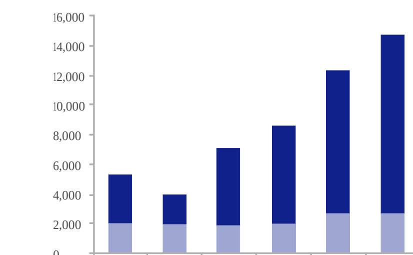
	2005	2006	2007	2008	2009	2010
Earning Assets	6,662	5,117	17,206	12,306	18,654	24,618
Non-Earning Assets	9,614	8,174	20,638	16,476	23,715	30,487

Yield on Assets Cost of Funds & Spread



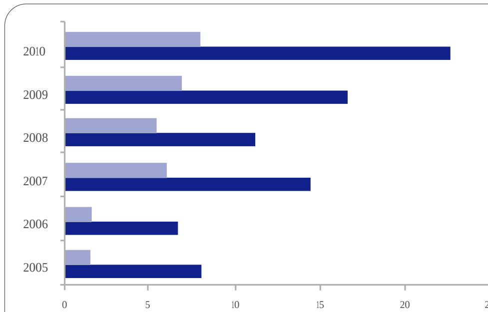
	2005	2006	2007	2008	2009	2010
Yield on Assets	6.79%	8.20%	10.60%	11.91%	12.14%	11.02%
Cost of funds	5.64%	8.32%	8.89%	9.27%	9.70%	7.29%
Spread	1.15%	-0.12%	1.71%	2.65%	2.44%	3.74%

Gross Loans & NPL



	2005	2006	2007	2008	2009	2010
Gross Loans	5,332	4,013	7,105	8,606	12,343	14,747
NPL	2,073	1,987	1,872	1,961	2,726	2,711

Liabilities



	2005	2006	2007	2008	2009	2010
Equity	1,632	1,579	6,202	5,463	7,076	7,926
Liabilities	7,988	6,600	14,453	11,025	16,658	22,586

Vertical and Horizontal Analysis

VERTICAL ANALYSIS

Balance Sheet	2005	2006	2007	2008	2009	2010
Assets						
Cash and balances with treasury and other banks	9.9%	11.2%	5.2%	6.7%	7.0%	8.0%
Lending to financial institutions	8.1%	6.0%	41.5%	14.0%	13.2%	4.6%
Investments- Net	22.5%	27.2%	19.1%	23.2%	24.5%	36.4%
Advances - Net	38.7%	29.3%	22.7%	37.4%	41.0%	39.8%
Operating Fixed assets	8.6%	10.3%	4.1%	7.0%	4.7%	3.3%
Other assets - Net	12.2%	15.9%	7.4%	11.6%	9.7%	8.0%
Total assets - Net	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities						
Customer deposits	62.2%	68.2%	61.2%	59.8%	52.8%	48.7%
Borrowings	13.1%	5.4%	0.9%	2.7%	13.2%	21.4%
Bills payable	0.6%	0.6%	5.1%	0.3%	0.3%	0.4%
Other liabilities	7.1%	6.5%	2.7%	4.1%	3.9%	3.5%
Total Liabilities	83.0%	80.7%	70.0%	66.9%	70.2%	74.0%
Share capital	23.0%	33.9%	42.5%	53.2%	46.2%	47.0%
Reserves	1.4%	0.5%	0.2%	0.3%	0.2%	0.1%
Un - appropriated profit / (loss)	-7.7%	-14.9%	-12.6%	-20.2%	-16.6%	-21.1%
Equity	16.7%	19.5%	30.1%	33.2%	29.8%	26.0%
Surplus on revaluation of assets	0.2%	-0.2%	-0.1%	-0.1%	0.0%	0.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

HORIZONTAL ANALYSIS

Balance Sheet	2005	2006	2007	2008	2009	2010
Assets						
Cash and balances with treasury and other banks	100.0%	96.3%	112.3%	116.4%	175.7%	257.5%
Lending to financial institutions	100.0%	63.5%	1101.6%	297.5%	401.6%	178.6%
Investments- Net	100.0%	103.1%	182.7%	177.2%	268.8%	513.3%
Advances - Net	100.0%	64.3%	126.0%	165.5%	261.1%	326.0%
Operating Fixed assets	100.0%	101.9%	102.8%	139.4%	133.9%	120.5%
Other assets - Net	100.0%	110.7%	130.0%	163.1%	195.5%	208.0%
Total assets - Net	100.0%	85.0%	214.7%	171.4%	246.7%	317.1%
Liabilities						
Customer deposits	100.0%	93.2%	211.3%	164.7%	209.2%	248.5%
Borrowings	100.0%	35.1%	14.5%	34.8%	249.5%	519.1%
Bills payable	100.0%	89.0%	1857.3%	97.3%	137.1%	203.4%
Other liabilities	100.0%	77.1%	82.7%	97.9%	133.7%	154.8%
Total Liabilities	100.0%	82.6%	180.9%	138.0%	208.5%	282.7%
Share capital	100.0%	125.0%	395.8%	395.8%	395.8%	647.0%
Reserves	100.0%	31.6%	31.6%	31.6%	31.5%	31.6%
Un - appropriated profit / (loss)	100.0%	164.7%	350.1%	450.3%	530.4%	869.5%
Equity	100.0%	96.7%	380%	334.7%	433.5%	485.6%
Surplus on revaluations of assets	100.0%	-65.2%	-83.0%	-67.3%	14.2%	-50.2%
	100.0%	85.0%	214.7%	171.4%	246.7%	317.1%

Statement of Value Addition

	2010	2009
	(Rupees in thousand)	
Value Added		
Income from banking services	1,327,171	751,816
Cost of services	(646,835)	(655,709)
Value added by banking services	680,336	96,107
Non - banking income	28,405	10,177
Provision against non-performing assets	(23,565)	(373,929)
	685,176	(267,645)
Value Allocated to employees		
Salaries, allowances and other benefits	655,124	634,360
to Government		
Income tax	(10,702)	(475,371)
to providers of capital		
as dividends	-	-
to expansion and growth		
Depreciation / Amortization	160,348	166,419
Retained in business	(119,594)	(593,053)
	685,176	(267,645)

Directors' Report

On behalf of the Board of Directors, I would like to present the annual report of the Bank along with its Audited Financial Statements and Auditors' report for the year ended December 31, 2010.

Economic Highlights

The macroeconomic situation of the country remains stressed in the near term mainly because of increasing fiscal deficit and persisting high inflation. However, the Balance of Payment position is doing better largely due to increasing exports and higher worker remittances. As a result, the exchange rate has been fairly stable, with PKR depreciating only by 1.09% in 2010. For the first time in eight years, current account balance posted a surplus of USD 26 million in 1HFY11. However, unprecedented rains and flooding in 2010 have caused widespread damage to the agriculture sector and rural infrastructure.

CPI stood at 15.46% in December 2010 on a year-on-year basis. State bank of Pakistan (SBP) increased discount rate by another 50 bps to 14.0% in November 2010, to control inflation, but maintained it in end January 2011.

Issuance of Right shares

State Bank of Pakistan has specified minimum capital requirements for all commercial banks operating in Pakistan. As per these requirements, banks are required to raise their capital to Rs. 10 billion (net of losses), in a phased manner by December 31, 2013. The minimum paid-up capital requirement to be achieved by December 31, 2010 was Rs. 7 billion (net of accumulated losses), against which your Bank's capital, net off accumulated losses, stands at Rs. 7.9 billion.

In order to comply with the minimum paid-up capital requirement, and in accordance with the resolution approved in the Extraordinary General Meeting of the bank held on December 30, 2009, your bank has issued 556.522 million ordinary shares of par value of Rs. 10 per each share at a discounted subscription price of Rs 5.75 per share to all existing shareholders of the bank. Our parent, Samba Financial Group (SFG), after subscribing to its share in advance, had also underwritten the remaining right issue and increased its holding percentage from 68.42% in 2009 to 80.68% in 2010.

Bank Operating Results and Financial Review

	2010	2009
	(Rupees in thousand)	
Operational loss before provisions and taxation	(106,731)	(694,495)
Provisions / direct write offs	(23,565)	(373,929)
Loss before taxation	(130,296)	(1,068,424)
Taxation	10,702	475,371
Loss after taxation	(119,594)	(593,053)
Loss per share – Rupees	(0.10)	(0.68)

In spite of the challenging market conditions in 2010, your bank achieved significantly improved results. By ensuring robust risk management and focusing on its strategic objectives, your bank demonstrated strong performance in deposit growth and mix, consistent loan growth and other operational indicators.

During 2010, your bank registered a pre-tax loss of Rs. 130 million compared to Rs. 1,068 million in 2009, an impressive improvement of 878%. With post-tax loss of Rs. 120 million, this translates into loss per share of Rs. 0.10 (Year 2009: Rs. 0.68). These results demonstrate the bank's emphasis on improving operational efficiency, managing the cost of funds and accelerating growth of its earning assets, while ensuring asset quality.

Net markup income of the bank increased by 67% to Rs. 1,034 million, as compared to Rs. 620 million in 2009. This demonstrates the success of the management's focused approach to grow the deposits, reduce the cost of funds and build good quality corporate loans. Similarly, provisions declined substantially due to the bank's prudent approach to risk taking in the prevailing lending environment and aggressive and sustained collection and recovery of the legacy infected loan portfolio.

To fund the growth of its asset base, your bank increased its deposit base by 19% to Rs. 14,872 million. Despite the pressures on deposit pricing, your bank managed its cost of deposits by improving the deposit mix. This was achieved by reducing price-sensitive and expensive deposits and replacing them with stable low cost deposits. One of the most important achievements in 2010 was the improvement in the deposit mix, where Current Accounts and Saving Accounts (CASA) proportion improved from 44% to 56%.

Non Interest Income of the bank registered an increase of 126%, mainly due to increase in fee income, dividend income and some capital gains.

Credit Rating

As a result of strong liquidity position and its strategic direction, your bank's medium to long term credit rating maintained as A (single A) whereas its short term rating remained as A-1 (A-One) as issued by JCR-VIS Credit rating Agency. These long and short term ratings, respectively, denote the low credit risk due to the adequate credit quality with reasonable protection and strong capacity for timely payment of the financial commitments.

Statement of Internal Controls

The Board is pleased to endorse the management's statement on the evaluation of internal control which is included in the annual report.

Risk Management Framework

A thorough understanding of risk is a key element of the bank's business strategy. Your bank's aim is to achieve high standards in risk management, therefore, great emphasis is put in managing and monitoring risk to ensure ongoing compliance with the approved risk limits and regulatory requirements. Your bank's risk and capital management framework is continuously developed and mapped against international guidelines and best-practice recommendations. Disclosure of risk levels is important to ensure credibility and transparency in our relationship with depositors, shareholders, customers, regulatory authorities and the public in general. These risks (Credit, Market, Liquidity and Operational) are discussed in detail in notes 42 to the annexed financial statements.

Statement Under Code of Corporate Governance / Corporate and Financial Reporting Framework

The Board of Directors is aware of its responsibilities under the Code of Corporate Governance and is pleased to report and certify that:

- The financial statements prepared by the management of the bank fairly present its state of affairs, the result of its operations, comprehensive income, cash flows, and changes in equity;
- Proper books of accounts of the bank have been maintained;
- Appropriate accounting policies have been consistently applied in the preparation of financial statements, except for the changes as mentioned in note 3.5 of financial statements. Accounting estimates are based on reasonable and prudent judgment;
- International Accounting Standards, as applicable in Pakistan and adopted by the State Bank of Pakistan, have been followed in preparation of the Bank's financial statements and departures, if any have been adequately disclosed;

- The system of internal control is sound in design and has been effectively implemented and monitored on best efforts basis;
- There are no doubts about the Bank's ability to continue as a going concern;
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations;
- A summary of key operating and financial data for the last six years is included in this Annual Report;
- A statement showing the pattern of shareholding in the Bank as at December 31, 2010 is annexed;
- The book value of investments of Staff Provident Fund is Rs. 45.089 million as per the audited accounts of the fund for the year ended December 31, 2008.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as of December 31, 2010 except as disclosed in these financial statements.
- Statement of Compliance with the Code of Corporate Governance is annexed;
- In view of the loss for the year, no dividend is proposed to be paid for the year; and
- The financial statements of the Bank have been audited without qualification by auditors of the bank, Messrs A. F. Ferguson & Company, Chartered Accountants.

Share Acquisitions By Directors & Executives

The pattern of shareholding and additional information regarding pattern of shareholding is attached separately. No trade in the shares of the bank was carried out by the Directors, CEO, CFO and Company Secretary and their spouses and minor children, except for one of the directors, Mr. Humayun Murad, purchased 500 qualifying shares of the Bank.

Meetings of The Board

Five Board meetings were held during the year under review. The Board granted leave of absence to the directors who did not attend the meetings. The number of meetings attended by each director are:

S. No.	Name	Designation	No. of Meetings Attended
1	Syed Sajjad Razvi	Chairman	5
2	Mr. Tawfiq A. Husain	President & CEO	5
3	Mr. Beji Tak-Tak	Director	5
4	Mr. Farhat Abbas Mirza	Director	5
5	Mr. Javed Iqbal	Director	5
6	Mr. Humayun Murad	Director	4
7	Dr. Shujaat Nadeem	Director	4
8	Mr. Zaki Abdul Mohsen Al Mousa	Director	4
9	Mr. Zahid Zaheer	Director	5

Auditors

The present external auditors Messrs A. F. Ferguson & Company, Chartered Accountants retire and, being eligible, offer themselves for re-appointment. The Board of Directors, on the suggestion of the Audit Committee, recommended Messrs A. F. Ferguson & Company, Chartered Accountants (local representative of Price Waterhouse Coopers) for the next term.

Events after the Balance Sheet date

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the enclosed financial statements.

Future Outlook

The management believes that Pakistan's business environment will remain challenging, with some macroeconomic imbalances and energy shortage. Considering the damage to infrastructure in the recent flooding and the massive clean-up costs necessary to get the economy back on its feet, the management believes that the country's economy will remain stressed in 2011, particularly because of the high fiscal deficit and persisting high inflation.

Your bank, benefiting from the world class banking products and services of its parent, is transforming into a successful franchise, with a sustainable business model and consistent income stream. To achieve this, its focus will be to continue to steadily build up its earning assets, while effectively managing the associated risks, reducing its cost of funds by changing the deposit mix, managing its expense base and scaling up its retail part of the business.

Acknowledgement

On behalf of the Board of Directors and management, I wish to express sincere gratitude to our customers, business partners and shareholders for their patronage and trust. The Board and management thank State Bank of Pakistan and other regulatory agencies for their guidance and support. The Board of Directors and the management sincerely appreciate the dedication, commitment and team work of all its employees who are working very hard to transform your bank into a successful and flourishing franchise.

On behalf of Board,

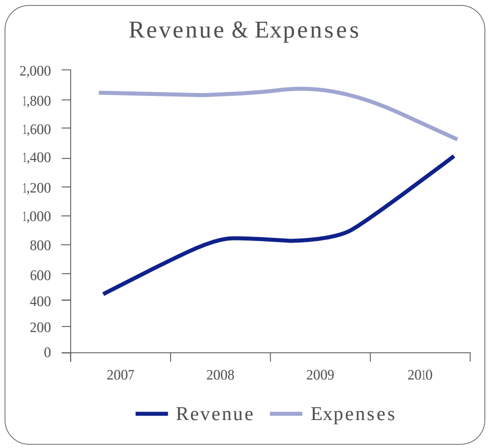
Tawfiq A. Husain
President and Chief Executive Officer

Dated: February 28, 2011
Karachi

Management Discussion & Analysis

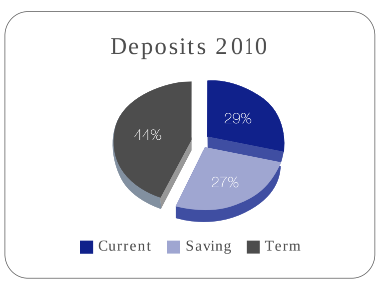
Profit & Loss

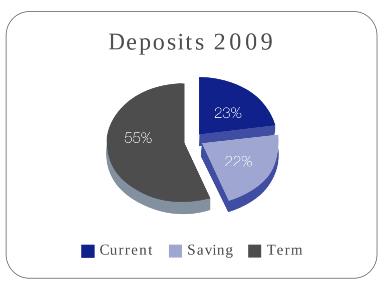
The bank has strengthened and increased its balance sheet size and, as a result, reduced its pre-tax loss to Rs. 130 million as compared to Rs. 1,068 million in year 2009. This was primarily achieved through better fund and yield management to improve the revenue base. On an overall basis, strong corporate banking performance, targeted deposit mobilization, lower provisioning for non-performing loans and investments, increased in fee and commission, strong expense control and effective balance sheet management are the key factors behind this improved growth. This resulted in the after tax loss for the year ended 2010 to decline by Rs. 474 million or 80% over 2009.



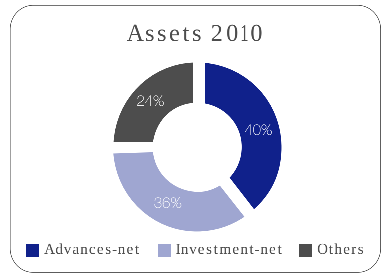
Net Mark-up Income

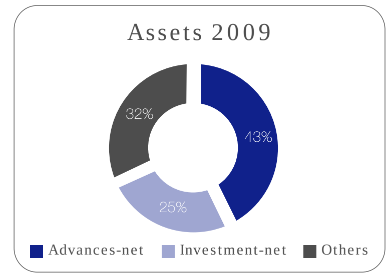
The net mark-up income registered an increase of Rs. 414 million or 67% over 2009. The bank grew its net loan book by Rs. 2.4 billion or 25% over 2009. The deposits also increased by 19% over 2009 while improving CASA mix from 44% in 2009 to 56% in 2010.





During 2010, mark-up income grew by 27% to reach Rs. 2.4 billion. The management emphasized on growing quality earning assets as evidence by reduction in provision for investments and advances. Mark-up income on loans increased by Rs. 353 million or 15%, income on investments remained almost as in 2009, while there was an increase in income on lending to financial institutions of Rs. 169 million or 47% over 2009.

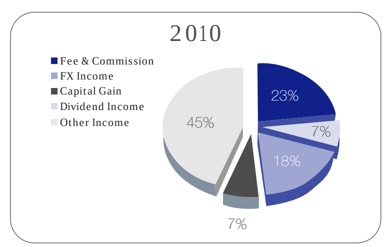


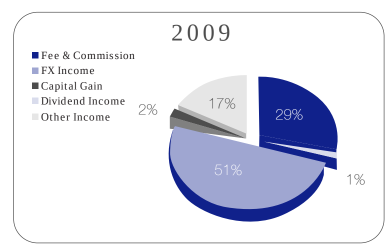


On the cost of funds, mark-up expense rose to Rs. 1.35 billion or 7% over 2009. The major factor was the increase in mark-up expense on deposits, other short term borrowings and SBP export refinance borrowings, which rose by Rs. 133 million, Rs. 12 million and Rs. 39 million over 2009 respectively. Lower cost of depsoits was achieved by a focused approach to improve the deposit mix by reducing expensive price-sensitive large ticket deposits and replacing them with stable low cost and non remunerative deposits.

Non Mark-up Income

The non mark up income increased by Rs. 179 million or 126% over 2009. The major factors affecting the increase were higher fee based activities and some capital gains.





Non Markup Expenses

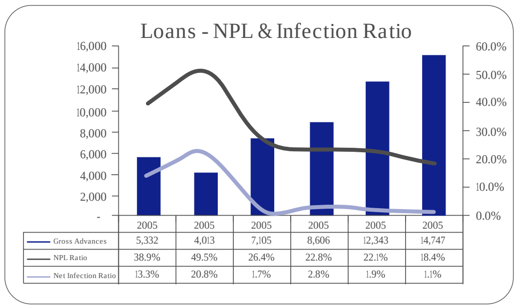
Inspite of increasing cost of doing business, non mark-up expenses of the bank reduced by Rs. 123 million or 8% over 2009. With the

CPI inflation over 15% in December 2010, the bank contained its operating expenses resulting in a year on year increase of merely 3%. This was primarily achieved through exercising effective expense management. Other provisions and write offs declined by of Rs. 128 million or 95% over 2009.

Loan Book & Asset Quality Analysis

Loan portfolio of the bank grew by 19% to Rs.14.7 billion, as against Rs. 12.3 billion last year. This was largely achieved with gradual build up of high quality corporate loans.

Inspite of the challenges facing the economy and related stress on various sectors and segments, SBL was able to reduce the NPLs by Rs. 15 million.



Given below are the comparative figures for 2010 and 2009 showing the decrease in Non Performing Loans (NPLs):

	December 31,2010		December 31,2009	
	(Rupees in thousand)			
Performing Loans	12,036,022	81.61%	9,617,065	77.91%
Non – Performing Loans				
Substandard	87,352	0.59%	158,112	1.28%
Doubtful	2,098	0.01%	9,341	0.08%
Loss	2,621,849	17.78%	2,558,842	20.73%
	2,711,299		2,726,295	
Total	14,747,321		12,343,360	

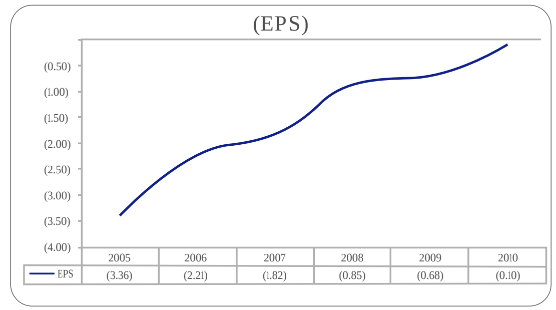
NPL ratio improved from last year's 22% to 18% this year with net infection ratio improved to 1.07% from 1.87% witnessed last year.

Deposits

To improve the product mix and to manage the funding cost, the management continued reducing high cost deposits and replacing these with low cost CASA deposits. Despite the intense price competition, the bank managed to increase its total deposit base as well as improved its CASA mix. The total deposits increased by Rs. 2.3 billion or 19% over 2009. The current accounts (non-remunerative) and savings accounts (low cost) increased by Rs. 1.5 billion and Rs. 1.2 billion, respectively, while the fixed deposits reduced by Rs. 370 million.

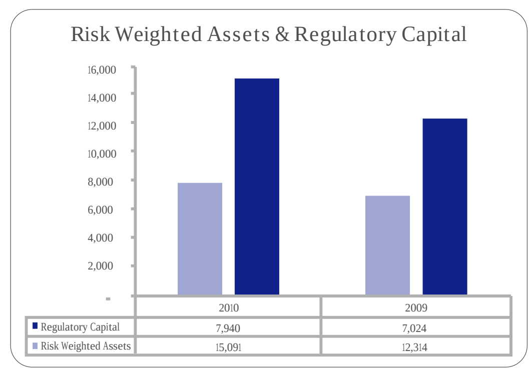
Earnings per Share (EPS)

The Earnings per share of the Bank for the year ended 2010 is Rs. (0.10) per share, improved by 85% from last year's Rs. (0.68) per share.



Capital Adequacy

To meet State Bank of Pakistan's minimum capital requirement, the bank increased its share capital (net of losses) to Rs. 7,936 million in 2010, with Capital Adequacy Ratio (CAR) of 52.61% as of December 31, 2010, against 57.04% of 2009.



Statement of Ethics and Business Practices

The Organization of Samba Bank Limited will be guided by the following principles in its pursuit of excellence in all activities for attainment of the organizational objectives:

As Director:

- Formulate and monitor the objectives, strategies and overall business plan of the Company.
- Oversee that the affairs of the Company are being carried out prudently within the framework of existing laws & regulations and high business ethics.
- Ensure compliance of legal and regulatory requirements.
- Protect the interest and assets of the Company.
- Maintain organizational effectiveness for the achievement of organizational goals.
- Foster a conducive environment through responsive policies.
- Ensure that the Company's interest supersedes all other interest.
- Transparency in the functioning of the Company.
- Ensure efficient and effective use of the Company's resources.

As Executives, Managers and Staff:

- Follow the policy guidelines strictly adhering to the rules and procedures as approved by the Board including Whistle Blowers Policy, Anti Money Laundering (AML) / Combating Terrorist Financing (CTF) and Customer Due Diligence (CDD) / Know Your Customer (KYC) Policies, Policies & Standard Practices, Fraud Management Policy & Procedures, IT Security Policy, Bond of Secrecy, Employee's Agreement respecting Security and Confidentiality of Information, Conflict of Interest, Patent and Confidential Information Agreement, Samba Bank Employee Information Security Guide, Staff Provident Fund Declaration, Compliance Policy, Employees Trading Policy & Chinese Wall Policy.
- Strive and work diligently for profitable operations of the Company.
- Provide direction and leadership for the organization.
- Ensure client satisfaction through offering quality products and service.
- Promote a culture of excellence, conservation and continual improvement.
- Cultivate work ethics and harmony among colleagues and associates.
- Encourage initiatives and self-realization in employees.
- Ensure an equitable way of working and reward system.
- Institute commitment to healthy environment.
- Productive devotion of time and efforts.
- Promote and protect the interest of the Company and ensure that the company's interest supersedes all other interest.
- Exercise prudence in using the Company's resources.
- Observe cost effective practices in daily activities.
- Strive for excellence and quality.
- Avoid making personal gains (other than authorized salary and benefits) at the company's expense, participating in or assisting activities which compete with those of Samba Bank Limited.
- Appreciate, encourage and create succession in related area(s) of work.

Financial Integrity:

- Compliance with accepted accounting rules and procedures.
- In addition to being duly authorized, all transactions must be properly and fully recorded. No record entry or document may be false or misleading and no undisclosed and unrecorded account, fund or asset may be established or maintained. No corporate payment may be requested, approved or made with the intention that any part of such payment is to be used for any purpose other than as described in the document supporting it.
- All Information supplied to the auditors must be complete and not misleading.
- Samba Bank Limited will not knowingly assist fraudulent activities by others.

Statement of Internal Controls

The management is responsible for establishing and maintaining adequate controls designed to provide reasonable assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations.

Development of internal control system is an ongoing process. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The responsibility of adherence to controls mainly lies with the business where the risk arises. For monitoring the effectiveness of internal control system, the bank has set roles for certain functions such as Audit & Risk Review (ARR), Compliance and control and operations risk units. ARR periodically carries out audits for branches and various departments to monitor compliance with the bank's standards and regulatory requirements. Compliance ensures that the bank follows all regulatory requirements and Know Your Customer / Anti Money Laundering policies. A Control and Operational Risk unit functions within Risk Management and periodically carries out quality assurance reviews of the processes and transactions of banking operations in order to ensure compliance of bank's policies and regulatory requirements. An accountability process is in place to ensure the effectiveness of the control environment. Management gives due consideration to the recommendations made by the internal and external auditors and regulators, especially for improvements in the internal control systems, and takes timely action to implement such recommendations.

To implement the Internal Control Guidelines as required by State Bank of Pakistan in BSD Circular No. 7 of 2004, the bank is already in the process of carrying out a detailed exercise including documentation and benchmarking of existing processes and controls relating to financial reporting on internationally accepted standards through consultants, with the appropriate expertise. This project will help in further improving the quality of internal controls across the bank and in ensuring compliance with the SBP requirement for external auditors' opinion and report on Board's endorsement regarding efficacy of Bank's internal control over financial reporting. As required by State Bank of Pakistan, a detailed status report on Internal Control over Financial Reporting (ICFR Project) has been submitted to SBP duly reviewed by Banks' Board Audit Committee. Furthermore, statuary auditors of the bank will submit a Long Form Report on overall progress being made on internal control over financial reporting.

The Board of Directors is ultimately responsible for the internal control system and endorses the above evaluation by management.

Tawfiq A. Husain
President and Chief Executive Officer

Dated: February 28, 2011
Karachi

Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2010

This statement is being presented to comply with the clause (xlv) and (xlvi) of the Code of Corporate Governance contained in Regulation No. 35 of Chapter XI and Regulation No. 36 of Chapter XII of Listing Regulations of the Karachi Stock Exchange (Guarantee) Limited, Lahore Stock Exchange (Guarantee) Limited and Islamabad Stock Exchange (Guarantee) Limited respectively for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

1. The Bank encourages representation of independent non-executive directors on its Board of Directors. At present, the Board consists of four independent non-executive Directors.

2. The Directors have confirmed that none of them is serving as a Director in more than ten listed companies, including this Bank.

3. All the resident Directors of the Bank are registered as taxpayers and neither of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non-banking Financial Institution. None of the resident Directors is a member of any of the stock exchanges on which the Bank's shares are listed.

4. One casual vacancy occured in board during the year. The vacancy was filled up as per requirements of Companies Ordinance, 1984.

5. The Bank has prepared a 'Statement of Ethics & Business Practices', which is circulated and signed every year by all the Directors and employees of the Bank.

6. The Board has developed a vision / mission statement, while corporate strategies and significant policies of the Bank have been made with appropriate delegation of authorities and responsibilities to various levels of the management. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, have been taken by the Board.

8. All the meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated on time.

9. The Directors have been provided with the copies of the Listing regulations of the Stock Exchange, the Bank's Memorandum and Articles of Association and the Code of Corporate Governance. All the directors are well conversant with their duties and responsibilities and affairs of the Bank.

10. The Board has approved the appointment of the Chief Financial Officer and Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the Chief Executive Officer.

11. The Directors' report for this year has been prepared in compliance

with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Bank were duly endorsed by the Chief Executive Officer and the Chief Financial Officer, before approval of the Board.

13. The Directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.

14. The Bank has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of three members. Two of them are non-executive Directors including the Chairman of the Committee.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of quarterly, half yearly and final results of the Bank and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

17. The Board has set up an Internal Audit Function. The staff of the Internal Audit Department are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank. The Internal Audit Department is involved in the Internal Audit Function of the Bank on a full time basis.

18. The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.

19. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors with necessary justifications for non-arm's length transactions, if any and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. We confirm that all other material principles contained in the Code have been complied with.

Syed Sajjad Razvi
Chairman

Notice of the Eighth Annual General Meeting

NOTICE IS HEREBY GIVEN that the Eighth Annual General Meeting of Samba Bank Limited will be held on Monday, March 28th, 2011 at 11:00 a.m. at the Hotel Beach Luxury, Karachi, to transact the following business:

Ordinary Business

1. To confirm the minutes of the Seventh Annual General Meeting of the Bank held on March 29th, 2010.

2. To receive and consider the Balance Sheet and Profit & Loss Account together with the Directors' and Auditors' Reports for the year ended December 31st, 2010.

3. To appoint Auditors and to fix their remuneration.

Other Business

To transact any other business of the Bank with the approval of the Chair.

March 7th, 2011
Karachi

Saima Kamila Khan
Company Secretary

Notes:

1. Share Transfer Books of the Bank will remain closed from March 22nd, 2011 to March 28th, 2011 (both days inclusive). Transfer received in order at the Bank's Registrar, M/s Famco Associates (Pvt.) Limited, State Life Building No.1-A, 1st Floor, I.I. Chundrigar Road, Karachi upto close of business on March 21, 2011 will be considered in time.

2. A member eligible to attend and vote at this meeting may appoint another member as his/her proxy to attend vote and speak at the meeting instead of him/her. Proxies, in order to be effective, must be received at the Bank's Registered Office, not less than 48 hours before the time for holding the meeting and must be duly stamped, signed and witnessed.

3. An instrument of proxy applicable for the Meeting (in which you can direct the proxy how you wish him to vote) is being provided with the notice sent to Members. Further copies of the instrument of proxy may be obtained from the Registered Office of the Bank during normal office hours.

4. An instrument of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must, to be valid, be deposited at the Registered Office of the Bank not less than 48 hours before the time of the Meeting.

5. Members are requested to notify immediately changes, if any, in their registered address.

A. For Attending the Meeting:

(i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the CDC Regulations, shall authenticate his identity by showing his original Computrised National Identity Card, (CNIC) or original passport at the time of attending the Meeting.

(ii) In case of a corporate entity, the board of directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

B. For Appointing Proxies:

(i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account, and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.

(ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.

(iii) Attested copies of CNIC or the passport, of the beneficial owners and the proxy shall be furnished with the proxy form.

(iv) The proxy shall produce his original CNIC or original passport at the time of the Meeting.

(v) In case a of corporate entity, the board of directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

Review Report to the Members on Statement of Compliance with the Best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Samba Bank Limited ('the Bank') to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by State Bank of Pakistan, Regulation No. 35 of Chapter XI contained in the Listing Regulations issued by the Karachi Stock Exchange, the Lahore Stock Exchange and the Islamabad Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such controls.

Sub-Regulation (xiii a) of Listing Regulation No. 35 as notified by all the three stock exchanges on which the Bank is listed requires the Bank to place before the board of directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arms' length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of the above requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2010.

A. F. Ferguson & Co.

Chartered Accountants

Dated: March 5, 2011
Karachi

for the year ended December 31, 2010

Auditors' Report To The Members

We have audited the annexed statement of financial position of Samba Bank Limited as at December 31, 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the un-audited certified returns from the branches except for eight branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the bank's management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in the case of loans and advances covered more than sixty percent of the total loans and advances of the bank, we report that:

(a) in our opinion, proper books of account have been kept by the bank as required by the Companies Ordinance, 1984 (XLVII of 1984), and the returns referred to above received from the branches have been found adequate for the purposes of our audit;

(b) in our opinion:

(i) the statement of financial position and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the bank's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the bank and the transactions of the bank which have come to our notice have been within the powers of the bank;

(c) in our opinion and to the best of our information and according to the explanations given to us the statement of financial position, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2010, and its true balance of loss, its comprehensive loss, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

A. F. Ferguson & Co.

Chartered Accountants
Engagement Partner: Salman Hussain

Dated: March 5, 2011
Karachi

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010

	Note	2010	2009
		(Rupees in thousand)	
ASSETS			
Cash and balances with treasury banks	6	1,250,011	961,280
Balances with other banks	7	1,195,948	707,912
Lendings to financial institutions	8	1,389,003	3,123,377
Investments - net	9	11,090,905	5,807,829
Advances - net	10	12,137,786	9,723,411
Operating fixed assets	11	1,001,413	1,112,169
Deferred tax asset - net	12	1,601,463	1,550,008
Other assets - net	13	844,591	748,140
		30,511,120	23,734,126
LIABILITIES			
Bills payable	15	115,759	78,127
Borrowings	16	6,534,994	3,141,284
Deposits and other accounts	17	14,871,806	12,520,633
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	18	279	279
Deferred tax liabilities		-	-
Other liabilities	19	1,062,604	918,143
		22,585,442	16,658,466
NET ASSETS		7,925,678	7,075,660
REPRESENTED BY:			
Share capital	20	14,334,734	8,769,517
Reserves		43,080	43,080
Advance share subscription money received against proposed issue of right shares		-	2,189,440
Accumulated loss		(6,441,559)	(3,929,320)
		7,936,255	7,072,717
(Deficit) / surplus on revaluation of assets - net of tax	21	(10,577)	2,943
		7,925,678	7,075,660
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 49 and Annexure 1 form an integral part of these financial statements.

President and Chief Executive Officer | Chairman | Director | Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		(Rupees in thousand)	
Mark-up / return / interest earned	23	2,384,653	1,878,626
Mark-up / return / interest expensed	24	1,350,320	1,258,562
Net mark-up / return / interest income		1,034,333	620,064
Provision against loans and advances - net	10.4	9,293	229,278
Provision for diminution in the value of investments	9.3	11,794	14,172
Bad debts written-off directly / (recoveries against debts written-off)		(3,488)	(3,939)
		17,599	239,511
Net mark-up / return / interest income after provisions		1,016,734	380,553
Non mark-up / interest income			
Fee, commission and brokerage income		73,829	40,781
Dividend income		22,492	873
Income from dealing in foreign currencies		58,960	72,581
Gain on sale of securities - net	25	21,952	3,185
Unrealised gain on revaluation of investments classified as held for trading		-	-
Other income	26	144,010	24,509
Total non mark-up / interest income		321,243	141,929
		1,337,977	522,482
Non mark-up / interest expenses			
Administrative expenses	27	1,456,873	1,415,235
Other provisions / write offs - net	28	5,966	134,418
Other charges	29	5,434	41,253
Total non mark-up / interest expenses		1,468,273	1,590,906
		(130,296)	(1,068,424)
Extraordinary items / unusual items		-	-
Loss before taxation		(130,296)	(1,068,424)
Taxation - Current year	30	27,056	-
- Prior years	30	11,418	
- Deferred	30	(49,176)	(475,371)
		(10,702)	(475,371)
Loss after taxation		(119,594)	(593,053)
Accumulated loss brought forward		(3,929,320)	(3,336,267)
Accumulated loss carried forward		(4,048,914)	(3,929,320)
		(Rupees)	
Loss per share	31	(0.10)	(0.68)

The annexed notes 1 to 49 and Annexure 1 form an integral part of these financial statements.

President and Chief Executive Officer	Chairman	Director	Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
	(Rupees in thousand)	
Loss for the year	(119,594)	(593,053)
Other comprehensive income	-	-
Total comprehensive income / (loss) for the year	(119,594)	(593,053)
Components of comprehensive income / (loss) not reflected in equity		
(Deficit) / surplus on revaluation of available for sale financial assets - net of tax	(13,520)	17,119
Total comprehensive income / (loss) for the period	(133,114)	(575,934)

The annexed notes 1 to 49 and Annexure 1 form an integral part of these financial statements.

President and Chief Executive Officer

Chairman

Director

Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
	(Rupees in thousand)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(130,296)	(1,068,424)
Less: dividend income	(22,492)	(873)
	(152,788)	(1,069,297)
Adjustments for non-cash charges and other items:		
Depreciation	154,968	160,920
Amortisation of intangible assets	5,380	5,499
Provision against loans and advances - net	9,293	229,278
Provision for diminution in the value of investments - net	11,794	14,172
Gain on sale of securities - net	(21,952)	(3,185)
Other provisions / write offs - net	5,966	134,418
Reversal of provision against bad and doubtful other assets - net	(7,059)	-
Reversal of provision against off balance sheet obligations	(21,500)	-
Loss / (gain) on sale of fixed assets	(28,405)	(10,177)
	108,485	530,925
	(44,303)	(538,372)
(Increase) / decrease in operating assets		
Lendings to financial institutions	1,734,374	(810,069)
Investments - held for trading securities	238	2,429,297
Advances	(2,423,668)	(3,784,681)
Other assets (excluding advance taxation)	(127,625)	73,135
	(816,681)	(2,092,318)
Increase / (decrease) in operating liabilities		
Bills payable	37,632	22,778
Borrowings from financial institutions	3,393,710	2,703,335
Deposits and other accounts	2,351,173	2,661,096
Other liabilities (excluding current taxation)	165,961	82,871
	5,948,476	5,470,080
	5,087,492	2,839,390
Income tax paid	(241)	(9,219)
Net cash inflow from / (outflow on) operating activities	5,087,251	2,830,171

	Note	2010	2009
		(Rupees in thousand)	
CASH FLOWS FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(5,409,597)	(4,396,004)
Dividend income		22,492	873
Investments in operating fixed assets		(63,502)	(84,388)
Proceed from sale of investment in associates		120,642	-
Sale proceeds from disposal of property and equipment		36,349	23,324
Net cash (outflow on) / inflow from investing activities		(5,293,616)	(4,456,195)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease obligations		-	-
Advance share subscription money received against proposed issue of right shares		-	2,189,440
Share issue cost		(27,428)	-
Proceeds from issue of shares		1,010,560	-
Net cash inflow from / (outflow on) financing activities		983,132	2,189,440
Increase in cash and cash equivalents		776,767	563,416
Cash and cash equivalents at the beginning of the year		1,669,192	1,105,776
Cash and cash equivalents at the end of the year	32	2,445,959	1,669,192

The annexed notes 1 to 49 and Annexure 1 form an integral part of these financial statements.

President and Chief Executive Officer — Chairman — Director — Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

	Share capital	Capital reserve	Statutory reserve	Advance share subscription money received against proposed issue of right shares	Accumulated loss	Total
	(Rupees in thousand)					
Balance as at December 31, 2008	8,769,517	20,935	22,145	-	(3,336,267)	5,476,330
Loss after taxation for the year ended December 31, 2009	-	-	-	-	(593,053)	(593,053)
Advance share subscription money received against proposed issue of right shares	-	-	-	2,189,440	-	2,189,440
Balance as at December 31, 2009	8,769,517	20,935	22,145	2,189,440	(3,929,320)	7,072,717
Issue of Right shares	5,565,217	-	-	-	-	5,565,217
Conversion of advance share subscription money to share capital	-	-	-	(2,189,440)	-	(2,189,440)
Discount on issue of right shares	-	-	-	-	(2,365,217)	(2,365,217)
Loss after taxation for the year ended December 31, 2010	-	-	-	-	(119,594)	(119,594)
Share Issue Cost	-	-	-	-	(27,428)	(27,428)
Balance as at December 31, 2010	14,334,734	20,935	22,145	-	(6,441,559)	7,936,255

The annexed notes 1 to 49 and Annexure 1 form an integral part of these financial statements.

President and Chief Executive Officer   Chairman   Director   Director

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. STATUS AND NATURE OF BUSINESS

1.1 Samba Bank Limited (the Bank) is a banking company incorporated in Pakistan and is engaged in commercial banking and related services. The Bank is listed on all the stock exchanges of Pakistan. Its principal and registered office is located at 6th Floor, Sidco Avenue Centre, Maulana Deen Muhammad Wafai Road, Karachi. The Bank is a subsidiary of SAMBA Financial Group of Saudi Arabia, which holds 80.68% shares of the Bank as at December 31, 2010 (2009: 68.42%). The Bank operates 28 branches (December 31, 2009: 28 branches) inside Pakistan.

1.2 JCR-VIS has determined the Bank's medium to long-term rating as 'A' and the short-term rating as 'A-1'.

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

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

3.2 The SBP 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 Letter No. 10 dated August 26, 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 ' Financial Instruments: Disclosures' through its notification S.R.O 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

3.3 SBP vide its BSD Circular No. 07 dated April 20, 2010 has clarified that for the purpose of preparation of financial statements in accordance with International Accounting Standard - 1 (Revised) 'Presentation of Financial Statements', two statement approach shall be adopted i.e. separate 'Profit and Loss Account' and 'Statement of Comprehensive Income' shall be presented, and Balance Sheet shall be renamed as 'Statement of Financial Position'. Furthermore, the Surplus / (Deficit) on Revaluation of Available-for-sale Securities (AFS) only, may be included in the 'Statement of Comprehensive Income'. Accordingly, the above requirements have been adopted in the preparation of these financial statements.

3.4 IFRS 8 'Operating Segments' is effective for the Bank's accounting period beginning on or after January 1, 2009. All banking companies in Pakistan are required to prepare their annual financial statements in line with the format prescribed under BSD Circular No. 4 dated February 17, 2006, 'Revised Forms of Annual Financial Statements', effective from the accounting year ended December 31, 2006. The management of the bank believes that as the SBP has defined the segment categorisation in the above mentioned circular, the SBP requirements prevail over the requirements specified in IFRS 8. Accordingly, segment information disclosed in these financial statements is based on the requirements laid down by SBP.

3.5 New and amended standards and interpretations that are effective in the current year:

The following new and amended standards and interpretations have been published and are mandatory for the first time for the financial year beginning January 1, 2010:

(a) IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.

(b) IAS 7 (Amendment), 'Statement of Cash Flows' (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. The amendment is not expected to have any impact on the Bank's financial statements.

(c) IAS 36 (amendment), 'Impairment of assets', effective January 1, 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The amendment is not expected to have any impact on the Bank's financial statements".

(d) IFRS 2 (amendments),'Group cash-settled share-based payment transactions', effective from January 1, 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.

(e) IFRS 3 (revised), 'Business combinations, and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The management of the Bank believes that presently this standard does not have any impact on the Bank's financial statements.

(f) IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale' (effective on or after January 1, 2010). The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The disclosure regarding held for sale asset is given in note 11.2.2.

(g) IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after July 1, 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The management of the Bank believes that presently this interpretation does not have any impact on the Bank's financial statements.

(h) IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after July 1, 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both). The management of the Bank believes that presently this interpretation does not have any impact on the Bank's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 but are considered not to be relevant or to have any significant effect on the Bank's operations and are, therefore, not disclosed in these financial statements.

3.6 New and amended standards and interpretations that are not yet effective:

The following standards and amendments to existing standards and interpretations have been published and are mandatory for the Bank's accounting period beginning on or after January 1, 2011.

IAS 1, Presentation of financial statements (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment is not likely to have any impact on the Bank's financial statements as currently no items are being reported in other comprehensive income.

IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank is currently in the process of assessing the impact, if any, of the revised standard on the related party disclosures.

IFRIC 14 (amendment), 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction". Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning January 1, 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The Bank currently does not operate any defined benefit scheme.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2011 but are considered not to be relevant or do not have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

3.7 Early adoption of standards

The Bank did not early adopt any new or amended standard in 2010.

4. BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except that certain investments, foreign currency balances and commitments in respect of foreign exchange contracts and derivative financial instruments have been marked to market and are carried at fair value.

4.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgments in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed in note 36 to these financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise specified.

5.1 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, balances with treasury banks, balances with other banks in current and deposit accounts, national prize bonds, if any, and any overdrawn nostro accounts.

5.2 Lendings to / borrowings from financial institutions

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

Sale of securities under repurchase agreements

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and contracted repurchase price is accrued on a time proportion basis over the period of the contract and recorded as an expense.

Purchase of securities under resale agreements

Securities purchased under agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings. The difference between the purchase and contracted resale price is accrued on a time proportion basis over the period of the contract and recorded as income.

5.3 Investments

The Bank classifies its investments as follows:

(a) Held for trading

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

(b) Held to maturity

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

(c) Available for sale

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

(d) Associates

Associates are all entities over which the Bank has significant influence but not control. Investment in associates is carried at cost.

Investments other than those categorised as 'held for trading' are initially recognised at fair value plus transaction costs associated with the investment. Investments classified as 'held for trading' are initially recognised at fair value while the related transaction costs assosiated with these transactions are expensed in the profit and loss account.

All purchase and sale of investments that require delivery within the time frame established by regulation or market convention are recognised at the trade date. The trade date is the date on which the Bank commits to purchase or sell the investment.

In accordance with the requirements specified by the SBP, quoted securities other than those classified as 'held to maturity' and 'investments in associates', are subsequently re-measured to market value. Investments classified as 'held to maturity' are carried at amortised cost whereas investment in associates are carried at cost, less accumulated impairment losses, if any. Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Surplus / deficit arising on revaluation of quoted securities which are classified as 'available for sale', is taken to a separate account which is shown in the balance sheet below equity. Surplus / deficit arising on revaluation of quoted securities which are classified as 'held for trading' is taken to the profit and loss account.

Impairment loss in respect of investments classified as 'available for sale' (except for term finance certificates) is recognised based on management's assessment of objective evidence of impairment as a result of one or more event that may have an impact on the estimated future cash flows of these investments. A significant or prolonged decline in the value of equity securities is also considered as an objective evidence of impairment. Provision for diminution in the value of term finance certificates is made as per the requirement of the Prudential Regulations issued by the SBP. In event of impairment of available for sale securities, the cumulative loss that had been recognised directly in surplus on revaluation of securities on the balance sheet below equity is removed thereof and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in the profit and loss account.

Gain / loss on disposal of investments made during the year is credited / charged to the profit and loss account.

5.4 Advances

Loans and advances

Advances are stated at cost less specific and general provisions. Specific provision for non-performing advances is determined keeping in view the Bank's policy subject to the minimum requirement set out by the Prudential Regulations and other directives issued by the SBP and charged to the profit and loss account. General provision against consumer financing portfolio is maintained as per the requirements set out in the Prudential Regulations issued by the SBP. Advances are written off when there are no realistic prospects of recovery.

Net investment in finance leases

Net investment in finance leases is stated at net of provisions made against non-performing leases.

Leasing arrangements in which the Bank transfers substantially all risks and rewards incidental to the ownership of an asset to the lessee, are classified as finance leases. A receivable is recognised on commencement of the lease term at an amount equal to the present value of minimum lease payments including any guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease period so as to produce a constant periodic return on the outstanding net investment in lease.

Unrealised lease income in respect of non-performing finance leases is suspended in accordance with the Prudential Regulations issued by the SBP.

5.5 Fixed assets and depreciation

(a) Property and Equipment

Owned Assets

Owned assets are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for capital work-in-progress and freehold land. Capital work-in-progress and freehold land are stated at cost less accumulated impairment losses.

Depreciation on operating fixed assets (excluding land which is not depreciated) is charged using the straight line method in accordance with the rates specified in note 11.2 to these financial statements after taking into account residual value, if significant. The assets' residual values and useful lives are reviewed and adjusted, if required, at each balance sheet date. Depreciation on additions is charged from the month the assets are available for use. No depreciation is charged in the month of disposal.

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. All other repair and maintenance are charged to the profit and loss account as and when incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains / losses on disposal of fixed assets, if any, are taken to the profit and loss account in the period in which they arise.

Leased assets

Leases are classified as finance leases wherever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Lease payments, if any, under operating leases are charged to income on a straight line basis over the lease term. Premium paid at the time of renewal, if any, is amortised over the remaining period of the lease.

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and accumulated impairment losses, if any. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to the future periods.

The finance charges are allocated to the accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Bank.

(b) Intangible assets

Intangible assets having definite lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged applying the straight-line method over the useful life of the assets. Amortisation is calculated so as to write-off the assets over their expected economic lives at rates specific in note 11.3 to these financial statements. Amortisation is charged from the month in which the asset is available for use. No amortisation is charged for the month in which the asset is disposed off. The residual value, useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

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

Intangible assets having an indefinite useful life are stated at acquisition cost less accumulated impairment, if any. Gains and losses on disposals, if any, are taken to the profit and loss account in the period in which they arise.

(c) Capital work in progress

Capital work-in-progress is stated at cost less accumulated impairment losses, if any. All expenditure connected with specific assets incurred during installation and construction period are carried under this head. These are transferred to specific assets as and when assets become available for use.

5.6 Non-current assets held for sale

The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A non-current asset (or disposal group) held for sale is carried at the lower of its carrying amount and the fair value less costs to sell. Impairment losses are recognized through the profit and loss account for any initial or subsequent write down of the non-current asset (or disposal group) to fair value less costs to sell. Subsequent gains in fair value less costs to sell are recognized to the extent they do not exceed the cumulative impairment losses previously recorded. A non-current asset is not depreciated while classified as held for sale or while part of a disposal group classified as held for sale.

5.7 Impairment

The carrying amount of assets is reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

5.8 Taxation

Current

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

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for taxation purposes. In addition, the Bank also records deferred tax asset on available tax losses. Deferred tax is calculated using the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realised.

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

The Bank also recognises deferred tax asset / liability on deficit / surplus on revaluation of securities which is adjusted against the related deficit / surplus in accordance with the requirements of the revised International Accounting Standard (IAS-12) dealing with income taxes.

5.9 Provisions

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

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

5.10 Staff retirement benefits

(a) Defined contribution plan

The Bank operates a contributory provident fund scheme covering all its permanent employees. Equal monthly contributions are made both by the Bank and the employees in respect of this benefit.

(b) Compensated absences

The liability in respect of compensated absences of employees is accounted for in the period in which the absences accrue.

5.11 Borrowings / deposits and their cost

Borrowings / deposits are recorded at the proceeds received. Borrowing / deposit costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method to the extent that they are not directly attributable to the acquisition of or construction of qualifying assets. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (on that takes a substantial period of time to get ready for use or sale) is capitalised as part of the cost of that asset.

5.12 Proposed dividend and transfers between reserves

Dividends and appropriations to reserves, except appropriations which are required by law, made subsequent to the balance sheet date are considered as non-adjusting events and are recorded in the financial statements in accordance with the requirements of International Accounting Standard (IAS) 10, 'Events after the Balance Sheet Date' in the year in which they are approved / transfers are made.

5.13 Revenue recognition

- Mark-up income / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method except that mark-up / income / return on classified advances and investments is recognised on receipt basis in accordance with the requirements of the Prudential Regulations issued by the SBP. Interest / return / mark-up on rescheduled / restructured advances and investments is recognised as permitted by the Prudential Regulations issued by the SBP, except where, in the opinion of the management, it would not be prudent to do so.

- Fee, commission and brokerage income are accounted for on accrual / time proprotion basis.

- Dividend income from investments is recognised when the Bank's right to receive the dividend has been established.

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

- Unrealised lease income in respect of non-performing finance leases and markup / return on non-performing advances is held in suspense account, where necessary, in accordance with the requirement of the SBP.

- Premium or discount on acquisition of debt investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.

- Gains / losses on termination of lease contracts, documentation charges, front end fee and other lease income are recognised as income when realised

5.14 Foreign currency transactions

Foreign currency transactions are translated into Pakistani Rupees at the rates of exchange prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pakistani Rupees at exchange rates prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at the rates applicable to their respective maturities. Exchange gains or losses are included in the profit and loss account.

5.15 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

5.16 Segment reporting

The Bank has structured its key business areas in various segments in a manner that each segment becomes a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(a) Business segments

The business segments within the Bank have been categorized into the following classifications of business segments in accordance with the requirements specified by the State Bank of Pakistan.

Corporate finance

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

Trading and sales

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

Retail banking

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

Commercial banking

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

(b) Geographical segments

The operations of the Bank are currently based only in Pakistan.

5.17 Commitments

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

5.18 Acceptances

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

5.19 Earnings / (loss) per share

The Bank presents basic and diluted earnings per share (EPS) / basic and diluted loss per shares for its shareholders. Basic EPS / basic loss per shares is calculated by dividing the profit or loss, as the case may be, attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS / diluted loss per share 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.

5.20 Financial instruments

Financial assets and liabilities

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

Derivative financial instruments

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

Off-setting

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

6. CASH AND BALANCES WITH TREASURY BANKS

	Note	2010	2009
		(Rupees in thousand)	
In hand			
Local currency		215,971	163,287
Foreign currency		75,966	73,221
		291,937	236,508
With State Bank of Pakistan in			
Local currency current account	6.1	623,692	518,205
Foreign currency current account	6.2	88,433	57,039
Foreign currency deposit account	6.2	245,949	149,528
		958,074	724,772
		1,250,011	961,280

6.1 The local currency account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by the SBP.

6.2 This mainly represents foreign currency cash reserve maintained with the SBP at an amount equivalent to at least 20% of the bank's foreign currency deposits mobilised under FE-25 scheme. The foreign currency cash reserve comprises an amount equivalent to at least 5% of the bank's foreign currency deposits mobilised under the FE 25 scheme, which is kept in a non-remunerative account. The balance reserve equivalent to at least 15% of the bank's foreign currency deposits mobilised under FE-25 scheme is maintained in a remunerative account on which the bank is entitled to earn a return which is declared by the SBP on a monthly basis. During the year the SBP has not remunerated these deposit accounts (2009: Nill).

	Note	2010	2009
		(Rupees in thousand)	

7. BALANCES WITH OTHER BANKS

	Note	2010	2009
In Pakistan			
On current account		5,891	4,538
Outside Pakistan			
On current account		1,190,057	703,374
		1,195,948	707,912

8. LENDINGS TO FINANCIAL INSTITUTIONS

	Note	2010	2009
Call money lendings	8.2	100,000	1,450,000
Repurchase agreement lendings (reverse repo)	8.3	1,289,003	1,673,377
		1,389,003	3,123,377

8.1 All lendings to financial institutions are in local currency.

8.2 These represent lendings to various commercial banks in the interbank money market. These lendings carry mark-up at rate of 13.35% per annum (2009: 11.80% to 12.90% per annum) and have a maturity period of upto three months (2009: six months) from the date of lending.

8.3 Securities held as collateral against lendings to financial institutions

Particulars	2010			2009		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	(Rupees in thousand)					
Market treasury bills - note 8.3.1	896,723	392,280	1,289,003	1,673,377	-	1,673,377

8.3.1 These represent short-term lendings to financial institutions against investment securities. These carry mark-up at rates ranging from 12.90% to 13.50% per annum (2009: 12.00% to 12.40% per annum) and have a maturity period of upto one month (2009: upto one month).

9. INVESTMENTS - NET

9.1 Investments by type

	2010			2009		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	(Rupees in thousand)					
Held for trading securities	-	-	-	-	-	-
Available for sale securities						
Market Treasury Bills	6,153,707	4,486,612	10,640,319	3,672,991	1,535,053	5,208,044
Pakistan Investment Bonds	117,117	-	117,117	115,224	-	115,224
Sukuk Bond	10,000	-	10,000	10,000	-	10,000
Ordinary shares and certificates - listed	85,818	-	85,818	123,707	-	123,707
Ordinary shares - unlisted	65,409	-	65,409	65,409	-	65,409
Preference shares - listed	10,000	-	10,000	10,000	-	10,000
	6,442,051	4,486,612	10,928,663	3,997,331	1,535,053	5,532,384
Held to maturity securities						
Pakistan Investment Bonds	315,061	-	315,061	320,071	-	320,071
Associates						
Ordinary shares and certificates - listed	103,381	-	103,381	371,470	-	371,470
Investments at cost	6,860,493	4,486,612	11,347,105	4,688,872	1,535,053	6,223,925
Less: provision for diminution in the value of investments - note 9.3	(240,729)	-	(240,729)	(416,424)	-	(416,424)
Investments (net of provisions)	6,619,764	4,486,612	11,106,376	4,272,448	1,535,053	5,807,501
(Deficit) / surplus on revaluation of available for sale securities - net - note 21	(13,321)	(2,150)	(15,471)	(759)	1,087	328
Surplus on revaluation of held for trading securities	-	-	-	-	-	-
Total investments - net of provisions	6,606,443	4,484,462	11,090,905	4,271,689	1,536,140	5,807,829

	Note	2010	2009
		(Rupees in thousand)	
9.2 Investments by segment			
Federal government securities	9.8		
Market Treasury Bills		10,640,319	5,208,044
Pakistan Investment Bonds		432,178	435,295
Sukuk Bond		10,000	10,000
		11,082,497	5,653,339
Fully paid-up ordinary shares			
Listed companies	9.5	189,199	495,177
Unlisted companies	9.6	65,409	65,409
		254,608	560,586
Fully paid-up preference shares			
Listed companies	9.7	10,000	10,000
Investments at cost		11,347,105	6,223,925
Less: Provision for diminution in the value of investments	9.3	(240,729)	(416,424)
Investments (net of provisions)		11,106,376	5,807,501
Surplus / (deficit) on revaluation of available for sale securities - net	21	(15,471)	328
Surplus on revaluation of held for trading securities		-	-
Total investments - net of provisions		11,090,905	5,807,829

	Note	2010	2009
9.3 Particulars of provision for diminution in the value of investments			
Opening balance		416,424	402,252
Charge for the year		11,794	14,172
Reversals on disposals made during the year	9.3.1	(187,489)	-
Amounts written off		-	-
Closing balance		240,729	416,424

9.3.1 This includes Rs 158.172 million which has been reversed on disposal of Bank's investment in an associate.

	Note	2010	2009
		(Rupees in thousand)	
9.3.2 Particulars of provision for diminution in the value of investments by type			
Available for sale securities			
Ordinary shares - listed		76,937	104,460
Preference shares - listed		10,000	-
Ordinary shares - unlisted	9.6	55,409	55,409
		142,346	159,869
Associates			
Ordinary shares and certificates - listed	9.5.2	98,383	256,555
		240,729	416,424
9.3.3 Particulars of provision for diminution in the value of investments by segment			
Fully paid-up ordinary shares			
Listed companies	9.5	175,320	361,015
Unlisted companies	9.6	55,409	55,409
Fully paid-up preference shares			
Listed companies	9.7	10,000	-
		240,729	416,424

	Note	2010 Market value Rupees in '000	2010 Rating (where available)	2009 Market value Rupees in '000	2009 Rating (where available)
9.4 Quality of available for sale securities					
Market Treasury Bills		10,638,400	-	5,209,143	-
Pakistan Investment Bonds		105,053	-	106,655	-
Sukuk Bond		10,000	-	10,000	-
Ordinary shares - listed					
Bankers Equity Limited	9.4.1	-	-	-	-
B.R.R. Guardian Modaraba		569	-	805	A-
JS Value Fund Limited		4,162	-	4,903	5-star
ECOPACK Limited		1,413	-	2,590	-
Fauji Cement Company Limited		-	-	1,072	-
First Dawood Mutual Fund		83	-	70	4-star
Haji Muhammad Ismail Mills Limited	9.4.1	-	-	1,512	-
Nazir Cotton Mills Limited	9.4.1	-	-	615	-
Pakistan PVC Limited	9.4.1	-	-	5,192	-
UTP - Large Capital Fund		-	-	15,509	5-star
WorldCall Telecom Limited		1,247	A-	1,591	A-
First Tawakkal Modarba	9.4.1	-	-	-	-
Hamid Textile Mills Limited	9.4.1	-	-	-	-
Islamic Investment Bank Limited	9.4.1	-	-	-	-
Tristar Shipping Lines Limited	9.4.1	-	-	-	-
Ordinary shares - unlisted*					
Crescent Bahuman Limited		-	-	-	-
Crescent Industrial Chemical Limited		-	-	-	-
Crescent Powertech Limited		-	-	-	-
ICEPAC Limited		-	-	-	-
Pak Asian Fund Limited		10,000	-	10,000	-
Union Communication (Private) Limited		-	-	-	-
Vision Network Television Limited		-	-	-	-
Preference shares - listed*					
Shakarganj Mills Limited	9.4.1	-	-	8,990	-

*Represents book value net of provision

9.4.1 These are listed securities for which no market quotation was available at the year end.

9.5 Particulars of investments held in listed securities

Number of ordinary shares / certificates 2010	Number of ordinary shares / certificates 2009	Paid-up value per share / certificate in Rupees	Name of investee company / modaraba / mutual fund	2010 (Rupees in thousand)	2009 (Rupees in thousand)
			Available for sale		
400	400	10	Bankers Equity Limited	-	-
314,500	314,500	10	B.R.R. Guardian Modaraba	1,906	1,906
872,500	872,500	10	JS Value Fund Limited	9,082	9,082
549,910	549,910	10	ECOPACK Limited	15,761	15,761
-	174,000	10	Fauji Cement Company Limited	-	2,784
41,500	41,500	10	First Dawood Mutual Fund	341	341
36,500	36,500	10	First Tawakkal Modaraba	104	104
1,008,225	1,008,225	10	Haji Muhammad Ismail Mills Limited	9,362	9,362
1,125,406	1,125,406	10	Hamid Textile Mills Limited	2,757	2,757
60,581	60,581	10	Islamic Investment Bank Limited	285	285
4,097,499	4,097,499	10	Nazir Cotton Mills Limited	29,014	29,014
1,153,725	1,153,725	10	Pakistan PVC Limited	12,871	12,871
131,000	131,000	10	Tristar Shipping Lines Limited	12	12
-	3,371,500	10	UTP Large Capital Fund	-	35,105
430,100	430,100	10	World Call Telecom Limited	4,323	4,323
				85,818	123,707
			Associates		
-	26,808,938	10	Asian Stocks Fund Limited [holding Nil (2009: 29.79%)] - note 9.5.1	-	268,089
17,439,000	17,439,000	10	Zahoor Textile Mills Limited [holding 23.36% (2009: 23.36%)]	103,381	103,381
				189,199	495,177
			Less: Provision for diminution in the value of investments-note 9.3.3	(175,320)	(361,015)
			(Deficit) / surplus on revaluation of listed securities-note 21	(1,488)	8,807
				12,391	142,969

9.5.1 The bank's investment in Asian Stocks Fund Limited was disposed off during the year ended December 31, 2010 for sale proceeds amounting to Rs. 120.642 million resulting in a net gain of Rs 10.725 million over carrying value.

9.5.2 Investment in associate of the bank has been carried at cost less accumulated impairment loss, if any, under the guidelines provided in BSD Circular No 11 dated August 04, 2004. During the current period, an impairment loss amounting to Rs Nil (2009: Rs. 14.172 million) has been charged to the profit and loss account in respect of the bank's investment in an associate.

9.6 Particulars of investments held in unlisted securities

Number of ordinary shares / certificates 2010	Number of ordinary shares / certificates 2009	Break-up Value per share in Rupees 2010	Break-up Value per share in Rupees 2009	Based on the latest available financial statements as at	% holding	Name of investee company / fund	2010 (Rupees in thousand)	2009 (Rupees in thousand)
Available for Sale								
Shareholding upto 10%								
250,000	250,000	162.93	162.93	June 2008	5.00%	Crescent Powertech Limited (Chief Executive Officer: Mr. Ahsan Bashir)	2,500	2,500
1,000,000	1,000,000	16.32	15.69	June 2010	8.89%	Pak Asian Fund Limited (Chief Executive Officer: Mr. Ashfaq Ahmed Berdi)	10,000	10,000
50,000	50,000	11.10	11.10	June 2007	0.33%	Union Communication (Private) Limited (Chief Executive Officer: Mr. Khalid Mehmood)	500	500
700,559	700,559	1.38	1.38	June 2009	0.76%	Vision Network Television Limited (Chief Executive Officer: Mr. Zafar Siddiqui)	7,010	7,010
3,184,600	3,184,600	13.50	2.21	June 2010	3.90%	Crescent Bahuman Limited (Chief Executive Officer: Mr. Nasir Shafi)	31,846	31,846
1,000,000	1,000,000	10.00	10.00	June 2008	0.97%	Crescent Industrial Chemicals Limited (Chief Executive Officer: Mr. Tariq Shafi)	10,000	10,000
Shareholding exceeding 10%								
355,330	355,330	4.49	4.49	June 2009	11.56%	ICEPAC Limited (Chief Executive Officer: Ms. Shala Riza Arifeen)	3,553	3,553
							65,409	65,409
						Provision for diminution in the value of investments - note 9.3.3	(55,409)	(55,409)
							10,000	10,000

9.7 Particulars of investments held in preference shares - listed

Number of shares 2010	Number of shares 2009	Paid up value per share 2010	Paid up value per share 2009	Name of investee company	Note	2010	2009
		(Rupees)				(Rupees in thousand)	
Available for Sale							
1,000,000	1,000,000	10	10	Shakarganj Mills Limited	9.7.1	10,000	10,000
				(Deficit) / surplus on revaluation of available for sale preference shares	21	-	(1,010)
				Provision for diminution in the value of investments	9.3.3	(10,000)	-
						-	8,990

9.7.1 These are redeemable after five years of issuance / allotment, subject to conversion option exercisable by the bank. These carry preference dividend at the rate of 8.5 percent per annum on cumulative basis

9.8 Particulars of Federal government securities

Market Treasury Bills have a tenor of upto one year. The yield on these instruments ranges from 12.34 percent to 13.23 percent per annum (2009: 11.65 percent to 13.89 percent per annum) with maturities of upto April 21, 2011 (2009: upto September 9, 2010).

Pakistan Investment Bonds are for periods of 10 years. These securities carry profits ranging from 8 percent to 9 percent per annum (2009: 8 percent to 9 percent per annum) with maturities from June 30, 2013 to April 29, 2014 (2009: June 30, 2013 to April 29, 2014).

Sukuk Bond is for a period of three years (2009: 3 years). It carries profit at the latest weighted average yield of the 6 month Market Treasury Bills determined on day prior to the start of each 6 month rental period with the maturity upto September 26, 2011 (2009: upto September 26, 2011).

9.9 Investments include certain approved / government securities which are held by the bank to comply with the statutory liquidity requirements determined on the basis of the bank's demand and time liabilities as set out under the Banking Companies Ordinance, 1962.

	Note	2010	2009
		(Rupees in thousand)	
10. ADVANCES - NET			
Loans, cash credits, running finances, etc.			
In Pakistan		14,160,908	11,677,985
Net investment in finance leases			
In Pakistan	10.2	491,583	567,821
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		46,608	46,786
Payable outside Pakistan		48,222	50,768
Advances - gross		14,747,321	12,343,360
Provision against advances - specific and general	10.4	(2,609,535)	(2,619,949)
Advances - net of provision		12,137,786	9,723,411
10.1 Particulars of advances - gross			
10.1.1 In local currency		14,569,760	12,292,592
In foreign currency		177,561	50,768
		14,747,321	12,343,360
10.1.2 Short-term (upto one year)		6,988,805	6,675,168
Long-term (over one year)		7,758,516	5,668,192
		14,747,321	12,343,360

10.2 Net investment in finance leases

	2010 Not later than one year	2010 Later than one year and less than five years	2010 Over five years	2010 Total	2009 Not later than one year	2009 Later than one year and less than five years	2009 Over five years	2009 Total
	(Rupees in thousand)							
Lease rentals receivable	432,800	-	-	432,800	471,016	-	-	471,016
Residual value	65,231	-	-	65,231	104,580	-	-	104,580
Minimum lease payments	498,031	-	-	498,031	575,596	-	-	575,596
Finance charge for future periods	(6,448)	-	-	(6,448)	(7,775)	-	-	(7,775)
Present value of minimum lease payments	491,583	-	-	491,583	567,821	-	-	567,821

10.3 Advances include Rs 2,711.299 million (2009: Rs 2,726.295 million) which have been placed under non-performing status as detailed below:

Category of classification	2010 Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in thousand)								
Classified portfolio									
Substandard	87,352	-	87,352	21,087	-	21,087	21,087	-	21,087
Doubtful	2,098	-	2,098	1,049	-	1,049	1,049	-	1,049
Loss	2,621,849	-	2,621,849	2,559,298	-	2,559,298	2,559,298	-	2,559,298
	2,711,299	-	2,711,299	2,581,434	-	2,581,434	2,581,434	-	2,581,434

Category of classification	2009								
	Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	(Rupees in thousand)								
Classified portfolio									
Substandard	158,112	-	158,112	38,177	-	38,177	38,177	-	38,177
Doubtful	9,341	-	9,341	4,671	-	4,671	4,671	-	4,671
Loss	2,558,842	-	2,558,842	2,501,869	-	2,501,869	2,501,869	-	2,501,869
	2,726,295	-	2,726,295	2,544,717	-	2,544,717	2,544,717	-	2,544,717

10.3.1 The State Bank of Pakistan vide BSD circular No. 10 of 2009 dated October 20, 2009 has allowed banks to avail the benefit of 40% of the forced sales values of certain collaterals held by them while determining provisioning requirement against non-performing advances. However, as per the circular, the Banks may avail the benefit of provisioning subject to the condition that it shall not be available for the payment of cash or stock dividend. As allowed under the circular, the Bank has obtained benefit of forced sale values amounting to Rs. 0.751 million (2009: Nil) in determining the provisioning against non performing advances as at December 31, 2010.

10.4 Particulars of provision against advances

	Note	2010			2009		
		Specific	General	Total	Specific	General	Total
		(Rupees in thousand)					
Opening balance		2,544,717	75,232	2,619,949	2,319,334	123,547	2,442,881
Charge for the year		115,184	1,833	117,017	337,784	12,065	349,849
Reversals		(58,760)	(48,964)	(107,724)	(60,191)	(60,380)	(120,571)
		56,424	(47,131)	9,293	277,593	(48,315)	229,278
Amounts written off	10.5	(19,707)	-	(19,707)	(47,210)	-	(47,210)
Adjustments		-	-	-	(5,000)	-	(5,000)
Closing balance		2,581,434	28,101	2,609,535	2,544,717	75,232	2,619,949

10.4.1 General provision as at December 31, 2010 represents provision against consumer finance portfolio as required by the Prudential Regulations issued by State Bank of Pakistan. Until last year, in addition to specific provision against loans and advances, the Bank was also maintaining general provision against corporate and consumer performing loans in respect of potential losses present in the portfolio but not specifically identified which was determined on the basis of management's best estimate. However, during the current year, the management has decided that general provision against corporate loans is no longer required as all the loan losses are timely identified and are subject to provision as required under the Prudential Regulations issued by the State Bank of Pakistan. Accordingly, the balance of this provision amounting to Rs. 20.817 million has been reversed.

10.4.2 Particulars of provisions against advances

	2010			2009		
	Specific	General	Total	Specific	General	Total
	(Rupees in thousand)					
In local currency	2,581,434	28,101	2,609,535	2,544,717	75,232	2,619,949

	Note	2010	2009
		(Rupees in thousand)	
10.5 Particulars of write-offs			
10.5.1 Against provisions	10.4	19,707	47,210
10.5.2 Write-offs of Rs 500,000 and above	10.6	3,719	40,571
Write-offs of below Rs 500,000		15,988	6,639
		19,707	47,210

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

In terms of sub-section (3) of Section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person during the year ended December 31, 2010 is given in Annexure-1 to these financial statements. These loans are written off as a book entry without prejudice to the Bank's right of recovery against the customers.

	2010	2009
	(Rupees in thousand)	
10.7 Particulars of loans and advances to executives, directors, associated companies, etc.		
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons - note 10.7.1		
Balance at beginning of the year	270,017	295,529
Loans granted during the year	130,970	108,714
Repayments during the year	(72,164)	(120,070)
Adjustment during the year	(11,856)	(14,156)
Balance at end of the year	316,967	270,017

	Note	2010	2009
		(Rupees in thousand)	
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 the year		-	-
Loans granted during the year		-	-
Repayments during the year		-	-
Balance at end of the year		-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of the year		45,500	45,500
Loans granted during the year		-	-
Repayments during the year		-	-
Balance at end of the year		45,500	45,500
		362,467	315,517

10.7.1 These include loans provided to employees as per the bank's policy.

11. OPERATING FIXED ASSETS

	Note	2010	2009
Capital work-in-progress	11.1	13,057	19,502
Property and equipment	11.2	974,206	1,076,829
Intangible assets	11.3	14,150	15,838
		1,001,413	1,112,169

11.1 Capital work-in-progress

	2010	2009
Civil works	12,708	8,585
Equipment	349	10,917
	13,057	19,502

11.2 Property and equipment

Description	Cost					Accumulated depreciation					Net book value as at December 31, 2010	Rate per annum
2010	Balance as at January 1, 2010	Additions	Transfers	Disposals	Balance as at December 31, 2010	Balance as at January 1, 2010	Charge for the year	Transfers	Disposals	Balance as at December 31, 2010		
	(Rupees in thousand)											%
Owned:												
Freehold land	456,899	-	-	-	456,899	-	-	-	-	-	456,899	-
Buildings on freehold land	211,263	-	-	(13,790)	197,473	101,898	8,783	-	(10,898)	99,783	97,690	5
Furniture and fixtures	386,786	10,668	-	(21,071)	376,383	109,974	37,881	-	(16,241)	131,614	244,769	10
Electrical, office and computer equipment	484,011	23,558	-	(12,679)	494,890	301,120	99,060	-	(12,042)	388,138	106,752	20 / 33
Vehicles	79,840	30,903	-	(8,334)	102,409	29,619	9,244	-	(3,909)	34,954	67,455	20
	1,618,799	65,129	-	(55,874)	1,628,054	542,611	154,968	-	(43,090)	654,489	973,565	
Assets held under finance lease:												
Vehicles	1,938	-	-	-	1,938	1,297	-	-	-	1,297	641	20
	1,620,737	65,129	-	(55,874)	1,629,992	543,908	154,968	-	(43,090)	655,786	974,206	

Description	Cost					Accumulated depreciation					Net book value as at December 31, 2009	Rate per annum
2009	Balance as at January 1, 2009	Additions	Transfers	Disposals	Balance as at December 31, 2009	Balance as at January 1, 2009	Charge for the year	Transfers	Disposals	Balance as at December 31, 2009		
	(Rupees in thousand)											%
Owned:												
Freehold land	456,899	-	-	-	456,899	-	-	-	-	-	456,899	-
Buildings on freehold land	211,263	-	-	-	211,263	92,953	8,945	-	-	101,898	109,365	5
Furniture and fixtures	310,107	78,535	-	(1,856)	386,786	72,321	39,397	-	(1,744)	109,974	276,812	10
Electrical, office and computer equipment	429,337	61,677	-	(7,003)	484,011	205,846	102,183	-	(6,909)	301,120	182,891	20 / 33
Vehicles	101,074	6,016	1,884	(29,134)	79,840	34,084	10,258	1,470	(16,193)	29,619	50,221	20
	1,508,680	146,228	1,884	(37,993)	1,618,799	405,204	160,783	1,470	(24,846)	542,611	1,076,188	
Assets held under finance lease:												
Vehicles	3,822	-	(1,884)	-	1,938	2,630	137	(1,470)	-	1,297	641	20
	1,512,502	146,228	-	(37,993)	1,620,737	407,834	160,920	-	(24,846)	543,908	1,076,829	

	Note	2010	2009
		(Rupees in thousand)	
11.2.1 Book value of temporarily idle property	11.2.2	298,321	300,795

11.2.2 This comprises of four idle properties (three vacant plots) having a market value of Rs 453.500 million (2009: Rs 474.200 million). The valuation of these properties was last carried out in 2010 by an independent valuer. Out of this property having a carrying value of Rs 7.5 million is classified as held-for-sale under IFRS - 5 'Non-current Assets Held for Sale and Discontinued Operations'. The process of sale of this property has commenced during the year which is expected to be completed in the first quarter of 2011.

11.3 Intangible assets

2010

Description	Cost				Accumulated amortization				Net book value as at December 31, 2010	Rate per annum
	Balance as at January 1, 2010	Addition	Disposals / adjustment	Balance as at December 31, 2010	Balance as at January 1, 2010	Charge for the year	Disposals / adjustment	Balance as at December 31, 2010		
	(Rupees in thousand)									%
Computer software	47,074	4,818	(3,693)	48,199	31,236	5,380	(2,567)	34,049	14,150	20

2009

Description	Cost				Accumulated amortization				Net book value as at December 31, 2009	Rate per annum
	Balance as at January 1, 2009	Addition	Disposals	Balance as at December 31, 2009	Balance as at January 1, 2009	Charge for the year	Disposals	Balance as at December 31, 2009		
	(Rupees in thousand)									%
Computer software	41,101	5,973	-	47,074	25,737	5,499	-	31,236	15,838	20

11.4 Disposal of fixed assets

Disposal of fixed assets with original cost or book value in excess of one million rupees or two hundred and fifty thousand rupees respectively, whichever is lower, are given below:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (loss)	Mode of disposal	Particulars of buyers / insurer
	(Rupees in thousand)						
Owned vehicles							
Honda Civic VTi AJF-833	1,334	885	449	537	88	As per Policy	Mr. Shad Mehmood
Toyota Corolla - GLi, APS-782	1,005	298	707	1,051	344	Through Tender	Ms. Huzaifa Arif
Toyota Corola - GLi, AQP-317	1,040	240	800	1,111	311	Through Tender	Mr. Abdul Latif
Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	4,955	2,486	2,469	3,524	1,055	Negotiation/Tender	Various
	8,334	3,909	4,425	6,223	1,798		
Intangible							
Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	3,693	2,567	1,126	-	(1,126)	Write-off	-
Building							
8th Floor Business Avenue	13,790	10,898	2,892	29,655	26,763	Negotiation	Bank Al-Falah Limited
Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	-	-	-	-	-		
Furniture & fixtures							
Furniture, table & chairs etc Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	21,071	16,241	4,830	394	(4,436)	Write-off / Negotiation	Various
Electrical, office and computer equipment							
Items having book value less than Rupees 250,000 and cost less than Rupees 1,000,000	12,679	12,042	637	77	(560)	Negotiation / Insurance claim	Various
2010	59,567	45,657	13,910	36,349	22,439		
2009	37,993	24,846	13,147	23,324	10,177		

11.4.1 This includes assets costing Rs. 28.911 million (WDV: Rs. 5.966 million) written off during the year.

11.4.2 During the year no assets were sold to the chief executive, directors, executives or to a shareholder holding not less than ten percent of the voting shares of the bank, other than disclosed above.

12. DEFERRED TAX ASSETS - NET

	Note	2010	2009
		(Rupees in thousand)	
Taxable temporary differences			
Accelerated tax depreciation		(33,642)	(51,974)
Assets subject to finance lease		(165)	(225)
Net investment in finance leases		(127,592)	(121,910)
Deductible temporary differences			
Recognised tax losses	12.1	883,248	785,853
Provision against loans and advances, investments and other assets		874,720	935,649
Deficit on revaluation of securities	21	4,894	2,615
Deferred tax asset recognised		1,601,463	1,550,008

12.1 The bank has an aggregate amount of Rs 4,400.994 million (2009: Rs 4,344.107million) in respect of tax losses as at December 31, 2010. The management carries out periodic assessment to assess the benefit of these losses as the Bank would be able to set off the profit earned in future years against these carry forward losses. Based on this assessment the management has recognised deferred tax debit balance on losses amounting to Rs 2,523.565 million (2009: Rs 2,245.295 million) [including on unabsorbed tax depreciation of Rs 1,205.115 million (2009: Rs 1,217.172 million)]. The amount of this benefit has been determined based on the projected financial statements for the future period. The determination of future taxable profit is most sensitive to certain key assumptions such as cost to income ratio of the Bank, deposit composition, kibor rates, growth of deposits and advances, investment returns, product mix of advances, potential provision against assets and branch expansion plan. Any significant change in the key assumptions may have an effect on the realisibility of the deferred tax asset.

13. OTHER ASSETS

	Note	2010	2009
		(Rupees in thousand)	
Income / mark-up accrued			
- in local currency		286,401	197,369
- in foreign currencies		58	-
Advances, deposits, advance rent and other prepayments		164,164	170,299
Taxation (payments less provisions)		310,252	348,485
Fee and commission receivable		50,647	50,942
Unrealised gain on forward foreign exchange contracts		43,535	180
Others	13.1	88,379	87,006
		943,436	854,281
Provisions held against bad and doubtful other assets	13.2	(98,845)	(106,141)
Other assets (net of provisions)		844,591	748,140

13.1 This includes an amount of Rs 22.3 million (2009: Rs 22.3 million) receivable from InterAsia Leasing Limited.

		Note	2010	2009
			(Rupees in thousand)	
13.2	Provisions held against bad and doubtful other assets			
	Opening balance		106,141	130,501
	Charge for the year		1,000	13,200
	Reversals		(8,059)	(52)
		26	(7,059)	13,148
	Amounts written-off during the year		(237)	(37,508)
	Closing balance		98,845	106,141

14. CONTINGENT ASSETS

There were no contingent assets of the Bank as at December 31, 2010 (2009: Nil).

15. BILLS PAYABLE

		Note	2010	2009
	In Pakistan		115,759	78,127

16. BORROWINGS

		Note	2010	2009
	In Pakistan		6,534,994	3,141,284
16.1	Particulars of borrowings			
	In local currency		6,534,994	3,141,284
16.2	Details of borrowings secured / unsecured			
	Secured			
	Borrowings from SBP under export refinance scheme	16.2.1	1,075,216	1,286,716
	Borrowings from SBP under LTF - EOP	16.2.2	78,718	-
	Repurchase agreement borrowings	16.2.3 & 9.1	4,858,724	1,532,232
			6,012,658	2,818,948
	Unsecured			
	Call money borrowings	16.2.4	500,000	300,000
	Bankers Equity Limited (Under liquidation)	16.2.5	22,336	22,336
			522,336	322,336
			6,534,994	3,141,284

16.2.1 The bank entered into agreement 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 time of maturity of finances by directly debiting the current account maintained with SBP. This facility is secured against demand promissory note executed in favour of SBP. These borrowings carry mark-up at the rate of 9 % per annum (2009: 6.5 % per annum) payable on quarterly basis.

16.2.2 This represents borrowing from SBP to provide refinance to customers and carry markup at 8.60 % per annum.

16.2.3 These represent borrowing at rates ranging from 12.71% to 13.90% (2009: 11.91% to 12.00%) per annum having maturity upto January 3, 2011 (2009: upto January 05, 2009).

16.2.4 These represent borrowings at rates ranging from 13% to 14% (2009: 11.75% to 12.65%) per annum and having maturity upto January 3, 2011 (2009: May 03, 2010).

16.2.5 This represents amount payable to Bankers Equity Limited (under liquidation) on account of counter receivable from InterAsia Leasing Limited (Note 13.1) and carries no mark-up.

17. DEPOSITS AND OTHER ACCOUNTS

	2010	2009
	(Rupees in thousand)	
Customers		
Fixed deposits	6,318,286	5,980,945
Savings deposits	3,850,144	2,621,126
Current accounts - non-remunerative	4,304,634	2,757,072
Others - non-remunerative	9,946	12,364
	14,483,010	11,371,507
Financial Institutions		
Remunerative deposits	367,917	1,102,999
Non-remunerative deposits	20,879	46,127
	388,796	1,149,126
	14,871,806	12,520,633

17.1 Particulars of deposits and other accounts

	2010	2009
In local currency	13,246,766	11,493,037
In foreign currencies	1,625,040	1,027,596
	14,871,806	12,520,633

18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

This represents security deposit of outstanding lease agreements which have been kept with the leasing company on account of counter receivable appearing in other assets.

19. OTHER LIABILITIES

	Note	2010	2009
		(Rupees in thousand)	
Mark-up / return / interest payable			
- in local currency		170,368	156,944
- in foreign currencies		300	1,374
Accrued expenses		279,953	234,365
Unclaimed dividends		4,255	4,255
Provision against off-balance sheet obligations	19.1	201,034	222,534
Lease key money		66,080	106,733
Insurance premium payable		8,081	9,030
Unrealised loss on forward exchange contracts		120,339	2,561
Others		212,194	180,347
		1,062,604	918,143

19.1 Provision against off-balance sheet obligations

	Note	2010	2009
Opening balance		222,534	96,264
(Reversal) / charge for the year		(21,500)	121,270
Adjustment		-	5,000
Closing balance	19.1.1	201,034	222,534

19.1.1 This includes:

a) A provision of Rs 71.134 million (2009: Rs 71.134 million) made in respect of two counter guarantees amounting to Rs 71.134 million issued by Crescent Investment Bank Limited, an amalgamated entity, on behalf of Mr. Reyaz Shafi favouring Privatisation Commission of Pakistan (PC). The PC had invoked/called for payment of both the guarantees prior to their expiry date. However, Mr. Reyaz Shafi had obtained stay order for payments against the guarantees. Subsequently, the PC filed a suit against Faysal Bank Limited and Al-Baraka Islamic Bank, the guarantees issuing banks, against counter guarantees of the amalgamated entity, in the Lahore High Court under the Privatisation Commission Ordinance, 2000 for payment against the guarantees. The case is still pending for decision. As a matter of prudence, full provision of Rs 71.134 million (2009: 71.134 million) has been made in respect of this matter.

b) A provision of Rs 14.130 million (2009: Rs 14.130 million) made in respect of a guarantee amounting to Rs 14.130 million issued by Crescent Investment Bank Limited, an amalgamated entity, on behalf of Mohammad Amin Muhammad Bashir Limited (MAMB) favouring Collector of Customs. The guarantee has been called twice by the Collector of Customs along with mark-up at the rate of 14 percent per annum. MAMB has filed a petition before the Honourable Supreme Court, which is still pending, therefore, no payment has been made in respect of this guarantee. As a matter of prudence, full provision of Rs 14.130 million (2009: Rs 14.130 million) has been made in respect of this matter.

c) A provision of Rs 0.5 million (2009: Rs 22 million) in respect of a guarantee amounting to Rs 0.5 million issued by the bank in favour of a gas utility company on behalf of a customer. The amount of guarantee will be payable by the bank in case of a default by the customer. The customer is currently facing financial distress and as a matter of prudence, a provision of Rs 0.5 million (2009: Rs 22 million) has been made by the bank in respect of this matter.

d) A provision in respect of a guarantee amounting to Rs 105.525 million (2009: Rs 105.525 million) issued by the bank in favour of a gas utility company on behalf of one of its customers. The amount of guarantee will be payable by the bank when a call is made upon the bank by the beneficiary and in case of a default by the customer. The amount of guarantee will be payable at the lower of the amount guaranteed by the bank or dues payable by the customer. The customer is currently facing financial distress to settle the outstanding dues and as a matter of prudence, full provisioning has been made by the management of the bank in respect of this matter.

e) A provision amounting to Rs. 4.745 million (2009: Rs 4.745 million) in respect of letter of guarantee facilities aggregating Rs.4.745 million issued on behalf of Farooq Habib Textile mills and Zahoor Textile Mills Limited favoring Ministry of Commerce. The customers pertain to Ex-Doha Bank Portfolio. In 1993, the court decided the Writ Petitions in favor of customers. During the course of follow up for reversal of the guarantees, Ministry of Commerce informed the bank that they had filed an intra court appeal which has also been decided in favor of customers. As per terms of court decision, the customers were required to file certain documentations with the Ministry prior to release of the guarantees. Customers have provided the Ministry with the required documents however, response from the Ministry is awaited. The provision will be reversed, once the original instruments are received from the Ministry.

20. SHARE CAPITAL

20.1 Authorised capital

2010	2009		2010	2009
(Number of Shares)			(Rupees in thousand)	
1,500,000,000	1,500,000,000	Ordinary shares of Rs 10 each	15,000,000	15,000,000

20.2 Issued, subscribed and paid-up capital

2010			2009					
Issued for cash	Issued for consideration other than cash	Total	Issued for cash	Issued for consideration other than cash	Total	Ordinary shares of Rs 10 each	2010	2009
(Number of Shares)							(Rupees in thousand)	
655,394,335	221,557,340	876,951,675	655,394,335	221,557,340	876,951,675	At the beginning of the year	8,769,517	8,769,517
556,521,739	-	556,521,739	-	-	-	During the year	5,565,217	-
1,211,916,074	221,557,340	1,433,473,414	655,394,335	221,557,340	876,951,675	Balance as at December 31	14,334,734	8,769,517

20.2.1 Shares held by the related parties of the bank

	2010	2009
	(Number of Shares)	
Directors, their spouses and minor children		
Mr. Humayun Murad	500	-
Mr. Mubashar Hanif Khokhar	-	500
Mr. Farhat Abbas Mirza	125,000	125,000
Mr. Javed Iqbal	5,000	5,000
Mr. Zahid Zaheer	500	500
	131,000	131,000
Associated Companies, undertakings and related parties		
Asian Stock Funds Limited*	-	1,993,285
Crescent Steel and Allied Products Limited*	-	5,425,808
Samba Financial Group	1,156,456,310	600,000,000
	1,156,587,310	607,550,093

* No longer related parties of the Bank.

20.3 The State Bank of Pakistan vide BSD Circular No. 7 dated April 15, 2009 has specified minimum capital requirements for all commercial banks operating in Pakistan. As per these requirements, banks are required to raise their capital to Rs 10 billion (net of losses), to be achieved in a phased manner by December 31, 2013. The minimum paid-up capital requirements (net of losses) to be achieved by December 31, 2010 is Rs 7 billion (net of accumulated losses).

During the year, in order to comply with the minimum paid-up capital requirement, and in accordance with the resolution approved in the extraordinary general meeting of the bank held on December 30, 2009, the Bank has issued 556.522 million ordinary shares of par value of Rs 10 per each share at a discounted subscription price of Rs 5.75 per share to all existing shareholders of the bank. The issue of shares at discount was approved by the SBP through its letter BSD/BIA-2/201/901/2009 dated September 19, 2009. The discount on issue of shares amounting to Rs 2.365 million has been directly adjusted against equity while the share capital has been recorded at the par value of shares.

21. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - NET OF TAX

	Note	2010	2009
		(Rupees in thousand)	
Federal government securities		(13,983)	(7,469)
Quoted			
Ordinary shares and certificates	9.5	(1,488)	8,807
Preference shares	9.7	-	(1,010)
		(1,488)	7,797
		(15,471)	328
Related deferred tax	12	4,894	2,615
		(10,577)	2,943

22. CONTINGENCIES AND COMMITMENTS

		2010	2009
22.1	Direct credit substitutes		
	Favouring government	800,000	800,000
	Favouring Banks and other financial institutions	312,914	-
	Favouring others	214,502	421,003
		1,327,416	1,221,003
22.2	Transaction-related contingent liabilities / commitments		
	Guarantees in favour of		
	Government	216,918	155,835
	Others	-	196,792
		216,918	352,627
22.3	Trade-related contingent liabilities		
	Favouring others	184,583	607,890
22.4	Other Contingencies		
	Claims against the Bank not acknowledged as debt	180,535	96,766

22.5 Contingencies in respect of taxation

The Income tax department has raised demands of Rs. 426.787 million for the assessment years 1995-96, 1996-97, 1999-00, 2001-02, 2002-03 on account of non-deduction of tax on profit paid under portfolio management scheme, interest paid on foreign currency deposits and certificates of investment. The department has also raised further demand of Rs. 645.337 million for assessment years 1999-00, 2000-01 to assessment year 2002-03 and tax year 2006 on account of taxability of investment banks as banking companies and taxation of dividend income as normal banking income, lease rentals received or receivable, lease key money and certain other items. The aforementioned relates to pending assessments of the Bank and amalgamated entities namely Crescent Investment Bank Limited, Trust Investment Bank Limited and Pakistan Industrial Leasing Corporation.

Presently, the bank is contesting these issues at various appellate forums. The disallowances in respect of a number of assessment years have been decided / set aside by various appellate authorities for re-assessment while the bank's appeal in respect of the remaining assessment years are currently pending. Based on the professional advice received from tax advisors, the management is confident that the eventual outcome of the aforementioned matters will be in favour of the bank. Accordingly, no provision has been made in these financial statements in respect of the above mentioned demands of Rs 1,072.124 million raised by the income tax authorities.

	2010	2009
	(Rupees in thousand)	
22.6 Commitments in respect of forward exchange contracts		
Purchase	8,097,341	3,751,883
Sale	7,198,402	3,724,147

22.7 Commitments to extend credit

The bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.

22.8 Capital commitments

Commitments for capital expenditure as at December 31, 2010 amounted to Rs 7.686 million (2009: Rs 7.442 million).

23. MARK-UP / RETURN / INTEREST EARNED

	2010	2009
	(Rupees in thousand)	
On loans and advances to:		
- Customers	1,278,936	925,620
On investments:		
- Held for trading securities	11,116	155,828
- Available for sale securities	549,482	420,770
- Held to maturity securities	19,519	19,783
	580,117	596,381
On deposits with financial institutions	336	253
On securities purchased under resale agreements	415,599	210,079
On call lendings	109,665	146,293
	2,384,653	1,878,626

24. MARK-UP / RETURN / INTEREST EXPENSED

	Note	2010	2009
		(Rupees in thousand)	
Deposits		995,808	862,453
Securities sold under repurchase agreements		116,056	263,622
Other short-term borrowings		43,850	31,607
SBP LTF Refinance		5,047	-
SBP export refinance		85,465	51,175
Others		104,094	49,705
		1,350,320	1,258,562

25. GAIN ON SALE OF SECURITIES - NET

	Note	2010	2009
Government securities		2,090	1,490
Shares / units - listed	25.1	19,862	-
Others		-	1,695
		21,952	3,185

25.1 This includes gain of Rs 10.725 million (2009: Nil) on disposal of investment in Asian Stocks Fund Limited - an associate.

26. OTHER INCOME

	Note	2010	2009
		(Rupees in thousand)	
Net profit on disposal of property and equipment		28,405	10,177
Reversal of provision against bad and doubtful other assets - net	13.2	7,059	-
Reversal of provision against off balance sheet obligations	19.1	21,500	-
Others	26.1	87,046	14,332
		144,010	24,509

26.1 This includes reversal of Rs 70 million made in respect of accrued Group Service Cost payable to Samba Financial Group for the year ended December 31, 2009. This has been reversed based on the finalisation of the agreement during the year.

27. ADMINISTRATIVE EXPENSES

	Note	2010	2009
		(Rupees in thousand)	
Salaries, allowances and benefits		627,717	609,474
Contribution to provident fund plan	34	18,634	18,729
Non-executive directors' fees, allowances and other expenses		8,773	6,157
Rent, taxes, insurance, electricity, etc.		232,350	216,071
Legal and professional charges		19,321	24,184
Communications		94,908	186,289
Repairs and maintenance		68,454	52,450
Stationery and printing		20,323	22,903
Advertisement and publicity		10,915	9,854
Donation	27.1	500	-
Auditors' remuneration	27.2	4,891	5,440
Depreciation	11.2	154,968	160,920
Amortisation of intangible assets	11.3	5,380	5,499
Travelling and conveyance		9,542	15,839
Charges paid to Central Depository Company of Pakistan Limited		279	360
Security services		23,977	29,918
Others		155,941	51,148
		1,456,873	1,415,235

27.1 During the year, the Bank contributed an amount of Rs. 500,000 as its corporate social responsibility to support peoples devastated by the heavy rains and floods recently faced by Pakistan. The donation was made through Motor Sports Club, Pakistan. None of the directors / executives or their spouse had any interest in the said donation except for the fact that one executive, Syed Ghazanfar Agha, is a member of said club.

27.2 Auditors' remuneration

	2010	2009
	(Rupees in thousand)	
Statutory audit fee	1,210	1,100
Fee for quarterly and annual group reporting	1,650	1,500
Fee for the review of the half yearly financial statements	300	300
Fee for the review of certificate relating to financial reporting on internal control framework	500	1,500
Special certifications and others	820	660
Out-of-pocket expenses	411	380
	4,891	5,440

28. OTHER PROVISIONS / WRITE OFFS - NET

	Note	2010	2009
		(Rupees in thousand)	
Provision against bad and doubtful other assets - net		-	13,148
Provision against off balance sheet obligations		-	121,270
Fixed assets written-off / adjustment	11.4.1	5,966	-
		5,966	134,418

29. OTHER CHARGES

	2010	2009
Penalties imposed by the State Bank of Pakistan	5,434	27,173
Others	-	14,080
	5,434	41,253

30. TAXATION

	2010	2009
For the year		
Current	27,056	-
Deferred	(49,176)	(475,371)
For prior years		
Current	11,418	-
	(10,702)	(475,371)

30.1 Relationship between tax expense and accounting loss

Numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as the bank has accumulated losses in prior periods and the bank has incurred taxable loss during the year ended December 31, 2010.

31. LOSS PER SHARE

	2010	2009
	(Rupees in thousand)	
Loss after taxation	(119,594)	(593,053)
	Number of shares	
Weighted average number of ordinary shares	1,226,111,889	876,951,675
	Rupees	
Loss per share	(0.10)	(0.68)

31.1 Diluted earnings / (loss) per share has not been presented as the bank does not have any convertible instruments in issue at December 31, 2009 and 2010 which would have any effect on the earnings / (loss) per share if the option to convert is exercised.

32. CASH AND CASH EQUIVALENTS

	Note	2010	2009
		(Rupees in thousand)	
Cash and balances with treasury banks	6	1,250,011	961,280
Balances with other banks	7	1,195,948	707,912
		2,445,959	1,669,192

33. STAFF STRENGTH

	Note	2010	2009
		(Number)	
Permanent		432	420
Temporary / on contractual basis		-	1
Bank's own staff strength at the end of the year		432	421
Outsourced	33.1	378	366
Total number of employees at the end of the year		810	787

33.1 Outsourced staff includes those employees that are hired by an outside contractor / agency and are assigned to the bank to perform various tasks / activities of the bank.

34. DEFINED CONTRIBUTION PLAN

The bank operates a contributory provident fund plan for 375 employees (2009: 379 employees). Both employer and employees contribute 8.33 percent (2009: 8.33 percent) of the basic salaries to the fund every month. The expense charged in respect of this benefit is disclosed in note 27 to these financial statements.

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	2010			2009		
	President and Chief Executive Officer	Directors	Executives	President and Chief Executive Officer	Directors	Executives
	(Rupees in thousand)					
Fees	-	8,773	-	-	6,156	-
Managerial remuneration	14,406	-	163,088	14,406	-	154,673
Contribution to defined contribution plan	1,200	-	12,176	1,149	-	11,387
Rent and house maintenance	6,483	-	67,751	6,483	-	69,603
Utilities	1,441	-	16,309	1,441	-	15,467
Medical	1,441	-	16,309	1,441	-	15,467
Cash reimbursement	-	-	11,824	-	-	10,103
Bonus	4,200	-	31,882	3,900	-	28,099
Conveyance	-	-	253	-	-	243
Other allowances	1,201	-	-	1,133	-	-
	30,372	8,773	319,592	29,953	6,156	305,042
Number of persons	1	4	158	1	3	151

35.1 The Chief Executive Officer and certain executives of the Bank are provided with free use of the bank's maintained cars.

35.2 Executives mean employees, other than the Chief Executive Officer and directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the bank's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The significant accounting areas where various assumptions and estimates are significant to the bank's financial statements or where judgement was exercised in application of the accounting policies are as follows:

i) classification and provisioning against investments (notes 5.3 and 9)
ii) income taxes (notes 5.8, 12 and 30)
iii) classification and provisioning against advances (notes 5.4 and 10)
iv) depreciation / amortisation of operating fixed assets (notes 5.5 and 11)

37. FAIR VALUE OF FINANCIAL INSTRUMENTS AND DERIVATIVE INSTRUMENTS

37.1 On-balance sheet financial instruments

The fair value of traded investments is based on quoted market prices, except for tradable securities classified as 'held to maturity'. These securities are carried at amortised cost in order to comply with the requirements of BSD Circular No. 14 dated September 24, 2004. The fair value of these investments amounts to Rs 260.749 million (2009: Rs 262.527 million).

Value of unquoted equity investments is determined on the basis of break up value of these investments as per the latest available audited financial statements.

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

The repricing and maturity profile and effective rates are stated in notes 44 and 46 to these financial statements.

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

37.2 Off-balance sheet financial instruments

	2010		2009	
	Book value	Fair value	Book value	Fair value
	(Rupees in thousand)			
Forward purchase of foreign exchange	8,097,341	7,977,207	3,751,883	3,752,063
Forward sale of foreign exchange	7,198,402	7,155,072	3,724,147	3,726,708

37.3 Derivative instruments

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

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

Particulars	2010 Corporate finance	Trading & sales	Retail banking	Commercial banking	Total
	(Rupees in thousand)				
Total income (net of interest expense and provisions)	19,000	183,151	573,233	556,627	1,332,011
Total operating expenses	11,392	134,330	1,059,263	257,322	1,462,307
Net (loss) / income (before tax)	7,608	48,821	(486,030)	299,305	(130,296)
Segment assets	23,511	16,196,025	2,459,696	14,780,997	33,460,229
Segment non-performing loans	-	-	762,438	1,948,861	2,711,299
Segment provision held *	-	(244,117)	(703,591)	(2,001,401)	(2,949,109)
Segment liabilities	1,368	5,599,764	12,590,309	4,394,001	22,585,442
Segment return on net assets (%)	32.36%	0.31%	-27.68%	2.34%	-0.43%
Segment cost of funds (%)	10.60%	11.21%	8.03%	10.60%	8.10%

Particulars	2009 Corporate finance	Trading & sales	Retail banking	Commercial banking	Total
	(Rupees in thousand)				
Total income (net of interest expense and provisions)	2,784	205,891	93,763	85,626	388,064
Total operating expenses	19,401	115,295	924,535	397,257	1,456,488
Net (loss) / income (before tax)	(16,617)	90,596	(830,772)	(311,631)	(1,068,424)
Segment assets	6,408	12,302,708	3,102,413	11,465,111	26,876,640
Segment non-performing loans	-	7,096	714,070	2,005,129	2,726,295
Segment provision held *	-	(440,338)	(638,716)	(2,063,460)	(3,142,514)
Segment liabilities	-	1,890,734	9,567,611	5,200,121	16,658,466
Segment return on net assets (%)	-259.32%	0.76%	-33.72%	-3.31%	-4.50%
Segment cost of funds (%)	10.86%	11.85%	9.29%	10.86%	9.40%

* The provision against each segment represents provision held against advances, investments and other assets.

39. TRUST ACTIVITIES

The bank is currently not engaged in any trust activities.

40. RELATED PARTY TRANSACTIONS

The bank has related party relationship with its holding company, associates, employee contribution plan, its directors and key management personnel.

Banking transactions with the related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk. Transactions with the executives are undertaken at terms in accordance with employment agreements and services rules and includes disbursement of advances on terms softer than those offered to the customers of the bank.

Contributions to the contributory provident fund scheme are made in accordance with the terms of the contribution plan. Remuneration to the Chief Executive Officer and directors are disclosed in note 35 to these financial statements and are determined in accordance with the terms of their appointment.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the bank. The bank considers all members of their management team, including the Chief Executive Officer and Directors to be key management personnel.

Details of transactions with related parties are given below:

	2010				2009			
	Key management personnel	Parent Company	Associates	Others	Key management personnel	Parent Company	Associates	Others
BALANCES OUTSTANDING- GROSS	(Rupees in thousand)							
Advances								
At January 1	65,129	-	45,500	-	62,961	-	45,500	-
Disbursed during the year	16,287	-	-	-	23,313	-	-	-
Repaid during the year	(8,050)	-	-	-	(21,145)	-	-	-
Adjustments	(10,568)	-	-	-	-	-	-	-
At December 31	62,798	-	45,500	-	65,129	-	45,500	-
Provision held against advances	-	-	45,500	-	-	-	45,500	-
Deposits								
At January 1	102,926	-	3,222	92,650	58,609	-	15,934	57,961
Received during the year	440,260	-	-	55,759	251,792	-	162,313	300,818
Withdrawn during the year	(417,465)	-	-	(25,730)	(205,633)	-	(175,025)	(266,129)
Adjustments	7,986	-	-	-	(1,842)	-	-	-
At December 31	133,707	-	3,222	122,678	102,926	-	3,222	92,650
Others								
Guarantees	-	38,463	3,733	-	-	38,463	3,733	-
Provision against guarantees	-	-	3,733	-	-	-	3,733	-
Balances in nostro accounts	-	9,803	-	-	-	4,237	-	-

	2010				2009			
	Key management personnel	Parent Company	Associates	Others	Key management personnel	Parent Company	Associates	Others
	(Rupees in thousand)							
Investment in shares	-	-	103,382	-	-	-	371,470	-
Sundry receivables	-	-	32,791	-	-	-	32,791	-
Sundry payable	-	168,490	-	-	-	113,989	-	-
Group services cost	-	100,000	-	-	-	70,000	-	-
Other Liabilities	-		5,000	-	-	-	5,000	-
Balances in vostro accounts	-	10,659	-	-	-	11,531	-	-
Provision against diminution in the value of investments	-	-	98,383	-	-	-	256,555	-
TRANSACTIONS DURING THE YEAR								
Remuneration and benefits	135,308	-	-	-	126,973	-	-	-
Directors fee	8,773	-	-	-	6,156	-	-	-
Commission income on guarantees	-	246	-	-	-	54	-	-
Counter confirmation charges on guarantees	-	8,886	-	-	-	21,031	-	-
Provision against guarantees	-	-	-	-	-	-	3,733	-
Mark-up / return / interest expensed	7,656	-	-	10,734	5,160	-	2,396	5,117
Mark-up / return / interest income	2,447	-	-	-	2,393	-	-	-
Disposal of fixed assets	537	-	-	-	-	-	-	-
Group Services cost (net of reversal relating to last year amounting to Rs. 70 million)	-	30,000	-	-	-	-	-	-
Received against unsubscribed portion of right issue	-	1,010,184	-	-	-	-	-	-
Advance share subscription money received against proposed issue of right shares	-	-	-	-	-	2,189,440	-	-
Issue of shares at par value	-	5,564,563	-	-	-	-	-	-

40.1 All the above balances outstanding are unsecured, unless otherwise specified.

40.2 Details of loans and advances to the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members, are given in note 10.7 to these financial statements. There were no transactions with key management personnel other than those that are entered into with them under the terms of their employment. Details of remuneration to the executives, investment in associates are disclosed in note 35 and note 9.5 to these financial statements.

41. CAPITAL ADEQUACY

41.1 Capital management

The objective of managing capital is to safeguard the Bank's ability to continue as a going concern, so that it could continue to provide adequate returns to shareholders by pricing products and services commensurately with the level of risk. It is the policy of the Bank to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

41.2 Goals of managing capital

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

- To be an appropriately capitalised institution, as defined by regulatory authorities and comparable to the peers;

- Maintain strong ratings and to protect the Bank against unexpected events;

- Availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and achieve low overall cost of capital with appropriate mix of capital elements.

41.3 Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 7 dated April 15, 2009 requires the minimum paid up capital (net of losses) for Banks / Development Finance Institutions to be raised to Rs 10 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs 7 billion paid up capital (net of losses) by the end of the financial year 2010. The paid up capital (net of losses and after issue of right shares as more fully explained in note 20 to the financial statements) of the Bank stood at Rs 7.936 billion which 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 10 percent of the risk weighted exposure of the Bank. The bank's CAR as at December 31, 2010 was approximately 52.61 percent of its risk weighted exposure.

41.4 Bank's regulatory capital analysed into following tiers

Tier 1 capital, includes fully paid up capital (including the bonus shares), balance in share premium account, general reserves as per the financial statements, and net un-appropriated profits, etc after deductions for investments in the equity of subsidiaries engaged in banking and financial activities and deficit on revaluation of available for sale investments. Discount on issue of right shares is fully deducted from the calculation of Tier 1 capital.

Tier 2 capital, includes general provisions for loan losses (up to a maximum of 1.25 percent risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 45 percent of the balance in the related revaluation reserves net of any deferred tax liability), foreign exchange translation reserves, etc.

Tier 3 supplementary capital, which consists of short term subordinated debt, is solely for the purpose of meeting a proportion of capital requirement for market risks. The bank currently does not have any Tier 3 capital.

The Capital of the Bank is managed keeping in view the minimum "Capital Adequacy Ratio" required by SBP through BSD Circular No. 7 dated April 15, 2009. The adequacy of the capital is tested with reference to the risk-weighted assets of the Bank.

The required capital adequacy ratio (10 percent of the risk-weighted assets) is achieved by the bank through improvement in the asset quality at the existing volume level, ensuring better recovery management and striking compromise proposal and settlement and composition of asset mix with low risk. Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined according to specified requirements of the State Bank of Pakistan that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The total risk-weighted exposures comprise the credit risk, market risk and operational risk.

The calculation of Capital Adequacy enables the bank to assess the long-term soundness. As the bank carries on the business on a wide area network basis, it is critical that the bank is able to continuously monitor the exposure across the entire organisation and aggregate the risks so as to take an integrated approach / view. The bank has complied with all externally imposed capital requirements throughout the period.

41.5 Capital adequacy ratio

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy using Basel II standardised approach for credit and market risk and basic indicator approach for operational risk is presented below:

	Note	2010	2009
		(Rupees in thousand)	
Regulatory capital base			
Tier I capital			
Issued, subscribed and paid-up capital		14,334,734	8,769,517
Advance share subscription money received against proposed issue of right shares		-	2,189,440
Reserves		43,080	43,080
Accumulated loss		(6,441,559)	(3,929,320)
Other deductions:			
- Intangible assets		(14,150)	(15,838)
- 50% of significant minority interest in financial entities (i.e. bank's investment in closed-end mutual fund)		-	(54,959)
- Deficit on revaluation of assets - net of tax		(10,577)	-
Total Tier I Capital		7,911,528	7,001,920
Tier II Capital			
General provisions subject to 1.25% of total risk weighted assets		28,101	75,232
Surplus on revaluation of assets - net of tax (upto 45%)		-	1,324
Other deductions:		-	-
50% of significant minority interest in financial entities (i.e. bank's investment in closed-end mutual fund)		-	(54,958)
Total Tier II capital		28,101	21,598
Eligible Tier III capital		-	-
Total regulatory capital	(a)	7,939,629	7,023,518

	2010		2009	
	Capital Requirement	Risk adjusted Value	Capital Requirement	Risk adjusted Value
	(Rupees in thousand)			
Risk-weighted exposures				
Credit risk				
Portfolios subject to standardized approach (Simple Approach for CRM)				
On-Balance Sheet Items:				
Public sector entities (PSEs)	75,513	755,132	79,844	798,443
Banks and securities firms	83,650	836,500	103,433	1,034,325
Corporate portfolio	578,219	5,782,186	294,181	2,941,806
Retail non mortgages	43,276	432,757	85,300	852,997
Mortgages – residential	9,905	99,048	8,438	84,381
Equities	2,739	27,391	5,704	57,042
Fixed assets	98,726	987,262	109,633	1,096,331
Other assets	240,252	2,402,521	229,797	2,297,968
Past due exposures	11,529	115,290	15,690	156,901

	2010		2009	
	Capital Requirement	Risk adjusted Value	Capital Requirement	Risk adjusted Value
	(Rupees in thousand)			
Risk-weighted exposures				
Off balance sheet items:				
Non-market related:				
Direct credit substitutes	68,742	687,416	80,000	800,000
Performance-related contingencies	5,047	50,468	1,589	15,890
Trade-related contingencies	5,424	54,242	24,365	243,653
Market related:				
Outstanding foreign exchange contracts	2,573	25,725	747	7,466

	Note	2010		2009	
		Capital Requirement	Risk adjusted Value	Capital Requirement	Risk adjusted Value
		(Rupees in thousand)			
Market risk					
Capital requirement for portfolios subject to standardized approach					
Interest rate risk		19,560	244,500	21,546	269,325
Foreign exchange risk		62,170	777,125	33,231	415,388
Operational risk					
Capital requirement for operational risks (basic indicator approach)		145,050	1,813,125	99,337	1,241,713
TOTAL	(b)	1,452,375	15,090,688	1,192,835	12,313,629
Capital adequacy ratio					
Total eligible regulatory capital held	(a)	7,939,629		7,023,518	
Total risk weighted assets	(b)	15,090,688		12,313,629	
Capital adequacy ratio	[(a / b) x 100]	52.61%		57.04%	

41.6 Cash margin and government securities amounting to Rs 65.784 million (2009: Rs 412.127 million) have been deducted from gross advances using simple approach to credit risk mitigation under Basel II. Advances are not net off with general provision amounting to Rs 28.101 million (2009: Rs 75.232 million) which is reported separately in Tier II (supplementary) capital as per BSD circular letter number 03 dated May 20, 2006.

41.7 Cash margin and government securities amounting to Rs 5.304 million (2009: Rs 9.340 million) have been deducted from off-balance sheet items.

41.8 The capital charge for operational risk is a fixed percentage of average positive annual gross income of the bank over past three years (including year 2010).

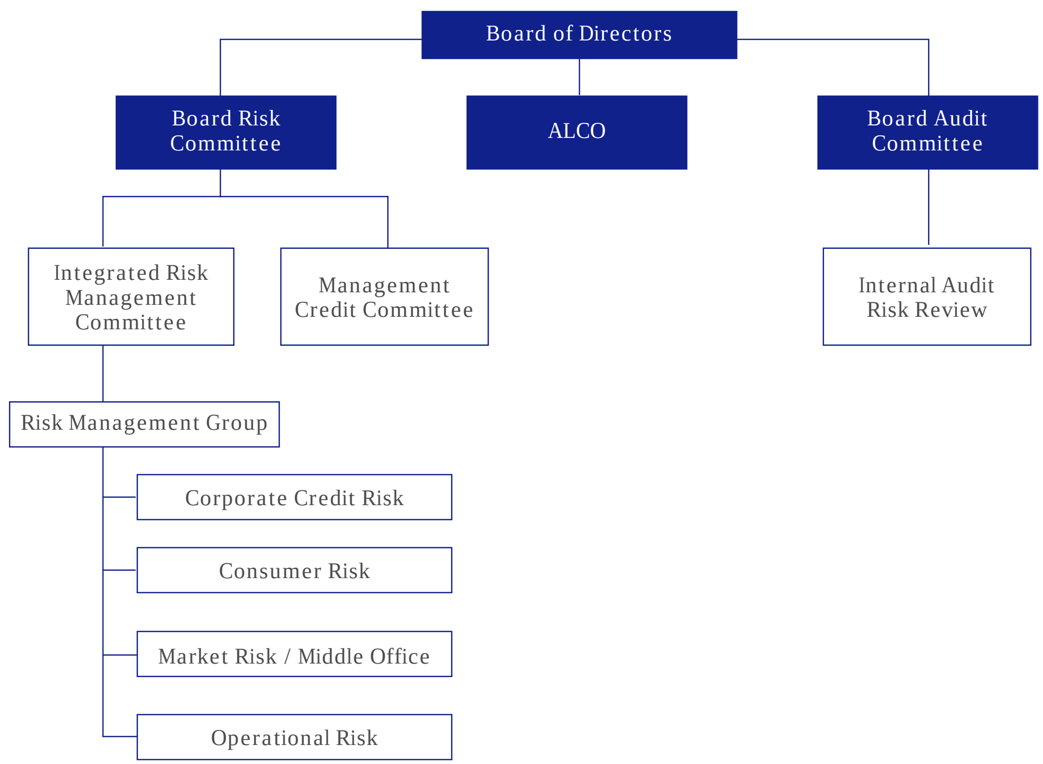
42. RISK MANAGEMENT

Risk can be defined as the combination of the probability of an event and its consequences. In all types of undertakings, there is the potential for events and consequences that constitute opportunities for benefit (upside) or threats to success (downside). Risk Management is increasingly recognized as being concerned with both positive and negative aspects of risk. However, as a matter of prudence it is generally recognized that consequences are only negative and therefore the management of safety risk is focused on prevention and mitigation of harm.

The types and degree of risk an organization may be exposed to depend upon its size, complexity in business activities, volume etc. Unless risks are not assessed and measured it will not be possible to control risks. Further, an accurate assessment of risk gives management a clear view of the bank's standing and helps in deciding future action plans. Management of risk by banks in Pakistan is governed by rules and regulations set by the State Bank of Pakistan in its capacity as a regulator of banks.

SBL maintains a dedicated Risk Management organizational unit, independent from any business and reporting directly to the President & CEO through the Chief Risk Officer.

The Bank is exposed to a number of risks, such as credit, market, operational, liquidity, etc. The Board of Directors is ultimately responsible for the risk management function. In order to find an appropriate balance between risk and the desired level of return, the Board has formed certain specialized committees such as Integrated Risk Management Committee (IRMC), Management Credit Committee (MCC) and Asset and Liability Committee (ALCO) to manage these areas. These committees act within the bank's overall policies and Board delegated authorities. Integrated Risk Management Committee is a management committee which reviews and monitors risks associated with activities of specific areas. The Board Risk Committee oversees the risk management function, including credit risks, market risks, liquidity risks, and operational risks that can cause losses to the bank, to ensure appropriate supervision and governance of the Bank.



42.1 Credit Risk

Credit Risk is the risk of loss as a result of failure by a client or counterparty to meet its contractual obligations. Credit Risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, borrower or obligor. The principal source of credit risk arises from loans and advances to Financial Institutions and Corporations.

(a) Credit Risk Management (CRM) Objectives & Policies

Specific credit risk management objectives are:

- To gain a clear and accurate understanding and independent assessment of the level of credit risk being undertaken, from the level of individual facilities up to the total portfolio.
- To develop and implement uniform and acceptable credit standards across the bank.
- To ascertain that over all risk of the bank's corporate credit portfolio remains within manageable limits.
- To control and plan the taking of credit risk in conjunction with business, ensuring it is appropriately diversified and avoiding undesirable concentrations.
- To ensure that an effective CRM framework is in place that enables a proactive approach to identifying potential risks.
- To ensure that the balance sheet correctly reflects the value of our assets.

(b) CRM Organization and Structure

Taking credit risk is central to the business therefore it has been ensured that business managers in conjunction with risk managers are responsible for establishing and maintaining appropriate risk limits and risk management procedures.

(c) Credit Approval Authorities and Standardized Procedures

A system of checks and balances has been established around the extension of credit which is based on an independent risk management function and multiple credit approvers. Every extension of credit is required to be approved by authorized Credit Officers from business and risk.

The Credit Policy approved by the Board of Directors (BoD) include:

- Setting maximum exposure limits for a single obligor and for a single group of related obligors based upon the obligor risk rating of the customer and the group.
- Defining maximum exposure limit to an individual sector in terms of portfolio composition to avoid excessive concentration.
- Requirement to risk rate every obligor on the basis of a standard and approved internal credit risk rating policy.
- Setting consistent standards to be followed across the Corporate, Financial Institution Group for the origination, documentation and maintenance of extensions of credit. These standards include problem recognition, the classification process of problem credits and remedial action.

Quarterly reporting is made to the BoD on all credit exposures approved during the quarter, all changes in classification, provisions and write-offs taken during the quarter.

(d) Credit Risk Portfolio Management

The bank seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards as defined in the approved Credit

Policy. It also seeks diversification of lending activities by ensuring that there is no undue concentration of risks within groups of customers, industry segments and tenor buckets.

The corporate portfolio is monitored through the Integrated Risk Management Committee (IRMC) which includes risk managers and President & CEO. The major functions of the IRMC pertaining to Credit Risk Management include:

- To establish and review the lending policies and standards that conforms to the regulations and the corporate policies.
- Manage and monitor the overall credit risk exposure of the bank, in terms of the pre-defined limits.
- Develop and implement standards of credit quality.
- Regularly review, monitor and evaluate the quality of credit portfolio in the light of the approved limits.
- Review and approve the overall provisioning of the corporate portfolio.

(e) Risk Rating

The BoD has approved the Internal Credit Risk Rating Policy for the Corporate and Investment Banking Group. Through this policy, an appropriate rating mechanism has been devised for the purpose of identifying and measuring the credit risk against each obligor / transaction. The mechanism considers factors such as management, financial health, overall past performance at industry / country level, etc. and subsequently, the facility structuring/collateral and/or support (if any).

For the purpose of evaluating credit risk and assigning grades that illustrate the credit risk associated with the obligor, an Obligor Risk Rating model named "FARAS" Financial Analysis and Risk Assessment System (copyright of Samba Financial Group and licensed to the bank for its use) Pakistan Version (modified to suit Pakistani economic environment) has been implemented. The model determines the Obligor Risk Rating (ORR) based on certain quantitative and qualitative information / assessment. It assigns grades from "2" to "7" (under the performing category), with sub-grades to denote a better or worse position than the full grade to a degree that is sufficient to be noted, but not material enough to require a full grade change (upgrade or downgrade). FARAS has been introduced, implemented and in use by the Corporate & Investment Banking Groups and forms an integral part of the Credit Approval process that materially helps in decision making.

The bank has implemented a maker and checker control process for assigning the Final ORR to an obligor. The business managers are the makers and Independent Risk is the checker and also approves the final assigned risk rating to an obligor.

ORRs ranging between "8" to "10" are assigned to classified obligors based upon an internal classification and remedial management process.

The Credit limits delegations under the Credit Policy are based on a grid that is driven by the assigned risk rating.

(f) Mitigants

A range of initiatives are used to mitigate credit risk.

Credit Principles and Policy

To ensure consistency and standardization across the Corporate, Financial Institution and Investment Banking Groups, standard credit procedures and policy are implemented through the BoD approved Credit Policy. This ensures clear definition of responsibilities of the business, risk, credit administration and remedial departments and provides a basis for a disciplined environment.

Counter Party Limits and Risk Rating

The maximum permitted per party limits under the credit delegations are derived as a function of the ORR of that obligor or group of obligors and therefore, acts as a check and balance on building up excessive obligor concentrations.

Concentration Risk

The Credit Policy provides limits for industry sector concentrations. Through the regular IRMC meetings on the portfolio composition, exposures are monitored to highlight any concentrations that may occur and future strategy is devised to prevent excessive concentration of risk.

Collateral

One of the mitigants is the collateral held against the credit exposures. The Credit Policy requires that collateral should always be realistically valued, providing margins, duly insured in favour of the bank and giving the bank a pari passu status with other lenders for similar transactions / nature of exposure. In case of a weak credit, facility specific support / guarantees are recommended as risk mitigation. To minimize the credit loss, seeking additional collateral from the obligor is recommended, as soon as impairment indicators are noticed in individual loans and advances.

Early Warning Mechanism

The Credit Policy and established procedures prescribe an early warning mechanism which the business managers are required to follow. Due to early problem recognition the business may seek additional collateral and exercise other such measures to stop further deterioration.

Target Market Screens (TM) and Risk Acceptance Criteria (RAC)

Industry Specific and Generic TM Screens & RACs have been approved and put in place as basic guiding rules.

Target Market (TM) Document

A Board approved TM document has been put in place after joint deliberation between Corporate & Investment Banking Group (CIBG) & Credit Risk Management (CRM). This defines the target market and risk appetite for the CIBG business and is reviewed on an annual basis. It serves as a guiding document for the relationship team and also acts as an effective risk management tool.

Rapid Portfolio Reviews (RPR)

In order to assess the impact of any major event in the country that can have a negative impact on the health of the corporate portfolio, the entire portfolio is stressed through the RPR process. The RPRs conducted during the year related to the impact of the inter-circular debt, currency devaluation, increase in oil prices, recent unprecedented floods, seasonal gas load shedding experienced by industries in the North and the cotton price hike. The RPR is an effective risk management tool and has helped SBL in assessing the robustness of its portfolio and taking corrective actions in a timely and proactive manner.

(g) Remedial management and allowances for impairment

The approved procedures define the Classified Credit process to be followed in order to establish a consistent approach to problem recognition, problem labelling, remedial action, loan loss provisioning and the initiation of credit write-offs. Clear responsibilities are defined pertaining to all processes that are required to be followed, in order to have an effective remedial management set-up in place.

A Remedial Asset Committee comprising remedial, and risk managers and President & CEO, under the initiative of the Institutional Remedial Management Department, conducts regular reviews of the corporate credit classified portfolio and also recommends recovery / work-out plans, waivers and write offs.

The bank follows a very stringent loan loss reserve policy and as a result the impaired portfolio of the bank is almost fully provisioned.

43. SEGMENTAL INFORMATION

43.1 Segment by class of business

	2010					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent
Chemical and pharmaceuticals	1,003,881	6.81	19,653	0.13	-	-
Agriculture, forestry, hunting and fishing	1,729	0.01	14,987	0.10	-	-
Textile spinning	3,862,379	26.19	68,428	0.46	10,387	0.60
Cement	399,855	2.71	29	-	-	-
Sugar	21,236	0.14	4,078	0.03	-	-
Footwear and leather garments	212,334	1.44	7,439	0.05	10,252	0.59
Automobile and transportation services	1,328	0.01	1,248,896	8.40	214,502	12.41
Financial	-	-	375,634	2.53	312,914	18.10
Insurance	829	0.01	13,163	0.09	-	-
Electronics and electrical appliances	38,977	0.26	8,108	0.05	-	-
Construction	1,035,500	7.02	-	-	-	-
Power (electricity), gas, water and sanitary	2,867,102	19.44	399,922	2.69	-	-
Individuals	1,719,713	11.66	9,063,740	60.95	-	-
Manufacturing	-	-	-	-	159,317	9.21
Wholesale and retail Trade	511,725	3.47	-	-	-	-
Exports/Imports	-	-	-	-	-	-
Transport, storage and communication	-	-	-	-	-	-
Services	-	-	-	-	-	-
Paper and allied	-	-	-	-	-	-
Oil refinery	1,000,000	6.78	-	-	800,000	46.27
Oil Marketing Companies	999,846	6.78	-	-	-	-
Others	1,070,887	7.27	3,647,729	24.52	221,545	12.82
	14,747,321	100.00	14,871,806	100.00	1,728,917	100.00

	2009					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent
Chemical and pharmaceuticals	705,187	5.71	30,759	0.25	306,776	14.06
Agriculture, forestry, hunting and fishing	1,850	0.01	15,971	0.13	-	-
Textile spinning	2,764,706	22.40	71,244	0.57	320,938	14.71
Cement	-	-	32	-	-	-
Sugar	21,236	0.17	5,799	0.05	-	-
Footwear and leather garments	218,601	1.77	3,202	0.03	-	-
Automobile and transportation services	1,328	0.01	715,182	5.71	211,007	9.67
Financial	58	-	924,626	7.38	-	-
Insurance	829	0.01	212,901	1.70	-	-
Electronics and electrical appliances	39,168	0.32	16,523	0.13	-	-
Construction	-	-	-	-	-	-
Power (electricity), gas, water and sanitary	2,583,597	20.93	217,108	1.73	800,000	36.67
Individuals	2,282,024	18.49	6,823,644	54.50	-	-
Manufacturing	4,302	0.03	-	-	-	-
Wholesale and retail Trade	458,783	3.72	-	-	-	-
Exports/Imports	-	-	-	-	-	-
Transport, storage and communication	-	-	-	-	1,000	0.05
Services	-	-	-	-	8,548	0.39
Paper and allied	-	-	-	-	300	0.01
Oil refinery	1,000,000	8.10	-	-	-	-
Oil Marketing Companies	1,000,000	8.10	-	-	-	-
Others	1,261,691	10.23	3,483,642	27.82	532,951	24.44
	12,343,360	100.00	12,520,633	100.00	2,181,520	100.00

43.2 Segment by sector

	2010					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent
Public / Government	3,775,660	25.60	1,501,408	10.10	-	-
Private	10,971,661	74.40	13,370,398	89.90	1,728,917	100.00
	14,747,321	100.00	14,871,806	100.00	1,728,917	100.00

	2009					
	Gross advances		Deposits		Contingencies and commitments	
	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent	(Rupees in thousand)	Percent
Public / Government	3,992,214	32.34	573,203	4.58	-	-
Private	8,351,146	67.66	11,947,430	95.42	2,181,520	100.00
	12,343,360	100.00	12,520,633	100.00	2,181,520	100.00

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

	2010		2009	
	Classified advances	Specific provisions held	Classified advances	Specific provisions held
	(Rupees in thousand)			
Chemical and pharmaceuticals	4,544	855	7,608	3,142
Agriculture, forestry, hunting and fishing	950	585	1,071	706
Textile	752,592	746,776	755,348	744,484
Cement	-	-	-	-
Sugar	21,236	21,236	21,236	21,236
Footwear and leather garments	17,334	16,142	17,334	16,142
Automobile and transportation services	1,328	1,228	1,328	1,128
Financial	-	-	58	58
Insurance	829	729	829	789
Electronics and electrical appliances	38,977	38,677	39,168	38,668
Construction	-	-	-	-
Power (electricity), gas, water, sanitary	591,383	591,383	591,383	591,383
Individuals	768,861	667,187	723,128	573,401
Transport, storage and communication	-	-	-	-
Services	-	-	-	-
Others	513,265	496,636	567,804	553,580
	2,711,299	2,581,434	2,726,295	2,544,717

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

Public / government	-	-	-	-
Private	2,711,299	2,581,434	2,726,295	2,544,717
	2,711,299	2,581,434	2,726,295	2,544,717

43.5 Geographical segment analysis

	2010			
	loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in thousand)			
Pakistan	(130,296)	30,511,120	7,925,678	1,728,917

	2009			
	loss before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	(Rupees in thousand)			
Pakistan	(1,068,424)	23,734,126	7,075,660	2,181,520

The bank does not have any overseas operations, therefore its entire geographical dispersion arises inside Pakistan.

43.6 Credit Risk – General Disclosures, Basel II Specific

The bank has adopted Standardized Approach, under Basel II. According to the regulatory statement submitted under the Standardized Approach, the portfolio has been divided into Claims on Public Sector Entities in Pakistan (PSEs), claims on corporate (excluding equity exposure) and claims categorized as retail portfolio. Claims on corporate constitute 58% of the total exposure, 31% represents claims on PSEs, 8% represents retail non-mortgages and the remaining 3% exposure pertains to claims categorized as mortgage residential portfolio.

43.7 Credit Risk: standardized approach

Currently the bank does not have any policy whereby customers have to be rated by a rating agency. Therefore, the bank uses unsolicited / solicited ratings of JCR-VIS, PACRA and other foreign agencies wherever applicable.

Following are the types of exposure for which each agency is used:

Exposure	JCR-VIS	PACRA	Fitch, Moody's & S&P
Corporate	✓	✓	-
Banks	✓	✓	✓
Sovereigns	-	-	-
SME's	-	-	-
Securitizations	-	-	-

Most of the bank's asset base is short or medium term. Therefore, the bank uses the entity's rating to assess the risk of our exposure without any adjustments.

For exposure amounts after risk mitigation subject to the standardized approach, amount of bank's/DFI's outstanding (rated & unrated) in each risk bucket as well as those that are deducted are as follows:

Exposure	Rating category No.	Amount outstanding	Deduction CRM*	Net Amount
Corporate	1-4	7,245,410	-	7,245,410
Banks	1-5	2,585,151	-	2,585,151
Sovereigns (local govt. securities)	N/A	11,068,514	-	11,068,514
Unrated		5,317,539	30,327	5,287,212
Total		26,216,614	30,327	26,186,287

*CRM= Credit Risk Mitigation

Eligible financial collateral and other eligible collateral after the application of haircuts

The bank has adopted simple approach to credit risk mitigation under Basel II and therefore has not applied any haircuts to the collateral. Moreover eligible collateral only includes cash / liquid securities.

Main types of collateral taken by the bank are:-

-

- Cash margin
- Lien on deposits / government securities
- Hypothecation on stocks / assets
- Mortgage on properties

43.8 Market risk

The bank is exposed to market risk which is the risk that the value of on and off-balance sheet exposures of the bank will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

43.8.1 Principal sources of Market Risks in both Trading Book and Banking Book

Price Risk

Price risk is the risk that there may be financial loss as a result of a change in the level or volatility of interest rates, foreign exchange rates, and commodity or equity prices.

Liquidity Risk

Liquidity risk is the risk that any bank, business and its entities, will be unable to meet a financial commitment when due.

Differentiation between trading and banking book

Trading Book

- Positions that are assumed to be held for short term
- Securities are to be sold within 90 days from the date of their classification as held for trading under normal circumstances.
- They are marked-to-market (MTM) daily
- Any MTM difference affects the profit and loss (P&L) account

Banking Book

- Securities holding intention is for long term
- Sale before maturity is permitted
- Positions are MTM periodically
- MTM differences affect the equity
- Interest income / expense affecting profit and loss account

43.9 Market Risk Management

43.9.1 Objectives

Market risk is the risk to a bank's financial condition resulting from adverse movements in market prices. Accurately measuring a bank's market risk requires timely information about the current market values of its assets, liabilities, and off-balance sheet positions. Market risks arise from factors such as changing interest rates and currency exchange rates, the liquidity of markets for specific commodities or financial instruments, and local or world political and economic events. All of these sources of potential market risk can affect the value of the institution and should be considered in the market risk measurement process.

Management of market risk aims to control related risk exposure while ensuring that earnings commensurate with levels of risk.

The bank has approved market risk policy encompassing market risk limit framework where all relevant market factors have been identified and taken into consideration in the establishment of the independent market risk limit frameworks. The policy also articulates standards for defining, measuring and communicating market risk.

The bank has established quantitative limits related to market risk and has also set limits for the maximum amount of losses arising from market activities as under:

43.9.2 Price Risk Management

Trading book is controlled through:

- Factor Sensitivity and associated limits
- Value at Risk (VaR) limits
- Trading – Action Triggers

Banking book is controlled through:

- Factor Sensitivity and associated limits
- DV01 limits
- Triggers – Simplified Action triggers

43.9.3 Structure and Organization of the market risk management

43.9.4 Market Risk Management Function

- Monitoring compliance with all the market risk management policies and procedures of the treasury function as approved by the Board of Directors.
- Identify and specify all relevant market factors for each risk-taking unit.
- Monitoring the day-to-day dealings of the front office against the pre-determined tolerable limits.
- Ensuring that the following are reflected in the periodic (at least quarterly) profit and loss account:
  All transactions executed; and
  Current independent market data used with respect to revaluation.
- Dealer limits monitoring and excess reporting.
- Test-reviews of recorded telephone conversations for Treasury deal confirmations and related telephone recordings through MYNA (computer software) voice recording process.
- Review the factor sensitivity, VaR and stress testing methodologies and results for reasonableness, consistency and completeness.
- Preparing forecasts (simulations) showing the effect of various possible changes in market conditions relating to risk exposures and ensure their integrity.

- Prepare various maturity GAP reports.
- Prepare market risk dashboard for IRMC and senior management.
- Finalized methodologies to calculate risks under Pillar I & II for ICAAP Framework.
- Jointly develop, with business, standard stress test scenarios and review the standard stress test library at least annually.
- Review the bank's capital adequacy.

43.9.5 Scope and nature of Risk Reporting

- It is the policy of the bank that a comprehensive set of market risk data, generated through the businesses' risk-taking activities, is identified and communicated throughout the applicable business, IRMC and Senior Management.

- It is the responsibility of Market Risk Management to define, construct and maintain an independent market risk reporting framework that effectively, consistently and meaningfully communicates risks, risk appetite and the quality of earnings.

- At a minimum, market risk reports are produced for each risk-taking unit, consistent with the level at which the independent market risk limit frameworks are established. However, additional market risk reports may be produced if Market Risk Management determine that the level and/or nature of the risk within a business warrant inclusion in the market risk reporting packages.

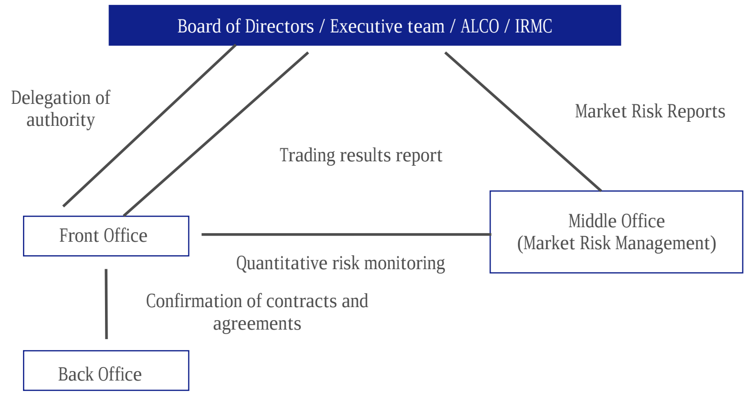
- The market risk data and other data used to populate the independent market risk reports should be from independent risk systems or other independent support systems (e.g., general ledger). If the information available in the independent systems is not sufficiently comprehensive, any other data used to populate the reports must be subject to a reconcilement process to ensure its integrity.

- It is the responsibility of Market Risk Management and the business to assist in the quality control process by reviewing the reports for reasonableness, consistency and completeness.

43.9.6 Market Risk Management System

The bank has acquired market risk software to manage the market risks from its trading and non-trading activities.

At each level, checks and balances are maintained through a system in which back and middle offices operate independently from front offices. In addition, ALCO and IRMC meetings are held respectively every month / quarter to deliberate important matters related to market risk and control.



43.10 Market Risk Measurement Model

Since the daily variation in market risk is significantly greater than with other types of risk, the bank measures and manages market risk using VaR on a daily basis.

Market risk for trading and non-trading activities is measured using a uniformed market risk measurement model. The principle model used for these activities is historical simulation (HS) model (holding period, 10 days; confidence interval, 99%; and observation period, 365 business days). The HS model calculates VaR amount by estimating the profit and loss on the current portfolio by applying actual fluctuations in the market rates and prices over a fixed period in the past. This method is capable of capturing certain statistically infrequent movements, e.g., a fat tail, and accounts for the characteristics of financial instruments with non-linear behaviour. However, the bank is not using this model to calculate Basel II regulatory capital adequacy ratios.

The bank is using the following components for measuring market risk factors:

- Factor Sensitivities
- Volatility and Correlation Calculations
- Value-at-Risk (VaR)
- Stress Testing
- Back Testing

43.11 Foreign exchange risk

The foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The risk is managed through State Bank of Pakistan's forward covers and other hedging instruments. Overall foreign exchange risk is managed by dealing in authorized currencies, devising separate authority matrices for different types of foreign currency transactions and assigning the ceilings of exposures to parties. Foreign exchange open and mismatch positions controlled through internal limits and are marked to market on a daily basis to contain forward exposures.

	2010			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in thousand)			
Pakistan Rupee	28,733,096	20,788,036	(796,504)	7,148,556
United States Dollar	1,676,431	1,624,382	708,416	760,465
Great Britain Pound	40,884	73,931	37,164	4,117
Japanese Yen	5,209	-	-	5,209
Euro	51,011	98,973	50,924	2,962
Other currencies	4,489	120	-	4,369
	30,511,120	22,585,442	-	7,925,678

	2009			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	(Rupees in thousand)			
Pakistan Rupee	22,700,028	15,627,813	(23,949)	7,048,266
United States Dollar	974,190	734,916	(623,577)	(384,303)
Great Britain Pound	31,409	217,721	597,583	411,271
Japanese Yen	188	-	-	188
Euro	24,378	78,016	49,943	(3,695)
Other currencies	3,933	-	-	3,933
	23,734,126	16,658,466	-	7,075,660

43.12 Equity position risk

Equity position risk in trading book arises due to changes in prices of individual stocks or levels of equity indices. Currently, the bank's equity investments comprises of Available for Sale (AFS) portfolio only. The AFS portfolio is maintained with a medium-term view of capital gains and dividend income.

44. MISMATCH OF INTEREST RATE SENSITIVE ASSETS AND LIABILITIES

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates. The bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The bank monitors this risk and manages it by repricing of assets and liabilities with the objective of limiting the potential adverse effects on the profitability of the bank.

The bank's interest rate sensitivity position based on the earlier of contractual re-pricing or maturity date is as follows:

	2010											
	Effective yield/ interest rate	Total	Exposed to yield / interest rate risk									Non-interest bearing financial instruments
			Upto one months	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 thousand)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	1,250,011	-	-	-	-	-	-	-	-	-	1,250,011
Balances with other banks	-	1,195,426	-	-	-	-	-	-	-	-	-	1,195,426
Lendings to financial institutions	11.48%	1,389,003	1,289,003	100,000	-	-	-	-	-	-	-	-
Investments - net	11.28%	11,090,906	4,276,316	5,891,297	480,787	-	-	-	420,114	-	-	22,392
Advances - net	12.98%	12,137,786	1,871,962	5,608,230	3,694,184	21,505	391,237	211,548	52,384	73,357	146,906	66,473
Other assets	-	370,176	-	-	-	-	-	-	-	-	-	370,176
		27,433,308	7,437,281	11,599,527	4,174,971	21,505	391,237	211,548	472,498	73,357	146,906	2,904,478
Liabilities												
Bills payable	-	115,759	-	-	-	-	-	-	-	-	-	115,759
Borrowings	9.85%	6,534,994	5,358,724	825,216	250,000	-	-	-	78,718	-	-	22,336
Deposits and other accounts	7.82%	14,871,806	7,216,747	1,526,358	623,480	1,112,342	21,830	22,300	-	-	-	4,348,749
Liabilities against assets subject to finance lease	-	279	-	-	-	-	-	-	-	-	-	279
Other liabilities	-	795,490	-	-	-	-	-	-	-	-	-	795,490
		22,318,328	12,575,471	2,351,574	873,480	1,112,342	21,830	22,300	78,718	-	-	5,282,613
On-balance sheet gap		5,114,980	(5,138,190)	9,247,953	3,301,491	(1,090,837)	369,407	189,248	393,780	73,357	146,906	(2,378,135)
Cumulative Yield / Interest Risk Sensitivity Gap			(5,138,190)	4,109,763	7,411,254	6,320,417	6,689,824	6,879,072	7,272,852	7,346,209	7,493,115	

	2009										
	Effective yield/ interest rate	Total	Exposed to yield / interest rate risk								
			Upto one months	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	Non-interest bearing financial instruments
	%	(Rupees in thousand)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks		961,280	-	-	-	-	-	-	-	-	-	961,280
Balances with other banks	-	707,912	-	-	-	-	-	-	-	-	-	707,912
Lendings to financial institutions	12.33%	3,123,377	2,373,377	350,000	400,000	-	-	-	-	-	-	-
Investments - net	11.50%	5,692,912	-	2,541,971	1,657,028	1,020,144	-	-	426,724	-	-	47,045
Advances - net	13.68%	9,723,411	1,618,921	3,376,114	2,767,182	504,247	88,740	650,243	351,327	60,147	124,912	181,578
Other assets	-	229,356	-	-	-	-	-	-	-	-	-	229,356
		20,438,248	3,992,298	6,268,085	4,824,210	1,524,391	88,740	650,243	778,051	60,147	124,912	2,127,171
Liabilities												
Bills payable	-	78,127	-	-	-	-	-	-	-	-	-	78,127
Borrowings	9.71%	3,141,284	1,532,232	1,148,000	438,716	-	-	-	-	-	-	22,336
Deposits and other accounts	9.05%	12,520,633	4,972,714	2,182,509	419,689	1,565,456	503,966	2,850	41,280	-	-	2,832,169
Liabilities against assets subject to finance lease	-	279	-	-	-	-	-	-	-	-	-	279
Other liabilities	-	588,876	-	-	-	-	-	-	-	-	-	588,876
		16,329,199	6,504,946	3,330,509	858,405	1,565,456	503,966	2,850	41,280	-	-	3,521,787
On-balance sheet gap		4,109,049	(2,512,648)	2,937,576	3,965,805	(41,065)	(415,226)	647,393	736,771	60,147	124,912	(1,394,616)
Cumulative Yield / Interest Risk Sensitivity Gap			(2,512,648)	424,928	4,390,733	4,349,668	3,934,442	4,581,835	5,318,606	5,378,753	5,503,665	

45. LIQUIDITY RISK

Liquidity risk management

The objective is to establish standards for defining, measuring and reporting liquidity risk in order to ensure the transparency and comparability of liquidity risk-taking activities.

Liquidity risk is being monitored through the following:

(a) Gap Analysis: Market Access Report (MAR)

Market Access Report is a key tool in monitoring the current liquidity position of the bank and it measures the 'gaps' over various time horizons, based on a business as usual assumption that asset levels remain constant. MAR quantifies the daily and cumulative gap in a business-as-usual environment. The gap for any given tenor bucket represents the borrowings from, or placements to, the markets (internal or external), required to replace maturing liabilities or assets. MAR Limits establish a boundary for how much incremental funding is appropriate, relative to the balance sheet size and market capacity.

(b) Stress Scenario

Stress test is intended to quantify the likely impact of an event on the balance sheet and the net potential cumulative gap over a 3-month period, and to ascertain what incremental funding may be required under the defined stress scenario. The scenario is proposed by the Market Risk Management at a minimum on an annual basis, endorsed by the treasurer, and are approved by the board of directors.

(c) Scope and nature of Risk Reporting

- It is the policy of the bank that the comprehensive set of liquidity risk data, generated through the businesses risk-taking activities, is identified and communicated throughout the applicable business, treasury and senior management.

- Market Risk is responsible to construct and maintain an independent liquidity risk-reporting framework that effectively, consistently and meaningfully communicates risks and risk appetite.

- Treasurer is responsible to ensure the completeness and integrity of the liquidity risk data, and that the data can be effectively reported into the independent risk systems.

- ALCO, the Treasurer and the market risk managers are responsible for assisting in the quality control process by reviewing the reports for reasonableness, consistency and completeness.

(d) Mitigating Liquidity risk and processes for continuous monitoring

The following tools are being used in order to monitor the liquidity risk

- Market Access Report (MAR)
- Stress Scenario
- Liquidity Ratios
- Significant Funding Sources (large funds providers)
- Contingency Funding Plans

46. MATURITIES OF ASSETS AND LIABILITIES

	2010									
	Total	Upto one months	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 thousand)									
Assets										
Cash and balances with treasury banks	1,250,011	1,250,011	-	-	-	-	-	-	-	-
Balances with other banks	1,195,948	1,195,426	-	-	-	-	-	-	-	522
Lendings to financial institutions	1,389,003	1,289,003	100,000	-	-	-	-	-	-	-
Investments - net	11,090,905	4,276,316	5,881,297	480,787	10,000	-	-	420,114	-	22,391
Advances - net	12,137,786	1,108,211	1,995,757	2,160,468	1,724,369	2,410,826	961,386	1,525,208	229,144	22,417
Operating fixed assets	1,001,413	20,922	25,163	42,345	56,420	92,974	75,014	89,059	125,009	474,507
Deferred tax assets	1,601,463	-	-	-	-	-	-	-	1,601,463	-
Other assets	844,591	341,021	33,681	21,782	33,741	32,588	28,470	20,424	332,880	4
	30,511,120	9,480,910	8,035,898	2,705,382	1,824,530	2,536,388	1,064,870	2,054,805	2,288,496	519,841
Liabilities										
Bills payable	115,759	115,759	-	-	-	-	-	-	-	-
Borrowings	6,534,994	6,183,940	250,000	-	-	-	78,718	-	22,336	-
Deposits and other accounts	14,871,806	11,565,495	1,526,358	623,480	1,112,343	21,830	22,300	-	-	-
Liabilities against assets subject to finance lease	279	-	279	-	-	-	-	-	-	-
Other liabilities	1,062,604	197,223	65,609	15,544	500,064	388	397	282,857	-	522
	22,585,442	18,062,417	1,842,246	639,024	1,612,407	22,218	101,415	282,857	22,336	522
Net assets	7,925,678	(8,581,507)	6,193,652	2,066,358	212,123	2,514,170	963,455	1,771,948	2,266,160	519,319
Represented by:										
Share capital	14,334,734									
Reserves	43,080									
Accumulated loss	(6,441,559)									
	7,936,255									
Surplus on revaluation of assets	(10,577)									
	7,925,678									

	2009									
	Total	Upto one months	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 thousand)									
Assets										
Cash and balances with treasury banks	961,280	961,280	-	-	-	-		-	-	-
Balances with other banks	707,912	707,912	-	-	-	-	-	-	-	-
Lendings to financial institutions	3,123,377	2,373,377	350,000	400,000	-	-	-	-	-	-
Investments - net	5,807,829	-	2,541,972	1,647,028	1,020,142	-	-	436,726	-	161,961
Advances - net	9,723,411	1,058,366	1,703,420	1,024,844	2,549,493	444,835	1,702,687	1,015,591	190,872	33,303
Operating fixed assets	1,112,169	19,754	28,168	41,608	80,557	121,974	79,913	111,462	171,833	456,900
Deferred tax assets	1,550,008	-	-	-	-	-	-	-	1,550,008	-
Other assets	748,140	179,281	46,161	40,880	57,399	26,688	11,927	14,930	370,874	-
	23,734,126	5,299,970	4,669,721	3,154,360	3,707,591	593,497	1,794,527	1,578,709	2,283,587	652,164
Liabilities										
Bills payable	78,127	78,127	-	-	-	-	-	-	-	-
Borrowings	3,141,284	1,532,232	1,148,000	438,716	-	-	-	-	22,336	-
Deposits and other accounts	12,520,633	7,788,276	2,182,509	419,689	1,565,456	503,966	2,850	57,887	-	-
Liabilities against assets subject to finance lease	279	-	279	-	-	-	-	-	-	-
Other liabilities	918,143	133,882	100,151	17,622	421,852	7,161	40	237,435	-	-
	16,658,466	9,532,517	3,430,939	876,027	1,987,308	511,127	2,890	295,322	22,336	-
Net assets	7,075,660	(4,232,547)	1,238,782	2,278,333	1,720,283	82,370	1,791,637	1,283,387	2,261,251	652,164
Represented by:										
Share capital	8,769,517									
Reserves	43,080									
Advance share subscription money received against proposed issue of right shares	2,189,440									
Accumulated loss	(3,929,320)									
	7,072,717									
Deficit on revaluation of assets	2,943									
	7,075,660									

Maturities of assets and liabilities reflect their carrying values at which these are reported in the balance sheet. The maturities of assets and liabilities having contractual maturities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. Assets and liabilities not having a contractual maturity are assumed to mature on the expected date of realisation / settlement.

47. OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss due to an event or action resulting from the failure of technology, processes, infrastructure, personnel and other risks having an operational risk impact. 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.

Following are the strategic initiatives that the bank has undertaken for the effective implementation of Operational Risk Management:

The bank has set up an Operational Risk & Controls Department (CORMD), housed within the Risk Management Group which is entrusted with managing the controls processes in an efficient and effective manner. In order to achieve this objective, the CORMD domain includes the following activities:

- Operational Risk Management
- Quality Assurance Reviews
- Central Reconciliation
- GL Proofing and Verification
- Policies & Procedures Development and Review
- System Audit to ensure Product Versus GL reconciliations
- System Parameters and Users Access Maintenance Management
- Business Continuity Planning and;
- Fraud Management Unit

The operational framework has been developed keeping in view of the applicable regulatory requirements and in light of the institutional policies, procedures and adopted best practices governed by the parent company Samba Financial Group KSA. For effective operational risk management, the bank has developed an Operational Risk (OR) Management policy. The policy outlined the operational risk management approach / infrastructure at the bank, guideline for risk identification & assessment further monitoring, mitigation and define segregation of duties and roles &responsibilities. The OR policy has been approved by the Board and is implemented across the bank.

The bank has also developed its Master Business Continuity Plan, incorporating the best practices being carried out by our parent Samba Financial Group and this document has been approved by Board Further, department wise Business Continuity Plans have also been developed and are being tested in a modular format.

As regards Basel-II for Operational Risk, the bank is currently using Basic Indicator Approach (BIA) for the purpose of calculating Operational Risk Charge for Basel-II MCR calculations.

Currently the bank has no immediate intent to move towards Standardized Approach as migration to the same has been made discretionary by State Bank of Pakistan.

In order to institutionalize a robust control and risk management culture, Key Risk Indicators (KRIs) for respective areas have been duly identified and agreed upon in conjunction with Samba Financial Group along with tolerable limits for each KRI. The KRI regime was implemented in May, 2009 and since then is being reported on a periodic basis. Furthermore, KRI inventory is regularly updated based on the trends established and breaches reported.

For Loss Data Collection appropriate templates have already been designed in line with the OR policy. Collection of data will formally commence from 2011.

The ICFR (Internal Controls over Financial Reporting) project, as per SBP's directive status report on ICFR project (Stage I&II) as of September 30, 2010 has been submitted to State Bank of Pakistan on October 29, 2010, duly approved by the respective Audit Committee as per SBP Circular NO. 3 of 2010.

Primary deliverables pertaining to mega processes of ICFR (Internal Controls over Financial Reporting) have been shared with external auditors for their review and validation. External auditors M/s A. F. Ferguson & Co. Chartered Accountants have commenced their review of final deliverables of ICFR project in line with requirements of State Bank of Pakistan (SBP).

Review would include assessing the quality of deliverables with respect to their ability to capture the risks that are inherent in the processes or may otherwise have a potential of surf. Upon satisfactory response from external auditors, the controls testing plan and strategy shall be finalized in conjunction with Internal Audit and Operational Risk & Controls functions respectively. Subsequent to finalization, the same shall be implemented by Internal Audit Function as part of their annual audit plan alongwith Internal Controls Function.

Risk and Controls Self Assessment (RCSA) regime is being initiated on pilot basis and will be implemented gradually at entity level. RCSA grids are prepared through Risk Controls Matrices (RCMs), which are one of the key deliverables of the aforementioned project.

As part of the governance structure, Integrated Risk Management Committee has the mandate to supervise and direct the management of operational risks and key operational risk exposures. The IRMC is also ensuring that adequate and appropriate policies and procedures are in place for identification, assessment, monitoring, control and reporting of operational risk.

The bank has well defined policies and procedures in place for each unit duly vetted by CORMD & Compliance departments to ensure that business is executed in a systematic and structured manner. All recent releases of laws and regulations are incorporated into the procedures/ policies of relevant units on a timely basis.

Institution wide Risk, Fraud and Business Continuity awareness is promoted through regular communication and training workshops (both in-house and external).

48. DATE OF AUTHORISATION

These financial statements were approved and authorised for issue on February 28, 2011 by the Board of Directors of the Bank.

49. GENERAL

- Corresponding figures have been re-arranged and reclassified, wherever necessary, for better presentation. However, there are no material reclassifications to report in these financial statements, other than the following:

Note	Reclassification from component	Note	Reclassification to component	(Rupees '000)
N/A	Income from dealing in foreign currencies	24	Mark-up / return / interest expensed - Others	49,705
22.2	Transaction-related contingent liabilities / commitments - Guarantees in favour of Government	22.1	Direct credit substitutes - Favouring government	800,000

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

President and Chief Executive Officer

Chairman

Director

Director

STATEMENT SHOWING WRITTEN-OFF LOANS OR ANY OTHER FINANCIAL RELIEF PROVIDED

DURING THE YEAR ENDED DECEMBER 31, 2010

ANNEXURE - 1

S.No.	Name and address of the borrower	Name of the individuals / partners / directors	CNIC No.	Father's / Husband's name	Outstanding liabilities at the beginning of the year				Principal written off	Interest / Mark-up written off	Other financial relief provided	Total
					Principal	Interest / Mark-up	Others	Total				
					(Rupees in thousand)							
1	Karachi Bulk Storage & Terminals	Nadeem Maqbool	502-59-443796	Maqbool Ahmed	34,359	17,144	-	51,503	-	12,503	-	12,503
		Zahid Bashir	515-45-054353	Muhammad Bashir								
2	Multi Pharma (Pvt) Ltd	Ms.Shazia Kausar	224-56-131066	Mr.Abdul Rashid	2,192	-	-	2,192	1,292	-	-	1,292
		Mr.Fazal Masood Baig	269-55-031189	Mr.Muhammad Shafi								
3	Sunrise Textile Mills Ltd *	Shahbaz Chaudhry		Allah Ditta	117,067	1,696	-	118,763	2,427	-	-	2,427
	67-E/I, Gulberg III, Lahore	Khalid Shahbaz Chaudhry	35202-5112977-5	Shahbaz-Ud-Din Chaudhry								
		Ijaz Rasul Chaudhry	35200-1632139-1	Chaudhry Ghulam Rasul								
		Sardar Bibi	270-89-064002	Shahbaz-Ud-Din Chaudhry								
		Riffat Shahbaz	270-52-101640	Chaudhry Javed Iqbal								
		Tariq Shahbaz Chaudhry	270-57-040052	Shahbaz-Ud-Din Chaudhry								
		Shahida Shahbaz	270-87-064001	Chaudhry Farooq Bajwa								
					153,617	18,840	-	172,457	3,719	12,503	-	16,222

* This represents an adjustment of cash margin of Sunrise Textiles Limited. As per the agreement entered into with Mashreq Bank, Dubai, at the time of merger, any recovery against this loan has to be remitted to Mashreq Bank, Dubai. During the year, Bank encashed the TDR of Sunrise Textiles Limited and accordingly will remit the funds to Mashreq bank, Dubai as per the agreement after deducting expenses incurred by the bank. Bank also adjusted the advance against the provision appearing on its books of account to the extent of the amount recovered.

PATTERN OF SHAREHOLDING
AS AT DECEMBER 31, 2010

Number of Shareholders	Shareholding		Total Shares held
	From	To	
1,068	1	100	49,508
1,946	101	500	565,793
1,013	501	1000	775,108
1,694	1001	5000	4,038,277
442	5001	10000	3,514,908
162	10001	15000	2,050,122
92	15001	20000	1,691,210
78	20001	25000	1,825,667
45	25001	30000	1,266,658
35	30001	35000	1,168,716
22	35001	40000	836,281
14	40001	45000	607,777
35	45001	50000	1,728,982
10	50001	55000	525,019
12	55001	60000	709,952
8	60001	65000	505,951
13	65001	70000	890,174
14	70001	75000	1,026,284
13	75001	80000	1,017,857
6	80001	85000	501,082
1	85001	90000	87,718
6	90001	95000	555,322
35	95001	100000	3,487,158
6	100001	105000	611,592
4	105001	110000	430,230
3	110001	115000	339,536
2	115001	120000	239,697
5	120001	125000	620,486
2	125001	130000	255,491
1	130001	135000	135,000

Number of Shareholders	Shareholding		Total Shares held
	From	To	
1	135001	140000	137,500
5	145001	150000	747,000
3	155001	160000	471,285
4	160001	165000	648,310
1	170001	175000	175,000
2	175001	180000	358,166
3	180001	185000	542,741
3	185001	190000	561,901
1	190001	195000	191,201
16	195001	200000	3,191,656
1	200001	205000	205,000
2	205001	210000	416,731
1	210001	215000	212,500
1	215001	220000	220,000
5	220001	225000	1,121,752
2	235001	240000	474,537
1	245001	250000	250,000
2	250001	255000	501,557
1	270001	275000	273,417
1	275001	280000	276,500
7	295001	300000	2,092,906
4	305001	310000	1,235,771
3	310001	315000	941,758
1	320001	325000	324,000
1	335001	340000	339,598
1	340001	345000	344,000
2	345001	350000	694,812
2	350001	355000	704,045
1	365001	370000	370,000

Number of Shareholders	Shareholding		Total Shares held
	From	To	
1	370001	375000	372,803
1	375001	380000	375,473
2	385001	390000	773,501
1	395001	400000	400,000
1	405001	410000	409,201
1	410001	415000	412,959
2	415001	420000	834,562
1	420001	425000	425,000
1	440001	445000	444,333
2	450001	455000	904,493
1	475001	480000	479,794
1	490001	495000	490,138
5	495001	500000	2,500,000
1	520001	525000	524,384
3	545001	550000	1,646,934
1	555001	560000	557,114
1	595001	600000	600,000
1	605001	610000	609,975
1	615001	620000	619,500
1	650001	655000	650,609
2	660001	665000	1,325,098
1	670001	675000	671,515
1	680001	685000	684,500
1	690001	695000	694,590
1	725001	730000	726,845
1	760001	765000	761,080
1	805001	810000	806,048
1	850001	855000	850,855
1	875001	880000	875,710
1	945001	950000	947,211

Number of Shareholders	Shareholding		Total Shares held
	From	To	
1	995001	1000000	1,000,000
2	1120001	1125000	2,248,201
1	1835001	1840000	1,840,000
1	1995001	2000000	1,998,008
1	2000001	2005000	2,004,010
1	2005001	2010000	2,008,500
1	2020001	2025000	2,024,000
1	2040001	2045000	2,041,698
1	2245001	2250000	2,245,222
2	2270001	2275000	4,540,790
1	2295001	2300000	2,295,808
1	2580001	2585000	2,584,177
1	2630001	2635000	2,631,973
1	2995001	3000000	2,998,445
1	3120001	3125000	3,124,992
2	3400001	3405000	6,803,737
1	3895001	3900000	3,900,000
1	4525001	4530000	4,529,333
1	4670001	4675000	4,674,971
1	7300001	7305000	7,303,900
1	12230001	12235000	12,230,240
1	12775001	12780000	12,779,623
1	21170001	21175000	21,170,161
1	27745001	27750000	27,750,000
1	30960001	30965000	30,963,000
1	36870001	36875000	36,870,890
1	1156455001	1156460000	1,156,456,310
6,935	<- - TOTAL - ->		1,433,473,414

CATEGORY OF SHAREHOLDING
AS AT DECEMBER 31, 2010

S.No.	Shareholders category	No. of shareholders	No. of shares	%
1	Directors, CEO and Their Spouses	4	131,000	0.01
2	Spouse / Relatives	-	-	-
3	Executives	3	1,577	0.00
4	Associated Companies, Undertakings and Related Parties	1	1,156,456,310	80.68
5	NIT and ICP	3	12,275,091	0.85
6	Public Sector Companies and Corporations	1	4,674,971	0.33
7	Banks, Development Finance Institutions, Non-Banking Finance Institutions,	29	45,482,697	3.17
8	Insurance Companies	8	37,910	0.00
9	Modarabas and Mutual Funds	21	4,797,117	0.33
10	Other Companies	150	72,141,588	5.03
11	Non Resident	20	68,754,623	4.80
12	Individuals	6,695	68,720,530	4.79
	TOTALS	6,935	1,433,473,414	100

INFORMATION AS REQUIRED UNDER CODE OF CORPORATE GOVERNANCE
AS AT DECEMBER 31, 2010

Shareholders category	Number of Shares held	%
Directors, their Spouse and Minor Children		
Directors		
MR. FARHAT ABBAS MIRZA*	125,000	0.01
MR. HUMAYUN MURAD	500	0.00
MR. JAVED IQBAL**	5,000	0.00
MR. ZAHID ZAHEER	500	0.00
Spouse and Minor Children	-	-
	131,000	0.01
* Joint Account with MRS. NAJMA MIRZA		
**Joint Account with MRS. NISHAT IQBAL		
Associated Companies, Undertakings and Related Parties		
SAMBA FINANCIAL GROUP	1,156,456,310	80.68
NIT and ICP (Name wise Detail)		
M/S. NATIONAL BANK OF PAKISTAN TRUSTEE DEPTT.	12,275,091	0.85
Banks, Development Finance Institutions, Non-Banking Finance Institutions	45,482,697	3.17
Public Sector Companies	4,674,971	0.33
Insurance Companies	37,910	0.00
Modarabas and Mutual Funds	4,797,117	0.33
Other Companies	72,141,588	5.03
Non-Resident	68,754,623	4.80
General Public	68,722,107	4.79
	1,433,473,414	100.00
Shareholders holding 10% or more voting interest		
SAMBA FINANCIAL GROUP	1,156,456,310	80.68

Samba Bank Limited

Form of Proxy

Eighth Annual General Meeting

I / We, ______________________ of ______________ being member(s) of Samba Bank Limited holding __________ ordinary shares hereby appoint __________ of ____________________________

or failing him / her ____________________ of ___________ who is / are also member(s) of Samba Bank Limited as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the Annual General Meeting of the Bank to be held on Monday, March 28th, 2011 and at any adjournment thereof.

As witness my / our hand / seal this ______________ day of ___________ 2011.

Signed by the said ______________________________________

in the presence of 1. ______________________________

____

2. ______________________________

____

Folio / CDC Account No.

Please affix here Revenue Stamp of Rs.5/-

This signature should
agree with the specimen registered
with the Bank.

Important:

1. This Proxy Form, duly completed and signed, must be received at the Registered Office of the Bank, 6th Floor, Sidco Avenue Centre, Maulana Deen Muhammad Wafai Road, Karachi, not less than 48 hours before the time of holding the meeting.

2. No person shall act as proxy unless he himself is a member of the Bank, except that a corporation may appoint a person who is not a member.

3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Bank, all such instruments of proxy shall be rendered invalid.

For CDC Account Holders / Corporate Entities:

In addition to the above the following requirements have to be met:

i) The proxy form shall be witnessed by the persons whose names, addresses and NIC numbers shall be mentioned on the form.

ii) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

iii) The proxy shall produce his original NIC or original passport at the time of the meeting.

iv) In case of corporate entity, the Board of Directors resolution / power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the company.

AFFIX
CORRECT
POSTAGE

The Company Secretary

Samba Bank Limited

6th Floor, Sidco Avenue Centre,
Maulana Deen Muhammad Wafai Road,
Karachi.

Samba Bank Limited

ADMISSION SLIP

The Eighth Annual General Meeting of Samba Bank Limited will be held on Monday, March 28th, 2011 at 11:00 a.m. at Hotel Beach Luxury, Karachi.

Kindly bring this slip duly signed by you for attending the Meeting.

Company Secretary

Name ____________________

Folio No. / CDC I.D ____________________ Signature ____________________

No. of Shares held ____________________

Note:

i) The signature of the shareholder must tally with the specimen signature on the Company's record.

ii) Shareholders are requested to hand over duly completed admission slips at the counter before entering the Meeting premises.

CDC Account Holders / Proxies / Corporate Entities:

a) The CDC Account Holder / Proxy shall authenticate his identity by showing his original National Identity Card (NIC) or original passport at the time of attending the Meeting.

b) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the Meeting (unless it has been provided earlier).

This Admission Slip is Not Transferable