A.F. FERGUSON & CO.

A member firm of
PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co
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AUDITORS' REPORT TO THE DIRECTORS

We have audited the annexed balance sheet of the Pakistan Branches of Citibank, N.A., incorporated in the U.S.A with limited liability (the Bank), as at December 31, 2009 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, 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 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 case of loans and advances covered more than 60% of the total loans and advances of the Bank, we report that:

(a) in our opinion, proper books of accounts have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984);

(b) in our opinion:

   (i) the balance sheet 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, except for the changes referred to in note 3.2 to the financial statements, with which we concur;

   (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 balance sheet, 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, 2009 and its true balance of the profits, 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.

The financial statements of the Bank for the year ended December 31, 2008 were audited by another firm of Chartered Accountants who had expressed an unqualified opinion thereon vide their report dated March 26, 2009.

Afferguson & co

Chartered Accountants
Engagement Partner: **Salman Hussain**
Dated: March 29, 2010
Karachi

CITIBANK, N.A. - PAKISTAN BRANCHES

(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)

BALANCE SHEET

AS AT DECEMBER 31, 2009

	Note	2009	2008
		(Rupees in '000)	
ASSETS			
Cash and balances with treasury banks	6	7,706,034	10,583,830
Balances with other banks	7	2,735,953	7,358,861
Lendings to financial institutions	8	10,155,661	14,166,060
Investments - net	9	33,122,217	9,194,307
Advances - net (Include assets held for sale amounting to Rs. 2,957.958 million)	10	28,245,029	41,856,749
Fixed assets	11	1,266,456	1,474,167
Deferred tax assets - net	12	3,637,578	3,585,127
Other assets (Include mark-up receivable on account of assets held for sale amounting to Rs. 46.713 million)	13	2,911,872	13,432,726
		89,780,800	101,651,827
LIABILITIES			
Bills payable	15	1,654,759	1,660,227
Borrowings from financial institutions	16	5,561,411	3,152,988
Deposits and other accounts	17	58,147,204	65,484,768
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	15,892,011	22,340,772
		81,255,385	92,638,755
NET ASSETS		8,525,415	9,013,072
REPRESENTED BY			
Head office capital account	19	6,780,848	7,742,345
Reserves		92,715	75,785
Unremitted profit	10.3.1	1,778,573	1,689,600
		8,652,136	9,507,730
Deficit on revaluation of assets - net of tax	20	(126,721)	(494,658)
		8,525,415	9,013,072
CONTINGENCIES AND COMMITMENTS	21		

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

ARIF USMANI
Managing Director and Citi Country Officer

ANJUM HAI
Chief Financial Officer

CITIBANK, N.A. - PAKISTAN BRANCHES
(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
		(Rupees in '000)	
Mark-up / return / interest earned	23	9,983,377	9,943,656
Mark-up / return / interest expensed	24	4,720,788	4,144,702
Net mark-up / return / interest income		5,262,589	5,798,954
Provision against loans and advances - net	10.3	1,181,114	278,175
Provision for diminution in the value of investments		-	-
Bad debts written off directly	10.4	2,104,789	3,779,826
		3,285,903	4,058,001
Net mark-up / interest income after provisions		1,976,686	1,740,953
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		859,322	1,358,752
Dividend income		2,033	-
Income from dealing in foreign currencies	25	1,669,426	2,142,938
Gain / (loss) on sale of securities	26	397,188	(80,756)
Unrealised gain on revaluation of investments classified as held for trading	9.10	1,804	9,096
Other income	27	(479,839)	116,017
Total non mark-up / interest income		2,449,934	3,546,047
		4,426,620	5,287,000
NON MARK-UP / INTEREST EXPENSE			
Administrative expenses	28	3,987,382	5,127,991
Provision for diminution in the value of non-banking assets - net	13.3	5,490	3,102
Operating fixed assets written off		5,997	27,020
Other charges	29	125,163	10,038
Total non mark-up / interest expenses		4,124,032	5,168,151
PROFIT BEFORE TAXATION		302,588	118,849
Taxation	30		
- Current		1,305,350	1,466,568
- Prior years		(841,163)	-
- Deferred		(250,572)	(2,148,081)
		213,615	(681,513)
PROFIT AFTER TAXATION		88,973	800,362

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

ARIF USMANI	**ANJUM HAI**
Managing Director and Citi Country Officer	**Chief Financial Officer**

CITIBANK, N.A. - PAKISTAN BRANCHES
(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2009

	Note	2009	2008
		(Rupees in '000)	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		302,588	118,849
Adjustments for non cash and other items:			
Depreciation		489,368	427,212
Amortisation		48,712	16,610
Provision against non-performing loans and advances		1,181,114	278,175
Unrealised (gain) on revaluation of investments classified as held for trading		(1,804)	(9,096)
Bad debts written off directly		2,104,789	3,779,826
Gain on disposal of operating fixed assets		(20,924)	(26,867)
Dividend income		(2,033)	-
Lease rentals		2,987	9,994
Charge for defined benefit plan		49,628	76,759
Provision for diminution in the value of non-banking assets		5,490	3,102
Operating fixed assets written off		5,997	27,020
		3,863,324	4,582,735
		4,165,912	4,701,584
(Increase) / decrease in operating assets			
Lendings to financial institutions		4,010,399	(9,635,611)
Held for trading securities		721,697	1,660,583
Advances		10,325,817	3,153,461
Other assets		10,515,364	(6,384,212)
		25,573,277	(11,205,779)
Increase / (decrease) in operating liabilities			
Bills payable		(5,468)	(460,385)
Borrowings from financial institutions		2,386,754	(2,241,075)
Deposits and other accounts		(7,337,564)	(3,143,047)
Other liabilities (excluding current taxation and payable to defined benefit plan)		(5,386,628)	11,695,255
		(10,342,906)	5,850,748
		19,396,283	(653,447)
Contribution to gratuity fund		(42,083)	(51,153)
Income tax paid		(1,516,935)	(381,531)
Net cash inflow from / (outflow) on operating activities		17,837,265	(1,086,131)
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(24,081,745)	9,751,498
Dividend income received		2,033	-
Investments in operating fixed assets		(412,042)	(607,684)
Sale proceeds from disposal of property and equipment		96,600	110,187
Net cash (outflow) on / inflow from investing activities		(24,395,154)	9,254,001
CASH FLOW FROM FINANCING ACTIVITIES			
Payments against lease obligations		(2,987)	(9,994)
Capital (repatriated to) / injected by head office during the year		(1,099,363)	2,168,394
Remittances made during the year on account of head office expenses		-	146,674
Net cash (outflow) / inflow from financing activities		(1,102,350)	2,305,074
Effects of exchange rate changes on cash and cash equivalents		137,866	130,691
(Decrease) / increase in cash and cash equivalents		(7,522,373)	10,603,635
Cash and cash equivalents at the beginning of the year		17,922,742	7,319,107
Cash and cash equivalents at the end of the year	31	10,400,369	17,922,742

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

ARIF USMANI
Managing Director and Citi Country Officer

ANJUM HAI
Chief Financial Officer

CITIBANK, N.A. - PAKISTAN BRANCHES
(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009

	2009	2008
	(Rupees in ‘000)	
Profit after taxation	88,973	800,362
Other comprehensive income *	-	-
Total comprehensive income for the year	**88,973**	**800,362**

* Surplus / deficit on revaluation of 'Available for Sale' investments is required to be shown separately below equity as 'surplus / deficit on revaluation of assets' in accordance with the requirements specified by the State Bank of Pakistan. Accordingly, it has not been reflected in the Statement of Comprehensive Income.

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

ARIF USMANI
Managing Director and Citi Country Officer

ANJUM HA
Chief Financial Office

CITIBANK, N.A. - PAKISTAN BRANCHES
(INCORPORATED IN THE U.S.A. THE LIABILITY OF MEMBERS BEING LIMITED)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009

	Head office capital account	Unremitted profit - note 10.3.1	Share based payment contribution reserve by the ultimate holding company	Total
	--------(Rupees in '000)--------			
Balance as at January 1, 2008	5,443,260	889,238	46,784	6,379,282
Changes in equity for 2008				
Profit for the year ended December 31, 2008	-	800,362	-	800,362
Contribution by the ultimate holding company in respect of share based payments	-	-	46,712	46,712
Recharged balance payable to the ultimate holding company for share based payments	-	-	(46,712)	(46,712)
Effect of re-measurement of cost under share based payment - net of tax	-	-	29,001	29,001
			29,001	29,001
Capital injected during the year	2,168,394	-	-	2,168,394
Exchange adjustments on revaluation of capital	130,691	-	-	130,691
Balance as at December 31, 2008	7,742,345	1,689,600	75,785	9,507,730
Changes in equity for 2009				
Profit for the year ended December 31, 2009	-	88,973	-	88,973
Contribution by the ultimate holding company in respect of share based payments	-	-	28,779	28,779
Recharged balance payable to the ultimate holding company for share based payments	-	-	(28,779)	(28,779)
Effect of re-measurement of cost under share based payment - net of tax	-	-	16,930	16,930
			16,930	16,930
Capital remitted during the year	(1,099,363)	-	-	(1,099,363)
Exchange adjustments on revaluation of capital	137,866	-	-	137,866
Balance as at December 31, 2009	6,780,848	1,778,573	92,715	8,652,136

The annexed notes 1 to 44 and Annexures I and II form an integral part of these financial statements.

ARIF USMANI
Managing Director and Citi Country Officer

ANJUM HA
Chief Financial Officer

1 STATUS AND NATURE OF BUSINESS

Citibank, N.A. - Pakistan Branches (the Bank) operates as a branch of Citibank, N.A. which is a foreign banking company incorporated and domiciled in the U.S.A. with limited liability and is a member of Citigroup Inc., which is the ultimate holding company.

Credit ratings assigned to Citigroup Inc. and Citibank, N.A., by Moody's Investor Services are as follows:

	Long-term senior debt	Short-term debt	Outlook
Citigroup Inc.	A3	P-1	Stable
Citibank, N.A.	A1	P-1	Stable

The Bank is engaged in banking activities permissible under the Banking Companies Ordinance, 1962. Its principal office is at AWT Plaza, I. I. Chundrigar Road, Karachi and presently operates through 21 branches (December 31, 2008: 26 branches) in Pakistan.

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 includes purchasing of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and sale arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilized and appropriate portion of mark-up there on.

3 STATEMENT OF COMPLIANCE

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

The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002 till further instructions. In addition the Securities and Exchange Commission of Pakistan has also deferred the applicability of International Financial Reporting Standard 7, Financial Instruments: Disclosures (IFRS 7) on banking companies vide SRO 411(I) / 2008 till further orders. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

3.2 Changes in accounting policies and disclosures - standards, interpretations and amendments to published approved accounting standards that are effective in the current yea

a) IAS 1 (Revised), 'Presentation of financial statements' , was issued in September 2007. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period, in addition to the current requirement to present statements of financial position at the end of the current period and comparative period.

The Bank has applied IAS 1(revised) during the current period, and has accordingly changed its accounting policy to comply with the new requirements of IAS. The Bank has elected to show elements of comprehensive income in a separate statement. The change in presentation has not affected the net assets of the Bank for either the current or any of the prior periods and there is no impact on the earnings of the Bank.

b) IAS 23 (Amendment) 'Borrowing Costs' (effective from January 1, 2009). This standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. Further, the definition of borrowing cost has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and Measurement'.

During the year the Bank has changed its accounting policy in respect of borrowing costs to comply with the requirements of IAS 23 (Amendment), “Borrowing Costs”. Previously, borrowing costs were recognised as an expense in the period in which they were incurred. IAS 23 (Amendment) applies to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009 and does not affect qualifying assets for which the commencement date for capitalisation is earlier than the transition date. The Bank did not have any qualifying assets whose commencement date for capitalisation was on or after January 1, 2009. Accordingly, the change in accounting policy has had no effect on the financial statements of the Bank for the current or prior years.

c) IAS 19 (Amendment), ‘Employee benefits’ (effective from January 1, 2009).

- The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

- The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- IAS 37, ‘Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, which are not recognised. IAS 19 has been amended to be consistent.

The Bank has adopted the aforementioned amendments from January 1, 2009. The management of the Bank believes that this amendment does not have any impact on the Bank's financial statements.

d) IAS 36 (Amendment), ‘Impairment of assets’ (effective from January 1, 2009). As per the new requirements, where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Bank has adopted the aforementioned amendments from January 1, 2009. The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.

e) IAS 38 (Amendment), ‘Intangible assets’ (effective from January 1, 2009). The amended standard states that a prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Bank has adopted the aforementioned amendments from January 1, 2009. The management of the Bank believes that this amendment does not have any impact on the Bank's financial statements.

f) IFRS 2 (Amendment), ‘Share-based payment’ (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Bank has adopted the aforementioned amendments from January 1, 2009. The management of the Bank believes that presently this amendment does not have any impact on the Bank's financial statements.

g) IFRIC 13, “Customer Loyalty Programmes” (effective from financial years beginning on or after July 1, 2008). As per IFRIC 13 where goods or services are sold together with a customer loyalty incentive, the arrangement is a multi-element arrangement and the consideration receivable is allocated between the components of the arrangement using fair values. If a third party supplies the awards and the entity is collecting the consideration on its own account, it shall measure its revenue as the gross consideration allocated to the award credits and recognise the revenue when it fulfils its obligations in respect of the awards.

The Bank has adopted IFRIC 13 from January 1, 2009. The management of the Bank believes that the adoption of this interpretation has not made any material impact on the financial statements.

h) There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2009 but are considered not to be relevant or to have any significant effect on the Bank's operations and are therefore not detailed in these financial statements.

3.3 IFRS 8 'Operating segments', (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. 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.

3.4 Standards, interpretations and amendments to published approved accounting standard that are not yet effective

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after July 1, 2009:

IFRIC 18 ‘Transfers of assets from customers’ was issued in January 2009 and is applicable for financial years beginning on or after July 1, 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. At present, the management believes that the afore-mentioned interpretation is not expected to have any impact on the Bank's financial statements.

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 of uncertainty) of IAS 1. The Bank will apply IFRS 5 (amendment) from 1 January 2010. The management is presently assessing the impact of this amendment on the Bank's financial statements.

There are certain other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 1, 2010 or later periods 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.

3.5 Early adoption of standards

The Bank did not early adopt any new or amended standards in 2009.

4 BASIS OF MEASUREMENT

4.1 Accounting convention

These financial statements have been prepared under the historical cost convention except that held for trading and available for sale investments and derivative financial instruments are measured at fair value.

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

4.2 Critical accounting estimates and judgements

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 judgements were made by the management in the application of accounting policies are as follows:

i) classification and provisioning against investments (notes 5.3 and 9)
ii) classification and provisioning against advances (notes 5.4 and 10)
iii) income taxes (notes 5.8 and 30)
iv) accounting for defined benefit plan (notes 5.9 and 33)
v) depreciation / amortisation of fixed assets (notes 5.5 and 11)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below.

5.1 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement represent cash and balances with treasury banks, balances with other banks and overdrawn 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:

(a) Sale of securities under repurchase agreements

` Securities sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the financial statements as investments and the counterparty liability for amounts received under these agreements is included in borrowings from financial institutions. The difference between sale and repurchase price is recognised over the period of transaction as an expense.

(b) Purchase of securities under resale agreements

Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised as investments in the balance sheet. Amounts paid under these agreements are included in lendings to financial institutions. The difference between purchase and resale price is recognised over the period of transaction as income.

(c) Other lendings

These are recorded at the proceeds paid. Mark-up received is charged to the profit and loss account over the period on accrual basis.

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, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit making exists.

(b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity in respect of which the Bank has the positive intent and ability to hold them till maturity.

(c) Available for sale

These are investments that do not fall under the 'held for trading' or 'held to maturity' categories.

Investments are initially recognised at fair value. All purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognised at trade date, which is the date on which the Bank commits to purchase or sell the investments.

In accordance with the requirements of State Bank of Pakistan, quoted securities other than those classified as 'held to maturity' are subsequently remeasured to market value. Surplus / (deficit) arising on revaluation of securities classified as 'available for sale' is taken to a separate account shown in the balance sheet below equity. Surplus / (deficit) arising on revaluation of securities classified as 'held for trading' is taken to the profit and loss account. In accordance with the requirements specified by the State Bank of Pakistan, investments classified as 'held to maturity' are carried at amortized cost.

Investment in unquoted equity securities are stated at cost less impairment.

Impairment loss in respect of investments classified as available for sale (except term finance certificates) and held to maturity is recognised based on management's assessment of objective evidence of impairment as a result of one or more events that may have an impact on the estimated future cash flows of the investments. Provision for diminution in the value of term finance certificates is made as per the Prudential Regulations issued by the State Bank of Pakistan. In case of impairment of available for sale securities, the cumulative loss that has been recognised directly in surplus on revaluation of securities on the balance sheet below equity is removed therefrom and recognised in the profit and loss account. For investments classified as held to maturity, the impairment loss is recognised in profit and loss account.

The difference between the face value and purchase price is amortised over the remaining life of the investment using effective yield method, in order to determine amortised cost.

Gains and losses on disposal of investments during the year is taken to the profit and loss account.

5.4 Advances

Advances are stated net of provisions against non-performing advances. Specific and general provisions are made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time. The net provision made / reversed during the year is charged to the profit and loss account and accumulated provision is netted-off against advances.

5.5 Operating fixed assets

Capital work in progress

Capital work in progress is stated at cost less impairment losses, if any.

Tangible

Fixed assets are carried at historical cost less accumulated depreciation and accumulated impairment losses, if any except for lease hold land which is stated as cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to income applying the straight-line method using the rates specified in note 11.2 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on additions is charged for the whole month if the assets are purchased before 15th day of the month while no depreciation is charged in the month in which assets are disposed off.

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

Gain and loss on disposal of fixed assets is taken to profit and loss account.

Intangible

Intangible assets having a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. The useful lives and amortization method are reviewed and adjusted, if appropriate at each balance sheet date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment loss, if any.

Amortisation is charged to income applying the straight-line method using the rates specified in note 11.3 to these financial statements.

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

5.8 Taxation

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

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income. 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 balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is calculated at the rates that are expected to apply to the period when the differences are expected to reverse, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised.

The carrying amount of 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 a deferred tax asset / liability on the deficit / surplus on revaluation securities, which is adjusted against the related surplus / deficit in accordance with the requirements of the International Accounting Standard 12 - Income Taxes.

5.9 Staff retirement benefits

Defined benefit plan

The bank operates an approved funded gratuity scheme for all its permanent employees whose period of the service with the Bank is five years or more. Expenses relating to the scheme are recognised and contributions to the fund are made based on actuarial recommendations.

A portion of actuarial gains and losses is recognised over the expected average remaining working lives of employees if the net cumulative unrecognised actuarial gains and losses at the end of previous reporting period exceed the "corridor" defined as greater of:

(a) 10% of the present value of the defined benefit obligation at that date (before deducting plan assets), and
(b) 10% of the fair value of plan assets at that date.

Gratuity is payable to staff on completion of the prescribed qualifying period of service under the plan.

Defined contribution plan

The Bank operates a recognised provident fund scheme for all its permanent employees to which equal monthly contributions are made both by the Bank and employees at the rate of 10 percent of basic salary. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

5.10 Share based payments

The Bank offers two types of share based incentive plans which are Stock Award and Stock Option programmes. Under these plans, the share / option of the holding company are granted by the holding company to high performing employees of the Bank. Pursuant to a separate agreement the Bank makes a cash settlement to Citigroup Inc. for the value of the share-based incentive awards delivered to the Bank's employees under these plans.

The Bank applies equity-settled accounting for its share based incentive plans, with separate accounting for its associated obligations to make payments to Citigroup Inc.

Fair value of the shares awarded under the stock award programme, on the grant date and on each measurement date, is determined with reference to the price quoted on the New York Stock Exchange.

5.11 Borrowings / deposits and their cost

a) Borrowings / deposits are recorded at the proceeds received.

b) 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 (or that takes a substantial period of time to get ready for use or sale) are capitalised as part of the cost of that asset.

5.12 Provisions

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

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

5.13 Revenue recognition

Mark-up / return / interest on advances and investments is recognized on an accrual basis using effective interest method, except in the case of non-performing advances where income is recognised on receipt basis in compliance with the Prudential Regulations issued by the State Bank of Pakistan.

Where debt securities are purchased at a premium or discount, those premiums / discounts are amortised through the profit and loss account over the remaining maturity, using the effective yield method.

Fee and commission are recognised as and when services are performed.

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

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

5.14 Derivative financial instruments

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

5.15 Foreign currencies

Foreign currency transactions are recorded at the exchange rates prevailing on the transaction date. All monetary assets and liabilities in foreign currencies are revalued daily into rupees using spot exchange rates published by the State Bank of Pakistan. The forward foreign exchange contracts and swaps are valued using forward rates applicable to their respective remaining maturities.

Exchange gains and losses are included in income currently, except for gain or loss arising on revaluation of capital account which is taken to equity.

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 rupee terms at the rates of exchange ruling on the balance sheet date.

5.16 Offsetting

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

5.17 Financial assets and financial liabilities

The Bank initially recognises financial assets and liabilities on the date at which they originate except for investments which are recognised on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are transferred. The bank also enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or part of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

Financial liabilities are derecognised when the contractual obligations expire, or are discharged or cancelled.

5.18 Assets acquired in satisfaction of claims

The Bank occasionally acquires vehicles and other assets in settlement of certain advances. These are stated at the lower of related advances and the current fair value of such assets. Gains or losses on disposal and unrealized losses on revaluation are recognised in income currently. In case certain repossessed assets cannot be disposed of within pre-determined number of days, impairment loss is recognised by the Bank against such assets.

5.19 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.

5.20 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of the other segments. The operations of the Bank are currently based in Pakistan, therefore geographical segment is not relevant.

5.20.1 Business segments

Trading and sales

It includes fixed income, foreign exchange, funding, own position securities, lending, borrowing and derivatives.

Retail banking

It includes retail lending, deposits, banking services and credit card business.

Corporate banking

Corporate banking includes syndicated financing and services provided in connection with merger and acquisitions, project finance, export finance, trade finance, short-term and long-term lending, bill discounting and negotiation, letter of credit, acceptances, guarantees and deposits.

		Note	2009	2008
			(Rupees in '000)	
6	**CASH AND BALANCES WITH TREASURY BANKS**			
	In hand			
	Local currency		720,533	1,058,069
	Foreign currencies		758,364	1,209,567
	With State Bank of Pakistan in			
	Local currency current account	6.1	1,779,844	2,488,792
	Foreign currency current account		37,329	10,780
	Foreign currency deposit accounts			
	Cash reserve account	6.2	657,084	767,255
	Special cash reserve account	6.3	1,979,678	2,293,857
	Foreign currency capital account	19	1,763,202	2,724,699
	With National Bank of Pakistan in			
	Local currency current account		10,000	30,811
			7,706,034	10,583,830

6.1 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in the 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 SBP.

6.2 As per BSD Circular No. 9 dated December 03, 2007, cash reserve of 5% is required to be maintained with State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme (FE-25 deposits).

6.3 Special cash reserve of 15% is required to be maintained with State Bank of Pakistan on FE-25 deposits as specified in BSD Circular No. 14 dated June 21, 2008. Profit rates on these deposits are fixed by SBP on a monthly basis. During the year this deposit was not remunerated (2008: 0.90% to 3.4% per annum).

		Note	2009	2008
			(Rupees in '000)	
7	**BALANCES WITH OTHER BANKS**			
	In Pakistan			
	In current account		79,589	122,871
	Outside Pakistan			
	In current account	7.1	1,270,691	296,041
	In deposit account	7.2	1,385,673	6,939,949
			2,735,953	7,358,861

7.1 This includes balance of Rs.1,269.221 million (2008: Rs. 295.501 million) held with branches of Citibank, N.A. outside Pakistan.

7.2 This represents placements with branches of Citibank, N. A. outside Pakistan at mark-up rates ranging from 0.25% to 0.5 % (2008: 0.1% to 1.9%) per annum and having maturities upto January 2010 (2008: January 2009).

		Note	2009	2008
8	**LENDINGS TO FINANCIAL INSTITUTIONS**		(Rupees in '000)	
	Call money lendings		-	100,000
	Repurchase agreement lendings (Reverse Repo)	8.1 & 8.3	10,155,661	14,066,060
			10,155,661	14,166,060

8.1 These represent short term lendings to financial institutions against government securities. These carry mark-up at the rates ranging from 11.85% to 12.4% (2008: 13.15% to 14.9%) per annum and have a maturity period of upto March 2010 (2008: March 2009).

	2009	2008
	(Rupees in '000)	
8.2 Particulars of lendings to financial institutions		
In local currency	10,155,661	14,166,060
In foreign currency	-	-
	10,155,661	14,166,060

8.3 Securities held as collateral against lendings to financial institutions

	Note	2009			2008		
		Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
		(Rupees in '000)					
Market Treasury Bills		6,884,704	2,383,054	9,267,758	13,577,370	488,690	14,066,060
Pakistan Investment Bonds		887,903	-	887,903	-	-	-
		7,772,607	2,383,054	10,155,661	13,577,370	488,690	14,066,060

9 INVESTMENTS

9.1 Investments by types:

	Note	2009			2008		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
		(Rupees in '000)					
Held-for-trading securities							
Market Treasury Bills		2,166,271	-	2,166,271	3,425,229	-	3,425,229
Pakistan Investment Bonds		561,911	-	561,911	24,650	-	24,650
		2,728,182	-	2,728,182	3,449,879	-	3,449,879
Available-for-sale securities							
Market Treasury Bills		24,211,458	673,194	24,884,652	2,165,273	-	2,165,273
Pakistan Investment Bonds		3,496,599	-	3,496,599	4,340,233	-	4,340,233
Fully Paid-up Ordinary Shares	9.1.1	52,000	-	52,000	52,000	-	52,000
Unlisted Term Finance Certificates		2,206,000	-	2,206,000	-	-	-
		29,966,057	673,194	30,639,251	6,557,506	-	6,557,506
Investments at cost		32,694,239	673,194	33,367,433	10,007,385	-	10,007,385
Less: Provision for diminution in the value of Investments	9.8	52,000	-	52,000	52,000	-	52,000
Investments (net of provisions)		32,642,239	673,194	33,315,433	9,955,385	-	9,955,385
Surplus / (deficit) on revaluation of held-for-trading securities - net	9.10	1,739	-	1,739	(65)	-	(65)
(Deficit) / surplus on revaluation of available-for-sale securities - net	20	(196,898)	1,943	(194,955)	(761,013)	-	(761,013)
Total investments at market value		32,447,080	675,137	33,122,217	9,194,307	-	9,194,307

9.1.1 Includes 33,244 'Class C' (unlisted) and 14,247 'Class A' (listed) shares of Visa Inc. (2008: 47,791 'Class C' shares, Nil 'Class A' shares). These are carried by the bank at nil cost. Holding of 14,247 listed shares is as a result of 1:1 conversion from 'Class C' shares during the year.

	Note	2009	2008
		(Rupees in '000)	
9.2 Investments by segments:			
Federal Government Securities:			
Market Treasury Bills	9.3 & 9.4	27,050,923	5,590,502
Pakistan Investment Bonds	9.3 & 9.5	4,058,510	4,364,883
		31,109,433	9,955,385

	Note	2009	2008
		(Rupees in '000)	
Fully Paid up Ordinary Shares			
Unlisted shares	9.6	52,000	52,000
Term Finance Certificates:			
Unlisted	9.7	2,206,000	-
Investments at cost		33,367,433	10,007,385
Less: Provision for diminution in value of investments		52,000	52,000
Investments (net of provisions)		33,315,433	9,955,385
Surplus / (deficit) on revaluation of held-for-trading securities		1,739	(65)
Deficit on revaluation of available-for-sale securities		(194,955)	(761,013)
Total investments at market value		33,122,217	9,194,307

9.3 Investments include certain approved / government securities which are held by the Bank to comply with the Statutory Liquidity Requirement determined on the basis of the Bank's demand and time liabilities as set out under section 29 of the Banking Companies Ordinance, 1962.

9.4 Market Treasury Bills are for a period of three months, six months and one year. The effective rates of profit on Market Treasury Bills range from 11.48% to 13.30% (2008: 9.79% to 13.85) per annum with maturities upto September 2010 (2008: March 2009). Market Treasury Bills having face value of Rs. 25 million (2008: PIBs having face value of Rs. 25 million) have been deposited with the State Bank of Pakistan against telegraph transfer / discounting facility granted by them. In addition Market Treasury Bills having face value of Rs. 2,475 million (2008: Rs. 1,700 million) have been deposited with the State Bank of Pakistan as pledged capital.

9.5 Pakistan Investment Bonds (PIBs) are for periods of three, five, ten, fifteen and twenty years. The yield on these PIBs range from 8.78% to 15% (2008: 8.78 to 13%) per annum with maturities from August 2010 to June 2024 (2008: April 2009 to June 2024). Pakistan Investment Bonds having face value of Rs. 3,215 million (2008: Rs. 3,990 million) have been deposited with the State Bank of Pakistan as pledged capital.

9.6 Particulars of Fully Paid-up Ordinary Shares - Unlisted companies

	2009	2008
	(Rupees in '000)	
Khushhali Bank Limited		
5,000,000 (2008: 50) fully paid-up ordinary shares of Rs. 10 (2008: Rs 1,000,000) each.	50,000	50,000
President - Mr. Ghalib Nishtar		
Arabian Sea Country Club		
200,000 (2008: 200,000) fully paid-up ordinary shares of Rs.10/- each	2,000	2,000
Chairman - Mr. Arif Khan Abbasi		
	52,000	52,000

9.7 Particulars of Term Finance Certificates - unquoted secured

National Transmission and Despatch Company Limited

	2009	2008
124,200 (2008: Nil) certificates of Rs 5,000 each	621,000	-

Mark-up: Average six months KIBOR + 1.75 percent per annum

Redemption: In six equal semi annual installments, after completion of grace period. First principal payment due at the end of 30th month from the first disbursement.

Maturity: March 2014

Chief Executive: Mr. Tariq Qazi

Power Holding Private Limited	2009	2008
	(Rupees in '000)	
317,000 (2008: Nil) certificates of Rs 5,000 each	1,585,000	-

Mark-up: Average six months KIBOR + 2.00 percent per annum

Redemption: In six equal semi annual installments, after completion of grace period. First principal payment due at the end of 30th month from the first disbursement.

Maturity: September 2014

Chief Executive: Mr. Shahid Rafi

	2009	2008
	2,206,000	-

9.8 Particulars of provision for diminution in the value of investments

	2009	2008
	(Rupees in '000)	
Opening balance	52,000	52,000
Charge for the year	-	-
Reversals	-	-
Closing balance	52,000	52,000

9.8.1 Particulars of provision for diminution in the value of investments by type and segment

	2009	2008
Unlisted shares - available-for-sale investments	52,000	52,000

9.9 Quality of Available for Sale Securities

	2009		2008	
	Amount (Rupees'000)	Rating (where available)	Amount (Rupees'000)	Rating (where available)
Federal Government Securities (at market value)				
Market Treasury Bills	24,889,022	N/A	2,160,717	N/A
Pakistan Investment Bonds	3,191,629	N/A	3,583,776	N/A
	28,080,651		5,744,493	
Ordinary shares - listed (at market value)				
VISA Inc.	105,645	A1(L), P-1(S)	-	N/A
Ordinary shares - unlisted (at cost)				
Khushhali Bank Limited	50,000	A-(L), A-1(S)	50,000	A-(L), A-1(S)
Arabian Sea Country Club	2,000	Unrated	2,000	Unrated
	52,000		52,000	
Term Finance Certificates - unlisted (at cost)				
National Transmission and Despatch Company Limited	621,000	Unrated	-	N/A
Power Holding Private Limited	1,585,000	Unrated	-	N/A
	2,206,000		-	
Total	**30,444,296**		**5,796,493**	

L - represents long term rating
S - represents short term rating

9.10 Unrealised gain / (loss) on revaluation of investments classified as held for trading

	2009	2008
	(Rupees in '000)	
Market Treasury Bills	311	33
Pakistan Investments Bonds	1,428	(98)
	1,739	(65)

	Note	2009	2008
		(Rupees in '000)	
10 ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		30,338,609	41,763,352
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		619,207	936,699
Payable outside Pakistan		247,037	935,763
		866,244	1,872,462
Advances - gross		31,204,853	43,635,814
Provision against advances			
Specific - provision against non-performing advances	10.2	(2,486,006)	(1,173,983)
General - provision against advances	10.3.2	(473,818)	(605,082)
	10.3	(2,959,824)	(1,779,065)
Advances - net of provision		28,245,029	41,856,749

10.1 Particulars of advances (gross)

	2009	2008
10.1.1 In local currency	30,891,217	42,064,587
In foreign currencies	313,636	1,571,227
	31,204,853	43,635,814
10.1.2 Short term (for upto one year)	23,761,309	21,716,906
Long term (for over one year)	7,443,544	21,918,908
	31,204,853	43,635,814

10.2 Advances include Rs.3,158.076 million (2008: Rs.1,955.724 million) which have been placed under non-performing status as detailed below:

	2009			2008		
	Classified advances (Domestic)	Provision required	Provision held	Classified advances (Domestic)	Provision required	Provision held
	-----(Rupees in '000)-----					
Category of classification						
Substandard	428,714	104,123	104,123	842,363	223,914	223,914
Doubtful	399,864	170,130	170,130	299,872	180,502	180,502
Loss	2,329,498	2,211,753	2,211,753	813,489	769,567	769,567
	3,158,076	2,486,006	2,486,006	1,955,724	1,173,983	1,173,983

10.3 Particulars of provision against advances

	Note	2009			2008		
		Specific	General	Total	Specific	General	Total
		-----(Rupees in '000)-----					
Opening balance		1,173,983	605,082	1,779,065	921,958	922,125	1,844,083
Charge for the year		1,696,479	136,968	1,833,447	1,048,594	-	1,048,594
Reversals		(384,101)	(268,232)	(652,333)	(453,376)	(317,043)	(770,419)
		1,312,378	(131,264)	1,181,114	595,218	(317,043)	278,175
Amounts written off	10.4.1	(355)	-	(355)	(343,193)	-	(343,193)
Closing balance		2,486,006	473,818	2,959,824	1,173,983	605,082	1,779,065

10.3.1 During the year the State Bank of Pakistan (SBP) has introduced certain amendments in the Prudential Regulations in respect of maintenance of provisioning requirements against non-performing loans and advances vide BSD Circular No. 10 dated October 20, 2009. Under the revised guidelines issued by SBP, banks have been allowed to avail the benefit of 40% of forced sales value of pledged stocks and mortgaged commercial, residential and industrial properties held as collateral against all non-performing loans for 3 years from the date of classification for calculating provisioning requirement with effect from September 30, 2009. However, as per the Circular the additional impact on profitability arising from availing the benefit of forced sales value against pledged stocks and mortgaged residential, commercial and industrial properties would not be available for remittance of profits. Under the previous guidelines issued by SBP which were effective from December 31, 2008, banks were allowed to avail the benefit of 30% of forced sales value of pledged stocks and only mortgaged residential and commercial properties only held as collateral against all non-performing loans for 3 years from the date of classification for calculating provisioning requirement. The benefit of discounted forced sales value of mortgaged industrial properties was previously not available to the banks for calculating provisioning requirement.

Had the provision against non-performing loans and advances been determined in accordance with the previously laid down requirements of SBP, the specific provision against non-performing loans would have been higher and consequently profit before taxation and advances (net of provisions) as at December 31, 2009 would have been lower by approximately Rs. 11.443 million. The additional profit arising from availing the FSV benefit - net of tax at December 31, 2009 which is not available for remittance of profits amounted to approximately Rs. 29.753 million (2008:42.931 million).

10.3.2 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan.

10.3.3 Particulars of provision against advances

	2009			2008		
	Specific	**General**	**Total**	**Specific**	**General**	**Total**
	-----(Rupees in '000)-----					
In local currency	2,486,006	473,818	2,959,824	1,173,983	605,082	1,779,065

10.3.4 Although the Bank has made provision against its non-performing portfolio as per the category of classification of the loan, the Bank holds enforceable collateral in the event of recovery through litigation for financing other than credit cards and personal loans. These securities comprise of charge against various tangible assets of the borrower including land, building and machinery, stock in trade etc.

10.3.5 During the year the Bank has revised the manner in which impairment loss on consumer loans that are over due by more than 120 days in the case of auto and personal loans and by more than 180 days in the case of credit cards is reflected in the financial statements. As per the revised practice, which was adopted from October 2009, the management has decided to recognise impairment loss on such consumer loans through the use of an allowance / provision account. Previously these consumer loans were written off directly after the afore mentioned pre-determined number of days past due. The management believes that the revised practice represents a more reasonable way to account for the impairment loss. However, this change has not impacted the profit for the year ended December 31, 2009.

		Note	2009	2008
10.4	**Particulars of write-offs**		**(Rupees in '000)**	
10.4.1	Against provisions	10.3	355	343,193
	Directly charged to profit and loss account		2,104,789	3,779,826
			2,105,144	4,123,019
10.4.2	Write offs of Rs. 500,000 and above	10.5	378,332	1,464,058
	Write offs of below Rs. 500,000		1,726,812	2,658,961
			2,105,144	4,123,019

10.5 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 person(s) during the year ended December 31, 2009 is given in Annexure-I. These loans are written off as a book entry without prejudice to the Bank's right of recovery against the customers.

10.6 Non - current assets held for sale

As at December 31, 2009, the Bank has classified its mortgage and auto loans (amounting to Rs.2,957.958 million) as 'assets held of sale'. This is consequent to the Bank's decision to exist from these businesses.

		2009	2008
10.7	**Particulars of loans and advances to directors, executives associated companies, etc.**	**(Rupees in '000)**	

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

	2009	2008
Balance at beginning of the year	1,244,728	1,056,652
Loans granted during the year	419,441	703,367
Repayments	(508,498)	(515,291)
Balance at end of the year	1,155,671	1,244,728

* Represents loans given by the Bank to their executives and other employees as per the terms of their employment.

11 FIXED ASSETS

	Note	2009	2008
		(Rupees in '000)	
Capital work-in-progress	11.1	15,692	154,559
Property and equipment	11.2	1,068,145	1,278,654
Intangible assets	11.3	182,619	40,954
		1,266,456	1,474,167

11.1 Capital work-in-progress

	2009	2008
Civil works	3,971	63,822
Equipments	193	5,514
Advances to suppliers and contractors	3,843	200
Others	7,685	85,023
	15,692	154,559

11.2 Property and equipment

	2009							
	COST			ACCUMULATED DEPRECIATION			BOOK VALUE	
	As at January 01, 2009	Additions/ (Deletions)	As at December 31, 2009	As at January 01, 2009	Charge for the year / (on deletions)	As at December 31, 2009	As at December 31, 2009	Rate of depreciation
	(Rupees in '000)							
Leasehold land and buildings	6,751	-	6,751	2,057	244	2,301	4,450	5
Furniture and fixtures	762,243	150,812 (135,509)	777,546	389,978	139,823 (122,902)	406,899	370,647	10 - 50
Electrical, office and computer equipment	1,433,302	127,423 (269,060)	1,291,665	739,172	287,157 (261,904)	764,425	527,240	14.3-33.33
Vehicles	308,372	82,291 (105,098)	285,565	100,807	62,144 (43,194)	119,757	165,808	20
	2,510,668	360,526 (509,667)	2,361,527	1,232,014	489,368 (428,000)	1,293,382	1,068,145	

	2008							
	COST			ACCUMULATED DEPRECIATION			BOOK VALUE	
	As at January 01, 2008	Additions/ (Deletions)	As at December 31, 2008	As at January 01, 2008	Charge for the year / (on deletions)	As at December 31, 2008	As at December 31, 2008	Rate of depreciation %
	(Rupees in '000)							
Leasehold land and buildings	1,978	4,773	6,751	1,953	104	2,057	4,694	5
Furniture and fixtures	673,870	152,331 (63,958)	762,243	316,840	104,832 (31,694)	389,978	372,265	10 - 50
Electrical, office and computer equipment	1,235,207	295,160 (97,065)	1,433,302	571,147	250,469 (82,444)	739,172	694,130	14.3-33.33
Vehicles	349,086	79,225 (119,939)	308,372	85,484	71,807 (56,484)	100,807	207,565	20
	2,260,141	531,489 (280,962)	2,510,668	975,424	427,212 (170,622)	1,232,014	1,278,654	

11.2.1 The cost of fully depreciated assets still in use amounts to Rs. 561.859 million (2008: Rs. 559.757 million).

11.2.2 During the year the Bank decided to close down five of its branches at Sialkot, Multan, Gujranwala, Jhelum and Hyderabad effective from September 1, 2009. Pursuant to this decision the management has recognised an accelerated depreciation of Rs. 73.484 million on certain fixed assets located at these branches.

11.2.3 The fair value of leasehold land and buildings is Rs. 235.332 million (2008: Rs. 249.214 million) based on revaluation of two such properties carried out on March 05, 2008 and November 20, 2008.

11.3 Intangible assets

	2009							
	COST			ACCUMULATED AMORTISATION			BOOK VALUE	
	As at January 01, 2009	Additions / (deletions)	As at December 31, 2009	As at January 01, 2009	Amortisation for the year / (amortisation on deletions)	As at December 31, 2009	As at December 31, 2009	Rate of amortisation %
	(Rupees in '000)							
Computer software	68,147	190,377 -	258,524	27,193	48,712 -	75,905	182,619	20 - 33.33

	2008							
	COST			ACCUMULATED AMORTISATION			BOOK VALUE	
	As at January 01, 2008	Additions / (deletions)	As at December 31, 2008	As at January 01, 2008	Amortisation for the year / (amortisation on deletions)	As at December 31, 2008	As at December 31, 2008	Rate of amortisation %
	(Rupees in '000)							
Computer software	24,560	43,587 -	68,147	10,583	16,610 -	27,193	40,954	33.33

11.3.1 The cost of fully amortised assets still in use amounts to Rs. 24.560 million (2008: Nil).

11.3.2 Additions during the year mainly include intangibles acquired from Citigroup companies.

11.4 Disposals of fixed assets during the year

Details of disposals of fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or more are given in Annexure-II and is an integral part of these financial statements.

	Note	2009	2008
12 DEFERRED TAX ASSETS - net		(Rupees in '000)	
Deferred tax assets - net	12.1	3,637,578	3,585,127

12.1 Movement in temporary differences during the year

	Note	2009			
		At January 01, 2009	Recognised in profit and loss	Recognised in equity	At December 31, 2009
		(Rupees in '000)			
Deductible temporary differences on					
- deficit on revaluation of investments	20	266,355	-	(198,121)	68,234
- defined benefit plan (gratuity)		17,222	(7,435)	-	9,787
- provision against off balance sheet items and corporate and consumer financing	12.2	3,171,920	299,197	-	3,471,117
- other deductible temporary differences		161,532	(34,296)	-	127,236
		3,617,029	257,466	(198,121)	3,676,374
Taxable temporary differences on					
- accelerated tax depreciation		(31,902)	(6,894)	-	(38,796)
		3,585,127	250,572	(198,121)	3,637,578

	Note	2008			
		At January 01, 2008	Recognised in profit and loss	Recognised in equity	At December 31, 2008
		(Rupees in '000)			
Deductible temporary differences on					
- deficit on revaluation of investments	20	28,738	-	237,617	266,355
- defined benefit plan (gratuity)		9,787	7,435	-	17,222
- provision against off balance sheet items and corporate and consumer financing	12.2	1,085,276	2,086,644	-	- 3,171,920
- other deductible temporary differences		125,241	36,291	-	161,532
		1,249,042	2,130,370	237,617	3,617,029
Taxable temporary differences on					
- accelerated tax depreciation		(49,613)	17,711	-	(31,902)
		1,199,429	2,148,081	237,617	3,585,127

12.2 The Finance Act, 2009 has made significant amendments in the Seventh Schedule to Income Tax Ordinance, 2001.Through these amendments the deduction for provisions for advances and off balance sheet items will be allowed upto 1% of total advances. The amendments introduced in the Seventh Schedule and not provide for any transitional mechanism i.e. how and when the provision for bad debts disallowed upto December 31, 2007 would be allowed as a deduction. The matter was taken up by the Pakistan Banks Association (PBA) and the Institute of Chartered Accountants of Pakistan (ICAP) with the Federal Board of Revenue (FBR). FBR vide its letter reference F.No. 4(1)ITP/2008-49 dated December 23, 2009 has informed ICAP that it has decided to insert a new Rule 8(a) in Seventh Schedule to allow for amounts provided for in tax year 2008 and prior to said tax year for doubtful debts, which were neither claimed nor allowed as tax deductible in any year shall be allowed as deduction in tax year in which such doubtful debts are written off.

However, to date no SRO has been issued to incorporate the agreed amendments to the Seventh Schedule. The Bank based on advise of its tax consultant has treated the FBR commitment as effective. Accordingly, the Bank has maintained the amount of deferred tax asset of Rs 1,183.546 million recognised on provisions against loans, advances and off-balance sheet obligations disallowed as a tax deduction upto tax year 2008 after taking into account the related recoveries pertaining to such loans and advances made subsequent to tax year 2008.

With reference to allowability of provision upto 1% of total advances, the management has carried out an exercise at period end and concluded that full deduction of provision in succeeding years would be allowed and accordingly recognised deferred tax asset on such provision.

13 OTHER ASSETS

	Note	2009	2008
		(Rupees in '000)	
Income / Mark-up accrued in local currency	13.1	901,726	1,282,643
Income / Mark-up accrued in foreign currency		6,006	19,694
Advances, deposits, prepayments and other receivables		608,874	876,060
Non-banking assets acquired in satisfaction of claims	13.2	27,898	27,783
Unrealised gain on forward foreign exchange contracts, foreign currency options and interest rate derivative contracts		1,339,075	11,198,547
Receivable from the State Bank of Pakistan - customer encashed USD Bonds / SSCs & DSCs		33,421	19,625
Others		17,109	25,121
		2,934,109	13,449,473
Less: Provision held against non-banking assets acquired in satisfaction of claims	13.3	22,237	16,747
Other assets - net of provision		2,911,872	13,432,726

13.1 Assets 'held for sale'

As more fully explained in note 10.6 to these financial statements, other assets also include assets held for sale amounting to Rs. 46.713 million which represents mark-up receivable on advances classified as "assets held for sale".

	2009	2008
	(Rupees in '000)	
13.2 Market value of non-banking assets acquired in satisfaction of claims	28,802	17,409

13.3 Provision against other assets

	2009	2008
Opening balance	16,747	13,645
Charge for the year	5,490	3,102
Closing balance	22,237	16,747

14 CONTINGENT ASSETS

There were no contingent assets of the Bank as at December 31, 2009 (2008: Nil).

15 BILLS PAYABLE

	2009	2008
	(Rupees in '000)	
In Pakistan	1,654,759	1,660,227

		Note	2009	2008
16	**BORROWINGS FROM FINANCIAL INSTITUTIONS**		**(Rupees '000)**	
	In Pakistan		5,561,411	3,152,988
	Outside Pakistan		-	-
			5,561,411	3,152,988
16.1	**Particulars of borrowings with respect to currencies**			
	In local currency		5,561,411	3,152,988
	In foreign currencies		-	-
			5,561,411	3,152,988
16.2	**Details of borrowings Secured / Unsecured**			
	Secured			
	Borrowings from State Bank of Pakistan			
	Under export refinance scheme	16.2.1	1,598,680	1,697,140
	Under Long Term Financing-Export Oriented Projects scheme (LTF-EOP)	16.2.2	340,414	340,414
	Repurchase agreement borrowings	16.2.3	3,080,699	495,485
			5,019,793	2,533,039
	Unsecured			
	Call borrowings	16.2.4	500,000	600,000
	Overdrawn accounts		41,618	19,949
			541,618	619,949
			5,561,411	3,152,988

16.2.1 The Bank has entered into agreement for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreement, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. This facility is secured against demand promissory note executed in favour of SBP. These borrowings carry mark-up of 6.5 percent (2008: 6.5 percent) per annum payable on quarterly basis.

16.2.2 These borrowings have been made from SBP under the scheme for providing long term finance to customers for export oriented projects. As per the agreements with SBP, the Bank has granted SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with SBP. This facility is secured against demand promissory note executed in favour of SBP. The mark up rate of this facility ranges from 4% to 5% (2008: 4% to 5%) per annum payable on a quarterly basis.

16.2.3 These represent repurchase agreement borrowings from other banks and carry mark up at the rates ranging from 11.97% to 12.50% (2008: 12%) per annum and having maturities up to January 2010 (2008: January 2009).

16.2.4 These borrowings carry mark-up at rates ranging from 12.1% to 12.6% (2008: 12.50% to 15.50%) per annum and having maturities up to May 2010 (2008: January 2009).

		2009	2008
17	**DEPOSITS AND OTHER ACCOUNTS**	**(Rupees in '000)**	
	Customers		
	Fixed deposits	26,003,438	28,746,633
	Savings deposits	21,643,640	21,032,576
	Current accounts - non-remunerative	6,957,836	10,914,069
	Other deposits	201,238	979,945
		54,806,152	61,673,223
	Financial institutions		
	Remunerative deposits	2,353,307	2,163,031
	Non-remunerative deposits	987,745	1,648,514
		3,341,052	3,811,545
		58,147,204	65,484,768
17.1	**Particulars of deposits**		
	In local currency	45,112,144	52,100,406
	In foreign currencies	13,035,060	13,384,362
		58,147,204	65,484,768

17.2 Includes deposits of Citigroup companies amounting to Rs. 338.301 million (2008: Rs. 121.882 million).

18 OTHER LIABILITIES

	Note	2009	2008
		(Rupees in '000)	
Mark-up / return / interest payable in local currency		776,097	971,756
Mark-up / return / interest payable in foreign currencies		3,345	6,962
Unearned commission and income on bills discounted		91,829	135,243
Accrued expenses	18.1	881,094	942,381
Current taxation (provision less payments)		1,221,963	2,265,595
Branch adjustment account		2	465
Unrealised loss on forward foreign exchange contracts, foreign currency options and interest rate derivative contracts		11,377,517	16,504,873
Unremitted head office expenses		728,818	621,960
Payable to regional offices for support services		40,688	88,786
Payable to defined benefit plan	33.4	61,113	53,568
Provision against off-balance sheet obligations	18.2	23,185	23,185
Advances from customers		26,724	34,911
Others		659,636	691,087
		15,892,011	22,340,772

18.1 This includes the Bank's obligation to the ultimate holding company under the stock award and stock option programmes. As of December 31, 2009 recognised liability for share based incentive plans was Rs. 56.031 million (2008: Rs 53.298 million).

18.2 Provision against off-balance sheet obligations

	Note	2009	2008
		(Rupees in '000)	
Opening balance		23,185	23,185
Charge for the year		-	-
Reversals		-	-
Amount written off		-	-
Closing balance		23,185	23,185

19 HEAD OFFICE CAPITAL ACCOUNT

Capital held as:

	Note	2009	2008
Interest free deposit in approved foreign exchange			
Remitted from Head Office - net of repatriated capital USD 20.93 million (2008: 34.43 million)		1,253,786	2,353,149
Revaluation surplus allowed by the State Bank of Pakistan - cumulative	19.1	509,416	371,550
		1,763,202	2,724,699
Deposit of un-encumbered approved securities	19.2	5,017,646	5,017,646
		6,780,848	7,742,345

19.1 This represents surplus in proportion to interest free deposit in approved foreign exchange maintained with the State Bank of Pakistan.

19.2 This represents Market Treasury Bills having face value of Rs. 2,475 million (2008: Rs. 1,700 million) and Pakistan Investment Bonds having face value of Rs. 3,215 million (2008: Rs. 3,990 million). The market value of Market Treasury Bills and Pakistan Investment Bonds as at December 31, 2009 amounts to Rs. 2,419.654 million and Rs. 2,915.406 million (2008: Rs. 1,672.229 million and Rs. 3,287.105 million) and these have maturities of up to March 2010 and May 2016 respectively (2008: March 2009 and June 2024).

19.3 Capital has been deposited with the State Bank of Pakistan in compliance with section 13 of the Banking Companies Ordinance, 1962.

20 DEFICIT ON REVALUATION OF ASSETS - net

	Note	2009	2008
		(Rupees in '000)	
Federal and Provincial Government Securities			
- Market Treasury Bills		4,370	(4,556)
- Pakistan Investment Bonds		(304,970)	(756,457)
- Listed shares		105,645	-
		(194,955)	(761,013)
Less: Related deferred tax asset	12.1	68,234	266,355
		(126,721)	(494,658)

21 CONTINGENCIES AND COMMITMENTS

21.1 Direct credit substitutes

Includes general guarantees of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities.

		2009	2008
		(Rupees in '000)	
(i)	Government	55,985	12,121
(ii)	Banking companies and other financial institutions	12,398	79,614
(iii)	Others	8,122,020	2,835,467
		8,190,403	2,927,202

21.2 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credit related to particular transactions.

		2009	2008
		(Rupees in '000)	
(i)	Government	1,226,058	1,161,956
(ii)	Banking companies and other financial institutions	126,201	97,167
(iii)	Others	395,622	2,218,121
		1,747,881	3,477,244

21.3 Trade-related contingent liabilities

Includes short-term self liquidating trade related contingent liabilities arising from the movement of goods, such as documentary credits where the underlying shipment is used as security.

	Note	2009	2008
		(Rupees in '000)	
Letters of credit		9,330,190	17,218,899

21.4 Other contingencies

	Note	2009	2008
Indemnity issued		15,484	15,484
Claims not acknowledged as debt		275,972	229,601
	21.4.1	291,456	245,085

21.4.1 These are not recognised as debt as the probability of these crystallising against the Bank is considered remote.

21.5 Commitments in respect of forward transactions

	2009	2008
	(Rupees in '000)	
Forward repurchase agreement lendings (reverse repos)	10,317,618	14,188,450
Forward repurchase agreement borrowings (repos)	3,085,119	497,928
Forward agreement to purchase (reverse repos)	2,808,113	-
Uncancellable commitments to extend credit	-	400,000

21.6 Commitments in respect of forward exchange contracts

	2009	2008
Purchase	120,306,365	112,481,147
Sale	63,979,867	68,350,414

The Bank utilises foreign exchange instruments to meet the needs of its customers and as part of its asset and liability management activity to hedge its own exposure to currency risk.

21.7	Commitments in respect of operating leases	2009	2008
		(Rupees in '000)	
	Not later than one year	-	6,193
	Later than one year but not later than five years	-	4,896
		-	11,089

The Bank had obtained vehicles under operating lease agreements for upto five years. The above represents minimum lease payments under non-cancellable operating lease agreement.

21.8	Other commitments	Note	2009	2008
			(Rupees in '000)	
	Interest rate derivative contracts (notional amount)	22.1	64,724,267	53,332,586
	Foreign currency options	22.1	2,613,192	35,611,738

22 DERIVATIVE INSTRUMENTS

A derivative financial instrument is a contract the value of which is determined by reference to one or more underlying financial instruments, reference rates or indices. Forward contracts, options and swaps are the most common types of derivatives. Also included in derivatives are structured financial products that have one or more characteristics of forwards, futures, swaps and options.

The Bank enters into derivatives contracts for market making and for creating effective hedges to enable customers and the Bank to transfer, modify or reduce their interest rate and foreign exchange risks. The Bank as an Authorized Derivative Dealer (ADD) is an active participant in the derivative market of Pakistan.

Overall responsibility for derivatives trading activity lies with the treasury. Existence of an independent market risk function together with the Asset Liability Committee (ALCO) assists in the identification and quantification of risks on derivatives. This involves:

- co-ordinating approvals of market risk limits;
- formulation of policies and procedures with respect to market risk; and
- monitoring of market risk and credit risk exposure.

Treasury operations records transactions in the books, while finance reports the price and liquidity information independently.

The risk embedded in derivatives transactions are discussed in note 41.

22.1 Product analysis

Counterparties	2009			
	Interest Rate and Cross Currency Swaps		FX Options	
	Number of Contracts	Notional Principal (Rupees in '000)	Number of Contracts	Notional Principal (Rupees in '000)
With Banks for				
Hedging	3	13,815,695	11	1,306,596
Market Making	5	585,059	-	-
With FIs other than banks				
Hedging	-	-	-	-
Market Making	3	3,181,908	-	-
With other entities for				
Hedging	-	-	-	-
Market Making	82	47,141,605	11	1,306,596
Total				
Hedging	3	13,815,695	11	1,306,596
Market Making	90	50,908,572	11	1,306,596
	93	64,724,267	22	2,613,192

Counterparties

	2008			
	Interest Rate and Cross Currency Swaps		FX Options	
	Number of Contracts	Notional Principal (Rupees in '000)	Number of Contracts	Notional Principal (Rupees in '000)
With Banks for				
Hedging	5	8,472,961	26	17,805,869
Market Making	5	777,324	1	64,761
With FIs other than banks				
Hedging	-	-	-	-
Market Making	3	3,905,581	-	-
With other entities for				
Hedging	-	-	-	-
Market Making	70	40,176,720	25	17,741,108
Total				
Hedging	5	8,472,961	26	17,805,869
Market Making	78	44,859,625	26	17,805,869
	83	53,332,586	52	35,611,738

22.2 Maturity analysis

Interest rate and cross currency swaps

Remaining maturity	2009				
	Number of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
		--------------------------------(Rupees in '000)--------------------------------			
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 months to 1 Year	5	1,634,097	(1,774,471)	1,397,159	(377,312)
1 to 2 Years	6	1,267,340	(1,810,975)	1,251,036	(559,939)
2 to 3 Years	18	3,473,776	(4,780,858)	3,459,632	(1,321,226)
3 to 5 Years	62	51,531,604	(35,465,956)	28,960,428	(6,505,528)
5 to 10 years	2	6,817,450	(8,004,400)	7,153,151	(851,249)
Above 10 Years	-	-	-	-	-
	93	64,724,267	(51,836,660)	42,221,406	**(9,615,254)**

Remaining maturity	2008				
	Number of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
		--------------------------------(Rupees in '000)--------------------------------			
Upto 1 month	-	-	-	-	-
1 to 3 months	4	1,701,499	(645)	6,061	5,416
3 to 6 months	1	14,286	(382)	-	(382)
6 months to 1 Year	3	2,537,900	(1,952)	111	(1,841)
1 to 2 Years	5	2,460,914	(13,056)	2,503	(10,553)
2 to 3 Years	7	1,982,695	(7,533)	-	(7,533)
3 to 5 Years	50	27,577,090	(132,390)	348,700	216,310
5 to 10 years	13	17,058,202	(1,177,553)	1,037,455	(140,098)
Above 10 Years	-	-	-	-	-
	83	53,332,586	(1,333,511)	1,394,830	61,319

23 MARK-UP/ RETURN/ INTEREST EARNED

	2009	2008
	(Rupees in '000)	
a) On loans and advances to		
Customers	4,811,016	6,852,361
Financial Institutions	343,570	117,895
b) On investments in		
Held for trading securities	684,446	318,216
Available for sale securities	2,907,446	1,227,160
c) On deposits with financial institutions	44,392	184,017
d) On securities purchased under resale agreements (reverse repo)	1,192,507	1,244,007
	9,983,377	9,943,656

24 MARK-UP / RETURN / INTEREST EXPENSED

	2009	2008
Deposits	4,132,619	3,787,240
Securities sold under repurchase agreements (repo)	266,911	146,907
Borrowings (including LTF - EOP)	321,258	210,555
	4,720,788	4,144,702

25 INCOME FROM DEALING IN FOREIGN CURRENCIES

It includes income from foreign exchange dealings, forward settled interbank deals and revaluation of nostro accounts.

26 GAIN / (LOSS) ON SALE OF SECURITIES

	Note	2009	2008
		(Rupees in '000)	
Federal Government Securities			
Market Treasury Bills		275,649	(13,369)
Pakistan Investment Bonds		121,539	(231,992)
Shares - listed (redeemed)	26.1	-	164,605
		397,188	(80,756)

26.1 This represents income in respect of Nil (2008: 60,901) shares of VISA Inc. redeemed during the year .

27 OTHER INCOME

	Note	2009	2008
		(Rupees in '000)	
Credit losses recovered		206,165	212,038
Net profit on sale of property and equipment		20,924	26,867
(Loss) / income from interest rate derivative contracts	27.1	(737,188)	(205,860)
Others		30,260	82,972
		(479,839)	116,017

27.1 This includes funding cost of foreign exchange swaps.

28 ADMINISTRATIVE EXPENSES

	Note	2009	2008
Salaries, allowances, etc.		1,180,229	1,425,265
Charge for defined benefit plan	33.8	49,628	76,759
Contribution to defined contribution plan	34	53,388	59,339
Head office / Regional office expenses		106,858	128,256
Rent, taxes, insurance, electricity, etc.		560,147	563,727
Contract Services		521,674	700,929
Legal and professional charges		25,948	40,032
Communications		132,522	287,123
Repairs and maintenance		117,009	153,611
Travelling and conveyance		101,636	183,123
Rentals of operating leases		2,987	9,994
Stationery and printing		67,256	85,767
Advertisement and publicity		5,027	79,997
Support services from regional offices		358,955	340,425
Donations	28.1	1,459	-
Auditors' remuneration	28.2	1,925	1,864
Depreciation	11.2	489,368	427,212
Amortization	11.3	48,712	16,610
Restructuring expense		(16,991)	283,806
Others		179,645	264,152
		3,987,382	5,127,991

28.1 This represents donation paid during the year to Sarhad Rural Support Program for internally displaced persons of Swat. The Bank or any of its directors or their spouses had no interest in the donation made.

		2009	2008
28.2	**Auditors' remuneration**	**(Rupees in '000)**	
	Audit fee	1,350	1,250
	Fee for the half yearly review	400	250
	Special certifications and sundry advisory services	125	315
	Out-of-pocket expenses	50	49
		1,925	1,864

29 OTHER CHARGES

	2009	2008
Penalties imposed by State Bank of Pakistan	13,490	2,252
Worker's Welfare Fund	111,673	7,786
	125,163	10,038

30 TAXATION

	2009	2008
For the year		
Current	1,305,350	1,466,568
Deferred	(1,299,009)	(1,316,690)
	6,341	149,878
For prior years		
Current	(841,163)	-
Deferred	1,048,437	(831,391)
	207,274	(831,391)
	213,615	(681,513)

The income tax assessments of the Bank have been finalised upto and including tax year 2009. Matters of disagreement exist between the Bank and tax authorities for various assessment / tax years and are pending with the Commissioner of Income Tax (Appeals) and the Income Tax Appellate Tribunal (ITAT).

The issues mainly relate to addition of mark-up in suspense to income, bad debts written off and disallowances relating to various profit and loss expenses and payments for support services from regional office. However, adequate provision has been made in these financial statements in respect of these matters.

		Note	2009	2008
30.1	**Relationship between tax expense and accounting profit**		**(Rupees in '000)**	
	Profit before taxation		302,588	118,849
	Taxation at the applicable tax rate of 35% (2008: 35%)		105,906	41,597
	Taxation effect of expenses that are not deductible in determining taxable income		130,356	128,536
	Taxation effect of certain expenses previously treated as non deductible allowed in the current year in determining taxable income		(67,041)	-
	Deferred tax on prior years provisions and write offs against non performing advances booked in the current year		-	(831,391)
	Others		44,394	(20,255)
			213,615	(681,513)

31 CASH AND CASH EQUIVALENTS

	Note	2009	2008
Cash and balance with treasury banks	6	7,706,034	10,583,830
Balance with other banks	7	2,735,953	7,358,861
Overdrawn accounts	16.2	(41,618)	(19,949)
		10,400,369	17,922,742

		2009	2008
32	**STAFF STRENGTH**	**(Number of employees)**	
	Permanent	746	1,031
	Contractual basis	1	1
	Bank's own staff strength at the end of the year	747	1,032
	Outsourced	875	1,383
	Total staff strength at the end of the year	1,622	2,415

33 DEFINED BENEFIT PLAN

33.1 General description

All permanent employees with a minimum service period of five years or more with the Bank are entitled to end of service benefits calculated at 130 percent of basic salary for each year of service with the Bank. The assets of the funded plan are held independently in a separate trustee administered fund.

33.2 Principal actuarial assumptions

The latest actuarial valuation was carried out as at December 31, 2009 using the Projected Unit Credit Method. The main assumptions used for the actuarial valuation were as follows:

	2009	2008
Discount rate	13.25%	15%
Estimated return on plan assets of the fund - per annum	13%	15%
Estimated salary increase - per annum	10%	10%
Estimated service length of the employees	11 years	12 years

	Note	2009	2008
		(Rupees in '000)	
33.3 Reconciliation of payable to defined benefit plan			
Present value of defined benefit obligations		185,911	185,670
Fair value of plan assets		(108,250)	(104,211)
Net actuarial losses not recognised		(16,548)	(27,891)
		61,113	53,568
33.4 Movement in payable to defined benefit plan			
Opening balance		53,568	27,962
Charge for the year	33.8	49,628	76,759
Banks contribution to fund made during the year		(34,140)	(51,153)
Benefits paid on behalf of fund		(7,943)	-
Closing balance		61,113	53,568
33.5 Movement in defined benefit obligation			
Obligations at the beginning of the year		185,670	299,510
Current service cost		32,359	54,228
Interest cost		27,851	29,951
Benefits paid by the fund		(56,908)	(100,094)
Curtailment gain		(18,752)	-
Settlement loss		17,226	-
Actuarial (gains) / losses on obligation		(1,535)	(97,925)
Obligations at the end of the year		185,911	185,670
33.6 Movement in fair value of plan asset			
Opening balance		104,211	150,289
Expected return on plan assets		13,547	15,029
Contribution by the Bank		34,140	51,153
Benefits paid by the fund		(56,908)	(100,094)
Benefits paid by the Bank on behalf of fund		7,943	-
Actuarial gain / (loss) on plan assets		5,317	(12,166)
Fair value at the end of the year		108,250	104,211
33.7 Plan assets consists of the following			
Pakistan Investment Bonds.		108,250	103,103
Cash and bank		-	1,108
		108,250	104,211
33.8 Charge for defined benefit plan			
Current service cost		32,359	54,228
Interest cost		27,851	29,951
Expected return on plan assets		(13,547)	(15,029)
Net actuarial (gains) / losses recognised		4,491	7,609
Curtailment gain		(18,752)	-
Settlement loss		17,226	-
		49,628	76,759
33.9 Actual return on plan assets		18,864	2,863

33.10 Five year data on deficit of the plan and experience adjustments

	2009	2008	2007	2006	2005
	(Rupees '000)				
Present value of defined benefit obligation	(185,911)	(185,670)	(299,510)	(222,913)	(196,992)
Fair value of plan assets	108,250	104,211	150,289	122,568	184,598
Deficit	(77,661)	(81,459)	(149,221)	(100,345)	(12,394)
Experience adjustments on plan liabilities [loss / (gain)]	(1,535)	(97,925)	61,131	11,580	(461)
Experience adjustments on plan assets / [loss / (gain)]	(5,317)	12,166	(3,371)	13,637	461

33.11 The expected contribution to the gratuity fund for the next year commencing January 1, 2010 is Rs. 33.035 million (2009: Rs. 41.440 million).

34 DEFINED CONTRIBUTION PLAN

All permanent employees of the Bank are entitled to end of service benefits through a recognised provident fund, whereby the Bank and all permanent employees are required to make monthly contributions to the scheme at 10 percent of basic salary.

During the year, the Bank contributed Rs 53.388 million (2008: Rs 59.339 million) in respect of the defined contribution plan.

35 SHARE-BASED INCENTIVE PLANS

The Bank offers a number of share based incentive plans to attract, retain and motivate employees, to compensate them for their contributions to the Bank, and to encourage employee stock ownership.

35.1 Stock option programme

Information with respect to stock option activity under the stock option programme is as follows:

	2009		2008	
	Options (Number of shares)	Weighted average share price $ USD	Options (Number of shares)	Weighted average share price $ USD
Outstanding at the beginning of the year	23,478	40.93	80,197	38.94
Granted	63,955	4.08	-	-
Forfeited	(2,978)	47.22	(31,075)	43.34
Exercised	-	-	-	-
Transfers	-	-	(12,892)	41.55
Expired	(10,270)	32.05	(12,752)	21.92
Outstanding at the end of the year	74,185	10.14	23,478	40.93
Exercisable at the end of year	10,230	48.01	23,478	40.93

No share options were exercised during the year (2008: No option exercised).

35.2 The following table summarises the information about stock options outstanding under the programme at December 31, 2009:

Range of exercise prices	Shares Outstanding	Options outstanding		Options exercisable	
		Weighted average contractual life remaining	Weighted average exercise price $ USD	Number Exercisable	Weighted average exercise price $ USD
< $30.00	63,955	5.83	4.08	-	-
$30.00 - $39.99	-	-	-	-	-
$40.00 - $49.99	10,230	0.36	48.01	10,230	48.01
$50.00 and above	-	-	-	-	-
	74,185	5.08	10.14	10,230	48.01

The following table summarises the information about stock options outstanding under the programme at December 31, 2008:

Range of exercise prices	Shares Outstanding	Options outstanding: Weighted average contractual life remaining	Options outstanding: Weighted average exercise price $ USD	Options exercisable: Number Exercisable	Options exercisable: Weighted average exercise price $ USD
< $30.00	-	-	-	-	-
$30.00 - $39.99	10,270	0.12	32.05	10,270	32.05
$40.00 - $49.99	13,208	1.34	47.83	13,208	47.83
$50.00 and above	-	-	-	-	-
	23,478	0.80	40.93	23,478	40.93

35.3 Stock award programme

The Bank offers a stock award programme, under which shares are awarded in the form of restricted or deferred stock to certain employees. During the applicable vesting period, the shares awarded cannot be sold or transferred by the employees, and the award is subject to cancellation if the employment is terminated. Stock awards granted generally vest over a four year period.

Information with respect to unvested stock awards is as follows:

	2009 Shares	2009 Weighted average share price $ USD	2008 Shares	2008 Weighted average share price $ USD
Unvested at the beginning of the yeaı	39,143	32.92	22,571	51.89
Awards	27,007	4.67	28,518	26.31
Cancellations	(257)	31.29	(10,264)	37.28
Deletions	-	-	-	-
Vestings	(11,782)	37.45	(1,682)	49.15
Unvested at the end of the yeaı	54,111	19.27	39,143	32.92

35.4 Net reversal of Rs.16.930 million (2008: Rs. 29.001 million) was recognised in equity arising mainly due to fair value adjustment as required by IFRS 2 - Share Based Payment. As of December 31, 2009 recognised liability for outstanding share based incentive plans was Rs. 56.031 million (2008: Rs. 53.298 million). Fair value of shares has been determined on the basis of market value of shares of Citigroup Inc. as at December 31, 2009. i.e. $ USD 3.31 (2008: $ USD 6.71) per share.

36 COMPENSATION OF CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive Officer* 2009	Chief Executive Officer* 2008	Executives 2009	Executives 2008
	(Rupees in '000)			
Managerial remuneration	32,642	32,305	439,394	754,960
Charge for defined benefit plan	851	894	26,075	27,213
Contribution to defined contribution plan	1,022	825	31,302	32,669
Rent and house maintenance	4,088	3,300	127,009	137,676
Utilities	2,169	981	77,035	42,689
Medical	143	101	6,787	22,073
Others	6,781	1,084	12,528	7,639
	47,696	39,490	720,130	1,024,919
Number of persons	1	2	280	298

* Remuneration of the Chief Executive Officer in the year 2008 includes amount charged in respect of ex-Chief Executive Officer

The Bank also provides free use of furnished accommodation to the Chief Executive and bank maintained cars to the Chief Executive and certain Executives.

37 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of traded investments other than those classified as held to maturity is based on quoted market price. Fair 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.

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

The repricing profile, effective rates and maturity are stated in note 41 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 and deposits are frequently repriced.

38 SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

The Chief Operating Decision Maker (CODM) is the Managing Director and Citi Country Officer of the bank. The segment analysis with respect to business activity presented to the CODM is as follows:

	2009			
	Trading & Sales	Retail Banking	Corporate Banking	Total
	--------------------------------(Rupees in '000)-------------------------------			
Total Income	4,549,536	4,457,128	3,426,647	12,433,311
Total Expenses	1,953,599	6,517,586	3,873,153	12,344,338
Net Income	2,595,937	(2,060,458)	(446,506)	88,973
Segment Assets (Gross)	53,029,921	14,132,647	25,652,293	92,814,861
Segment Non Performing Loans	-	1,065,100	2,092,976	3,158,076
Segment Provision Required *	-	1,325,697	1,708,364	3,034,061
Segment Liabilities	10,335,616	32,468,358	38,451,411	81,255,385
Segment Return on net Assets (ROA) (%)**	4.9%	-16.1%	-1.9%	0.1%
Segment Cost of funds (%)***	12.0%	6.0%	6.6%	6.6%

	2008			
	Trading & Sales	Retail Banking	Corporate Banking	Total
	--------------------------------(Rupees '000)-------------------------------			
Total Income	3,270,362	6,209,387	4,009,954	13,489,703
Total Expenses	1,417,073	6,871,074	4,401,194	12,689,341
Net Income	1,853,289	(661,687)	(391,240)	800,362
Segment Assets (Gross)	50,374,050	20,544,698	32,580,891	103,499,639
Segment Non Performing Loans	-	418,179	1,537,545	1,955,724
Segment Provision Required *	-	799,368	1,048,444	1,847,812
Segment Liabilities	12,370,657	35,498,170	44,769,928	92,638,755
Segment Return on net Assets (ROA) (%)**	3.7%	-3.4%	-1.2%	0.8%
Segment Cost of funds (%)***	8.1%	6.5%	4.5%	5.6%

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

** Segment ROA = Net income / (Segment Assets - Segment Provisions)

*** Segment cost of funds have been computed based on the average balances.

39 RELATED PARTY TRANSACTIONS

Transactions with related parties comprise of transactions in the normal course of business with other branches of Citibank, N.A. outside Pakistan, other direct and indirect subsidiaries of Citigroup, retirement benefit plans and key management personnel of the Bank.

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.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to executives is determined in accordance with the terms of their appointment.

39.1 Details of significant transactions with related parties and balances with them as at year end are as follows:

	Balance as at December 31, 2008	Net placements / disbursements / deposits / transfers	Net settlements / repayments / withdrawals / transfers	Balance as at December 31, 2009
	----------(Rupees in '000)----------			
Loans and Advances				
Key management personnel	4,627	1,823	(2,309)	4,141
Deposits				
Associated undertakings	121,882	603,708	(387,289)	338,301
Key management personnel	2,994	30,094	(30,624)	2,464
Staff retirement benefit funds	17,360	789,331	(786,462)	20,229

	2009	2008
	--------(Rupees '000)--------	
Nostro balances / placements with Citibank Branches outside Pakistan	2,654,894	7,235,450
Unremitted head office expenses	728,818	621,960
Payable for expenses and share based payment	97,448	142,084
Payable to defined benefit plan	61,113	53,568
Claims receivable from Citi Global Insurance Reserve Plan	3,901	12,867
Income / expense for the year		
Mark-up / return / interest earned	16,579	110,429
Mark-up / return / interest expensed	28,134	26,972
Other income	19,215	37,769
Regional expenses for support services	358,955	340,425
Head office expenses	106,858	128,256
Remuneration paid to key management personnel	63,096	71,745
Contribution to staff retirement benefit funds	95,471	110,492
Sale of fixed assets	7	-

40 CAPITAL-ASSESSMENT AND ADEQUACY

40.1 Capital Management

The Bank manages its capital under the Basel II Standardised approach. The Bank has adopted Standardized Approach for credit and market risk whereas Basic Indicator Approach has been adopted for the operational risk under the Basel II accord.

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 investors 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.

Statutory minimum capital requirement and management of capital

The State Bank of Pakistan through its BSD Circular No. 07 dated April 15, 2009 has prescribed 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. 10 billion capital (net of losses) by the end of the financial year 2013. However branches of foreign banks operating in Pakistan whose head office holds paid-up capital (free of losses) of atleast US$ 300 million, have a CAR of 8% or minimum prescribed by home regulator and have prescribed number of branches, are allowed to maintain lower amount with prior approval of SBP. In this regard the Bank has obtained SBP's approval to maintain minimum required capital of Rs. 6 billion (net of losses) effective December 31, 2010.

The Head office capital account of the Bank for the year ended December 31, 2009 stands at Rs 6.781 billion and is in compliance with the SBP requirement for the said year. In addition the banks are also required to maintain a minimum Capital Adequacy Ratio (CAR) of 10% of the risk weighted exposures of the Bank. The Bank's CAR as at December 31, 2009 was 15.06% of its risk weighted exposure.

40.2 Capital Structure

The Bank's regulatory capital is analyzed into three tiers:

- Tier I capital, which includes head office capital under sub-section 2 of section 13 of the Banking Companies Ordinance, 1962, other reserves and retained profit. Goodwill, book value of intangibles and revaluation deficit on securities are deducted from Tier I capital.
- Tier II capital includes general provisions or general reserves for loan losses (up to a maximum of 1.25% of risk weighted assets) and revaluation reserve on equity investments after deduction of deficit on available for sale securities (up to a maximum of 45% of balance).
- Tier III capital - the Bank has no eligible Tier III capital.

The total of Tier II and Tier III capital has to be limited to Tier I capital.

The Bank has complied with all externally imposed capital requirements throughout the period.

The Capital of the Bank can be analyzed as follows:

Regulatory capital base	**2009**	**2008**
	--------(Rupees in '000)--------	
Tier I Capital		
Head office capital account	6,780,848	7,742,345
Reserves	92,715	75,785
Unappropriated / unremitted profits (net of losses)	1,778,573	1,686,600
	8,652,136	9,507,730
Less: Deductions		
- Book value of intangibles *	(188,665)	(131,123)
- Deficit on account of revaluation of investments held in AFS category	(194,955)	(761,013)
	(383,620)	(892,136)
Total Tier I Capital	8,268,516	8,615,594
Tier II Capital		
General Provisions for loan losses subject to 1.25% of total risk weighted assets		
Total Tier II Capital	336,850	605,082
Eligible Tier III Capital	-	-
Total Regulatory Capital Base (I+II+III)	8,605,366	9,220,676

* includes Rs. 6.046 million (2008: Rs 90.168 million) which pertains to softwares included in capital work-in-progress.

40.3 Capital Adequacy

Capital is generally generated via earnings from operating businesses. This is augmented through investment from the head office. Any excess capital is remitted back. The Capital Management process is governed by the Bank's Asset & Liability Committee (ALCO). ALCO is responsible for managing the Bank's capital position vis-à-vis internal as well as regulatory requirements.

Capital is used primarily to support asset growth in the Bank’s businesses and is sufficient to absorb unexpected market, credit or operational losses.

For credit risk, the capital requirement is based on the risk assessment (hereinafter called credit rating) made by External Credit Assessment Institutions (ECAIs) recognized as eligible by SBP for capital adequacy purposes. Bank then assigns a risk weight individually to all its on-balance sheet and off-balance sheet exposures. Risk weights are based on external rating grade or a fixed weight that is broadly aligned with the likelihood of counterparty default.

For market risk, capital is allocated in respect of the exposure to risks deriving from changes in interest rates, in the Banks' trading book, and in respect of exposure to risks deriving from changes in foreign exchange rates in the overall banking activity.

On balance sheet assets held in the trading book are subject to only market risk capital requirements and are not subject to credit risk capital requirement. On balance sheet assets held outside trading book and funded by another currency and unhedged for foreign exchange risk are subject to both credit and market risk capital requirement. Derivatives, unless they are contracted to hedge positions in the banking book are considered part of trading book and are subject to both credit and market risk capital requirement.

Under Basic Indicator Approach, the capital charge for operational risk is a fixed percentage (12.5%) of average positive annual gross income of the Bank over the past three years. Figures for any year in which annual gross income is negative or zero, is excluded from both the numerator and denominator when calculating the average.

The capital requirements for the banking group under the major risk categories is indicated below:

	Capital Requirements		Risk Weighted Assets	
	2009	**2008**	**2009**	**2008**
	------------------------------(Rupees in '000)-----------------------------			
Credit Risk				
Portfolios subject to standardized approach (Simple or Comprehensive)				
On Balance Sheet Items:				
Cash	-	-	-	-
Claims on Government of Pakistan, Sovereign and State Bank of Pakistan	3,733	970	37,329	10,780
Claims on Public sector entities in Pakistan	124,106	2,966	1,241,057	32,952
Claims on Banks	105,246	174,764	1,052,463	1,941,822
Claims on Corporate	1,505,818	1,829,587	15,058,178	20,328,743
Claims categorised as retail portfolio	611,432	1,037,247	6,114,320	11,524,964
Claims fully secured by residential property	74,414	81,688	744,136	907,641
Past due loans	49,889	61,144	498,887	679,376
Operating fixed assets	107,779	120,874	1,077,791	1,343,043
All Other assets	423,441	380,789	4,234,409	4,230,989
	3,005,858	3,690,029	30,058,570	41,000,310
Off Balance Sheet items:				
Direct credit substitutes and other commitments	436,252	178,997	4,362,516	1,988,855
Performance related contingencies	42,143	81,311	421,430	903,453
Trade related contingencies and shipping guarantees	105,742	101,525	1,057,416	1,128,051
Other commitments that can be unconditionally cancelled	-	-	-	-
Outstanding foreign exchange contracts	62,803	286,697	628,026	3,185,522
Outstanding derivatives contracts	177,564	217,278	1,775,640	2,414,201
	824,504	865,808	8,245,028	9,620,082
Credit risk-weighted exposures	3,830,362	4,555,837	38,303,598	50,620,392
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	249,813	323,402	2,498,125	3,593,350
Foreign exchange risk	51,264	21,121	512,638	234,675
Equity position risk etc.	-	-	-	-
Market risk-weighted exposures	301,077	344,523	3,010,763	3,828,025
Operational Risk				
Capital Requirement for operational risks subject to Basic Indicator Approach	1,584,472	1,249,889	15,844,719	13,887,659
Total	5,715,911	6,150,249	57,159,080	68,336,076

Capital Adequacy Ratio	2009	2008
	--------(Rupees in '000)--------	
Total eligible regulatory capital held (a)	8,605,366	9,220,676
Total risk weighted assets (b)	57,159,080	68,336,076
Capital Adequacy Ratio [(a)/(b)x100]	15.06%	13.49%

41 RISK MANAGEMENT

The overall risk management framework relies upon the Bank's internal entity wide standards and covers credit, market, operational and liquidity risks, including undertaking, measuring, monitoring and reporting of risks. It may be noted that:

- These standards are governed by specific policies which are defined and documented.
- Risks are measured using defined methodologies.
- Limits for credit, market and liquidity risks are approved by Risk Management, which is “independent” of the business areas.
- Dedicated risk management and control functions are in place for credit (Corporate and Consumer), market, liquidity and operational risks.

Additionally, Risk Management maintains oversight of the regulatory, economic, reputational and legal risks associated with the above-mentioned risk areas.

41.1 Credit risk

This represents the potential for financial loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations arising out of activities which include lending, sales and trading, derivatives, securities transaction and settlement.

41.1.1 Corporate credit risk

This risk is managed through the following:

- Single centre of control for each credit relationship that coordinates credit activities with the borrower.
- Documented target market and portfolio concentration limits that establish the credit appetite and minimum acceptable standards (both borrower and industry specific), provide portfolio diversification and maintain risk / capital alignment.
- Consistent standards for credit origination, documentation and remedial management.
- Maintenance of accurate and consistent borrower risk ratings through use of statistical models (periodically validated) or approved scoring methodologies after taking into consideration the available credit risk mitigants.
- Periodic stress testing of the credit portfolio based on emerging or expected risk events.

41.1.2 Consumer credit risk

Independent credit risk management is responsible for establishing the Consumer credit policy, approving specific policies and procedures, providing ongoing assessment of Consumer portfolio risk and approving new products. The Consumer Credit Cycle management entails the following:

- Product approval.
- Consistent and prudent underwriting standards.
- Robust account management policies to manage the portfolio.
- Efficient collection and recovery unit to ensure acceptable loss norms.
- Reliable and accurate Management Information System to support informed decision making.
- Effective anti-fraud controls to minimize fraud losses.

41.1.3 Credit Risk - General Disclosures Basel II Specific

The Bank has adopted standardised approach of Basel II for calculation of capital change against credit risk in line with SBP requirement.

41.1.4 Credit Risk: Disclosures for portfolio subject to the Standardised Approach

Under standardized approach the capital requirement is based on the credit rating assigned to the counterparties by the External Credit Assessment Institutions (ECAIs) duly recognized by SBP for capital adequacy purposes. In this connection, Bank utilizes the credit ratings assigned by ECAIs and has recognized agencies such as PACRA (Pakistan Credit Rating Agency), JCR-VIS (Japan Credit Rating Company - Vital Information System), Moody's and Standard & Poors which are also recognized by the SBP.

Types of exposures and ECAI's used:

Exposures	JCR-VIS	PACRA	Standard & Poors	Moody's
Corporate	✔	✔	N/A	N/A
Banks	✔	✔	✔	✔
SME's	✔	✔	N/A	N/A
Public Sector Entities (PSEs)	✔	✔	N/A	N/A

Use of ECAI Ratings

The Bank prefers solicited ratings over unsolicited ratings at all times, owing to the greater degree of accuracy (in general) associated with solicited ratings as compared to unsolicited ratings. Unsolicited ratings may only be used in cases where a solicited rating is not available.

Mapping to SBP Rating Grades

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

Long – Term Rating Grades Mapping

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

Short – Term Rating Grades Mapping

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

41.1.5 Credit Exposures subject to Standardised approach

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:

Exposures	Rating Category	2009 Amount Outstanding	2009 Deduction CRM	2009 Net amount	2008 Amount Outstanding	2008 Deduction CRM	2008 Net amount
		-------------------(Rupees '000)-------------------					
Corporate	1	5,573,315	(33,248)	5,540,067	14,591,102	(476,490)	14,114,612
	2	4,265,519	(58,112)	4,207,407	3,706,784	(1,575)	3,705,209
	3,4	399,269	-	399,269	318,280	-	318,280
	Unrated	51,235,904	(139,431)	51,096,473	22,862,691	(466,515)	22,396,176
Banks	1	13,422,242	(12,201,775)	1,220,467	15,377,688	(14,310,237)	1,067,451
	2	9,609,528	-	9,609,528	8,779,106	-	8,779,106
	3	568,689	-	568,689	2,850	-	2,850
	5	-	-	-	103,140	-	103,140
	Unrated	1,393,906	-	1,393,906	853,427	-	853,427
Sovereigns etc		34,340,775	-	34,340,775	14,116,325	-	14,116,325
	4,5	37,329	-	37,329	-	-	-
Public sector entities	1	9,522,122	-	9,522,122	2,293,224	(62)	2,293,162
	2,3	-	-	-	-	-	-
	Unrated	2,548,250	(61)	2,548,189	1,842,936	-	1,842,936
Retail	Unrated	18,792,215	(284,202)	18,508,013	18,274,421	(306,615)	17,967,806

CRM= Credit Risk Mitigation

41.1.6 Credit Risk: Disclosures with respect to Credit Risk Mitigation for Standardized Approach

The Bank has adopted the Simple Approach of Credit Risk Mitigation for the Banking Book. In instances where the Bank’s exposure on an obligor is secured by collateral that conforms to the eligibility criteria under the Simple Approach of CRM, then the Bank reduces its exposure under that particular transaction by taking into account the risk mitigating effect of the collateral for the calculation of capital requirement i.e. risk weight of the collateral instrument securing the exposure is substituted for the risk weight of the counter party.

The Bank accepts cash, lien on deposits, government securities under the simple approach of Credit Risk Mitigation. The Bank has in place detailed guidelines with respect to valuation and management of various collateral types. In order to obtain the credit risk mitigation benefit, the Bank uses realizable value of eligible collaterals to the extent of outstanding exposure.

Counterparty ratings are obtained through the two local SBP authorized External Credit Rating Agencies; JCR VIS and PACRA and other international sources such as Standard and Poor's and Moody’s. Credit risk assessment and the continuous monitoring of counterparty and portfolio credit exposures is carried out by the Credit Risk Management function.

The wholesale portfolio, which includes corporate and commercial are ideally collateralized by cash equivalents, fixed and current assets including property plant and equipment and land. Loans to individuals are typically secured by autos for car loans and private or income producing real estate is secured by a mortgage over the relevant property.

41.1.7 Credit concentration risk

Credit concentration risk arises mainly due to concentration of exposures under various categories viz. industry, geography, and single/group borrower exposures. Within credit portfolio, as a prudential measure aimed at better risk management and avoidance of concentration of risks, the SBP has prescribed regulatory limits on banks’ maximum exposure to single borrowers and group borrowers.

41.1.8 Segmental information

41.1.8.1 Segments by class of business

	2009					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Food manufacturing	1,307,717	4.19	741,260	1.27	775,147	4.02
Textile	5,556,056	17.81	42,161	0.07	160,345	0.83
Chemical and pharmaceuticals	2,869,185	9.19	3,255,029	5.60	4,505,456	23.38
Cement	1,227,950	3.94	4,110	0.01	9,754	0.05
Footwear and Leather garments	387,279	1.24	6,670	0.01	-	-
Automobile and transportation equipment	1,066,500	3.42	11,262	0.02	26,461	0.14
Electronics and electrical appliances	143,454	0.45	1,410,828	2.43	8,967	0.05
Tobacco	1,715	0.01	513,493	0.87	33,792	0.18
Power (electricity), Gas, Water, Sanitary	891,429	2.86	-	-	4,445,069	23.07
Wholesale and Retail Trade	404,821	1.30	-	-	16,323	0.08
Transport, Storage and Communication	1,054,009	3.38	7,261,095	12.49	579,208	3.01
Financial	622,273	1.99	3,341,052	5.75	8,343,978	43.30
Individuals	11,312,402	36.25	31,344,755	53.91	-	-
Others	4,360,063	13.97	10,215,489	17.57	363,974	1.89
	31,204,853	100.00	58,147,204	100.00	19,268,474	100.00

	2008					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Food manufacturing	1,243,690	2.85	599,518	0.92	775,443	3.28
Textile	6,549,995	15.01	56,646	0.09	764,514	3.24
Chemical and pharmaceuticals	3,085,129	7.07	6,799,643	10.38	13,508,591	57.18
Cement	1,516,775	3.48	19,949	0.03	298,588	1.26
Footwear and Leather garments	520,332	1.19	3,095	-	22,187	0.09
Automobile and transportation equipment	1,356,577	3.11	22,147	0.03	245,802	1.04
Electronics and electrical appliances	251,251	0.58	666,322	1.02	80,970	0.34
Tobacco	-	-	276,560	0.42	203,109	0.86
Power (electricity), Gas, Water, Sanitary	574,951	1.32	-	-	4,350,634	18.42
Wholesale and Retail Trade	611,642	1.40	161,137	0.25	137,782	0.58
Transport, Storage and Communication	1,397,492	3.20	11,595,488	17.71	610,777	2.59
Financial	1,205,807	2.76	3,811,545	5.82	1,945,340	8.23
Individuals	17,463,948	40.02	32,319,192	49.35	-	-
Others	7,858,225	18.01	9,153,526	13.98	679,608	2.89
	43,635,814	100.00	65,484,768	100.00	23,623,345	100.00

41.1.8.2 Segment by sector

	2009					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	441,429	1.4	116,627	0.2	1,282,043	6.7
Private	30,763,424	98.6	58,030,577	99.8	17,986,431	93.3
	31,204,853	100.0	58,147,204	100.0	19,268,474	100.0

	2008					
	Advances (Gross)		Deposits		Contingent liabilities*	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public / Government	124,903	0.3	81,361	0.1	3,955,918	16.7
Private	43,510,911	99.7	65,403,407	99.9	19,667,427	83.3
	43,635,814	100.0	65,484,768	100.0	23,623,345	100.0

* Contingent liabilities for the purpose of this note includes direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

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

	2009		2008	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	(Rupees in '000)			
Textile	870,040	707,182	1,004,963	750,644
Chemicals and pharmaceuticals	80,545	68,744	-	-
Individuals	1,065,100	827,642	418,024	173,093
Others	1,142,391	882,438	532,737	250,246
	3,158,076	2,486,006	1,955,724	1,173,983

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

Public / Government	-	-	-	-
Private	3,158,076	2,486,006	1,955,724	1,173,983
	3,158,076	2,486,006	1,955,724	1,173,983

41.1.8.5 Geographical segment analysis

	2009			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities*
	(Rupees in '000)			
Pakistan	302,588	89,780,800	8,525,415	19,268,474

	2008			
	Profit before taxation	Total assets employed	Net assets employed	Contingent liabilities*
	(Rupees in '000)			
Pakistan	118,849	101,651,827	9,013,072	23,623,345

*Contingent liabilities for the purpose of this note includes direct credit substitutes, transaction related contingent liabilities and trade related contingent liabilities.

Total assets employed include intra group items of Rs.2,654.894 million (2008: Rs. 7,234.204 million).

41.2 Market risk

Market risk is the risk of losses arising from fluctuation in the market value of trading and non-trading portfolios. The primary sources of market risk are fluctuation in interest rates and foreign exchange rates.

Market risk is measured in accordance with the Bank’s established standards, under which the business is required to establish, with approval from independent market risk management, a market risk limit framework, including risk measures, limits and controls, that clearly defines approved risk profiles and is within the parameters of the Bank’s overall risk appetite. In all cases, businesses are ultimately responsible for the market risk they take and for remaining within their defined limits.

The Bank’s principal measure of earnings risk to earnings from non-trading portfolios due to interest rate changes is Interest Rate Exposure (IRE). This measures the change in expected Net Interest Revenue from changes in market rates of interest. Market risk in trading portfolios is measured through a complementary set of tools, including factor sensitivities, value-at-risk and stress testing.

The Bank uses the Standardized Approach to calculate capital charge for market risk as per the current regulatory framework under Basel II. This approach covers the Bank’s trading portfolios, comprising off-balance sheet transactions including derivatives and securities classified under the trading portfolio.

41.2.1 Foreign exchange risk

Foreign Exchange Risk is the risk of loss resulting from adverse movement in exchange rates. The Bank's principal exchange rate related contracts are forward foreign exchange conducts, cross currency swaps and options. Non traded foreign exchange risk arises through the provision of banking products and services in foreign currency. The objectives of foreign exchange risk management function is to minimise the adverse impact of foreign exchange assets and liabilities mismatch and maximise the earnings observing the limits set by the Bank. Exchange position arising from trading activities are monitored through foreign exchange limits on aggregate and individual basis. Hedging strategies and mark to market valuations are used to mitigate exchange risk resulting from open positions. Overall exchange position risk is maintained in accordance with the regulatory requirements prescribed by the State Bank of Pakistan.

The analysis below represents the concentration of the Bank's foreign currency risk for on and off balance sheet financial instruments.

	2009			
	Assets	Liabilities *	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
United States dollar	39,847,344	46,221,831	5,912,642	(461,845)
Great Britain pound	875,678	876,219	(3,285)	(3,826)
Japanese yen	60,878	60,452	4	430
Euro	11,989,514	12,464,785	484,155	8,884
Swiss Francs	2,299	-	(2,541)	(242)
Other currencies	52,016	91,644	3,739	(35,889)
Foreign currency exposure	52,827,729	59,714,931	6,394,714	(492,488)
Pakistan rupee	36,953,071	30,065,869	(6,394,714)	492,488
	89,780,800	89,780,800	-	-

	2008			
	Assets	Liabilities *	Off-balance sheet items	Net foreign currency exposure
	(Rupees in '000)			
United States dollar	16,229,220	17,400,902	965,154	(206,528)
Great Britain pound	816,134	765,631	(42,243)	8,260
Japanese yen	717,955	645,928	(73,034)	(1,007)
Euro	1,596,160	1,015,048	(576,895)	4,217
Swiss francs	209,036	207,377	-	1,659
Other currencies	101,546	115,940	(202)	(14,596)
Foreign currency exposure	19,670,051	20,150,826	272,780	(207,995)
Pakistan rupee	81,981,776	81,501,001	(272,780)	207,995
Total currency exposure	101,651,827	101,651,827	-	-

* Includes head office capital account in United States dollar, unremitted profit and deficit on revaluation of assets in Pakistan Rupees.

41.2.2 Equity position Risk

The risk arising from taking long or short positions, in the trading book ,in the equities and all instruments that exhibit market behaviour similar to equities. The Bank does not maintain equity trading portfolio.

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

The position for on-balance sheet financial instruments is based on the earlier of contractual repricing or maturity date. The position for off-balance sheet financial instruments is based on settlement dates.

	2009											
			Exposed to Yield / Interest risk									
	Effective Yield / Interest rate %	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
		(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	-	7,706,034	1,979,678	-	-	-	-	-	-	-	-	5,726,356
Balances with other banks	0.35	2,735,953	1,385,673	-	-	-	-	-	-	-	-	1,350,280
Lending to financial institutions	12.11	10,155,661	5,879,661	4,276,000	-	-	-	-	-	-	-	-
Investments	12.03	33,122,217	985,745	10,572,787	10,367,002	5,252,768	668,272	633,753	2,725,596	1,669,619	246,675	-
Advances	16.53	28,245,029	4,553,677	14,373,879	4,660,386	1,611,324	854,685	466,050	344,895	368,817	339,246	672,070
Other assets	-	2,275,100	-	-	-	-	-	-	-	-	-	2,275,100
		84,239,994	14,784,434	29,222,666	15,027,388	6,864,092	1,522,957	1,099,803	3,070,491	2,038,436	585,921	10,023,806
Liabilities												
Bills payable	-	1,654,759	-	-	-	-	-	-	-	-	-	1,654,759
Borrowings from financial institutions	10.16	5,561,411	3,243,541	1,505,290	430,545	141,667	143,205	-	-	55,545	-	41,618
Deposits and other accounts	7.93	58,147,204	37,503,233	6,687,091	2,161,263	2,856,148	439,071	73,417	245,038	35,123	-	8,146,820
Other liabilities	-	14,606,177	-	-	-	-	-	-	-	-	-	14,606,177
		79,969,551	40,746,774	8,192,381	2,591,808	2,997,815	582,276	73,417	245,038	90,668	-	24,449,374
On-balance sheet gap		4,270,443	(25,962,340)	21,030,285	12,435,580	3,866,277	940,681	1,026,386	2,825,453	1,947,768	585,921	(14,425,568)
Total Yield / Interest Risk Sensitivity Gap			(25,962,340)	21,030,285	12,435,580	3,866,277	940,681	1,026,386	2,825,453	1,947,768	585,921	(14,425,568)
Cumulative Yield / Interest Risk Sensitivity Gap			(25,962,340)	(4,932,055)	7,503,525	11,369,802	12,310,483	13,336,869	16,162,322	18,110,090	18,696,011	4,270,443

	2008											
			Exposed to Yield / Interest risk									
	Effective Yield / Interest rate %	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years	Non-interest bearing financial instruments
		(Rupees in '000)										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	0.90	10,583,830	2,293,857	-	-	-	-	-	-	-	-	8,289,973
Balances with other banks	0.44	7,358,861	6,939,949	-	-	-	-	-	-	-	-	418,912
Lending to financial institutions	14.35	14,166,060	12,262,010	1,904,050	-	-	-	-	-	-	-	-
Investments	10.52	9,194,307	-	5,586,065	857,973	-	115,137	366,345	762,649	1,312,563	193,575	-
Advances	15.15	41,856,749	4,011,060	24,630,696	2,263,751	1,003,800	1,352,570	1,578,405	2,986,173	947,360	2,301,193	781,741
Other assets	-	12,526,005	-	-	-	-	-	-	-	-	-	12,526,005
		95,685,812	25,506,876	32,120,811	3,121,724	1,003,800	1,467,707	1,944,750	3,748,822	2,259,923	2,494,768	22,016,631
Liabilities												
Bills payable	-	1,660,227	-	-	-	-	-	-	-	-	-	1,660,227
Borrowings from financial institutions	8.00	3,152,988	1,130,979	844,900	816,745	141,667	143,205	-	-	55,543	-	19,949
Deposits and other accounts	6.55	65,484,768	34,443,221	9,021,700	3,489,968	3,899,460	866,195	131,508	81,855	8,333	-	13,542,528
Other liabilities	-	20,051,992	-	-	-	-	-	-	-	-	-	20,051,992
		90,349,975	35,574,200	9,866,600	4,306,713	4,041,127	1,009,400	131,508	81,855	63,876	-	35,274,696
On-balance sheet gap		5,335,837	(10,067,324)	22,254,211	(1,184,989)	(3,037,327)	458,307	1,813,242	3,666,967	2,196,047	2,494,768	(13,258,065)
Total Yield / Interest Risk Sensitivity Gap			(10,067,324)	22,254,211	(1,184,989)	(3,037,327)	458,307	1,813,242	3,666,967	2,196,047	2,494,768	(13,258,065)
Cumulative Yield / Interest Risk Sensitivity Gap			(10,067,324)	12,186,887	11,001,898	7,964,571	8,422,878	10,236,120	13,903,087	16,099,134	18,593,902	5,335,837

	2009	2008
	--------(Rupees in '000)--------	

41.2.4 Reconciliation of assets and liabilities exposed to Yield / Interest Rate risk with total assets and liabilities

	2009	2008
Total financial assets as per note 41.2.3	84,239,994	95,685,812
Add: Non financial assets		
Operating fixed assets	1,266,456	1,474,167
Deferred tax asset	3,637,578	3,585,127
Other assets	636,772	906,721
Total assets as per balance sheet	89,780,800	101,651,827
Total liabilities as per note 41.2.3	79,969,551	90,349,975
Add: Non financial liabilities		
Other liabilities	1,285,834	2,288,780
Total liabilities as per balance sheet	81,255,385	92,638,755

41.3 Liquidity Risk

Liquidity risk is the potential for loss of the Bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring any un acceptable losses.

A uniform liquidity risk management policy exists for the Bank, under which there is a single set of standards for the measurement of liquidity risk. Management of liquidity is performed on a daily basis by the Treasurer and is monitored by independent risk management with oversight by Country Asset and Liability Committee (ALCO). The objective of ALCO is to monitor and review the overall liquidity and balance sheet positions of the bank.

An annual funding and liquidity plan is approved by ALCO and independent risk management team. The plan includes analysis of the balance sheet, as well as the economic and business conditions impacting the liquidity of the bank. As part of the plan, liquidity limits, ratios and triggers are established and approved.

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

	2009									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	---(Rupees in '000)---									
Assets										
Cash and balances with treasury banks	7,706,034	5,942,832	-	-	-	-	-	-	-	1,763,202
Balances with other banks	2,735,953	2,735,953	-	-	-	-	-	-	-	-
Lendings to financial institutions	10,155,661	5,879,661	4,276,000	-	-	-	-	-	-	-
Investments	33,122,217	985,745	10,572,787	10,367,002	5,252,768	668,272	633,753	2,725,596	1,669,619	246,675
Advances	28,245,029	5,225,747	10,036,516	2,960,558	2,578,664	3,805,025	1,051,952	1,112,956	908,437	565,174
Other assets	2,911,872	1,740,443	618,825	102,643	409,136	1,251	3,460	28,960	7,154	-
Operating fixed assets	1,266,456	26,894	53,789	80,684	161,368	307,044	307,115	140,898	186,439	2,225
Deferred tax assets	3,637,578	-	68,234	-	-	-	-	3,569,344	-	-
	89,780,800	22,537,275	25,626,151	13,510,887	8,401,936	4,781,592	1,996,280	7,577,754	2,771,649	2,577,276
Liabilities										
Bills payable	1,654,759	1,654,759	-	-	-	-	-	-	-	-
Borrowings from financial institutions	5,561,411	3,285,160	1,505,290	430,545	141,667	143,205	-	-	55,544	-
Deposits and other accounts *	58,147,204	45,650,053	6,687,091	2,161,263	2,856,148	439,071	73,417	245,038	35,123	-
Other liabilities	15,892,011	3,158,626	8,740,259	963,120	2,953,248	18,527	6,853	42,383	8,995	-
	81,255,385	53,748,598	16,932,640	3,554,928	5,951,063	600,803	80,270	287,421	99,662	-
Net assets	8,525,415	(31,211,323)	8,693,511	9,955,959	2,450,873	4,180,789	1,916,010	7,290,333	2,671,987	2,577,276
Represented by:										
Head office capital account	6,780,848									
Reserves	92,715									
Unremitted profit	1,778,573									
Deficit on revaluation of securities - net	(126,721)									
	8,525,415									

* Includes saving deposits which have been classified as maturing up to one month. However they are not expected to fall materially below their current level.

	2008									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
	----------(Rupees in '000)----------									
Assets										
Cash and balances with treasury banks	10,583,830	7,859,131	-	-	-	-	-	-	2,724,699	-
Balances with other banks	7,358,861	7,358,861	-	-	-	-	-	-	-	-
Lendings to financial institutions	14,166,060	12,262,010	1,904,050	-	-	-	-	-	-	-
Investments	9,194,307	-	5,586,065	857,973	-	115,137	366,345	762,649	1,312,563	193,575
Advances	41,856,749	5,170,691	13,152,886	2,277,966	1,115,363	1,827,333	2,500,390	4,392,606	1,090,078	10,329,436
Other assets	13,432,726	3,824,935	3,229,231	4,250,390	594,014	148,001	-	348,700	1,037,455	-
Operating fixed assets	1,474,167	31,292	62,582	93,873	187,746	375,492	375,581	157,948	187,306	2,347
Deferred tax assets	3,585,127	-	266,355	-	-	-	-	3,318,772	-	-
	101,651,827	36,506,920	24,201,169	7,480,202	1,897,123	2,465,963	3,242,316	8,980,675	6,352,101	10,525,358
Liabilities										
Bills payable	1,660,227	1,660,227	-	-	-	-	-	-	-	-
Borrowings from financial institutions	3,152,988	1,150,928	844,900	816,745	141,667	143,205	-	-	55,543	-
Deposits and other accounts *	65,484,768	47,985,749	9,021,700	3,489,968	3,899,460	866,195	131,508	81,855	8,333	-
Other liabilities	22,340,772	5,613,744	8,390,533	2,850,788	3,951,856	209,317	11,720	134,996	1,177,818	-
	92,638,755	56,410,648	18,257,133	7,157,501	7,992,983	1,218,717	143,228	216,851	1,241,694	-
Net assets	9,013,072	(19,903,728)	5,944,036	322,701	(6,095,860)	1,247,246	3,099,088	8,763,824	5,110,407	10,525,358
Represented by:										
Head office capital account	7,742,345									
Reserves	75,785									
Unremitted profit	1,689,600									
Deficit on revaluation of securities - net	(494,658)									
	9,013,072									

* Includes saving deposits which have been classified as maturing up to one month. However they are not expected to fall materially below their current level.

41.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is inherent in the Bank's activities and as with other risk types is managed through an overall framework with checks and balances that include recognised ownership of the risk by the businesses, independent risk management oversight and independent review by corporate audit. The operational risk policy codifies the core governing principles for operational risk management and provides a framework for operational risk. In accordance with the policy, each business area is responsible to identify its key operational risks as well as the controls established to mitigate those risks and to ensure compliance with laws, regulations, regulatory administrative actions and the Bank's policies.

The operational risk policy and its requirements facilitate the effective communication of operational risks both within and across businesses. Information about the businesses' operational risk, historical losses and the control environment is reported by each major business segment and functional area and summarised for senior management.

The Bank has created a strategic framework for information security technology initiatives and has implemented enhancements to various Information Security programs across it business covering Risk Management, Security Incident Response and Electronic Transportable Media. The Bank also implemented tools to increase the effectiveness of its data protection and entitlement management programs.

The business continuity program provides risk analysis and robust support for business resiliency. The office of Business Continuity, with the support of the senior management continued to coordinate preparedness and mitigate business continuity risks by reviewing and testing recovery procedures.

42 NON - ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the year end, the Bank has announced closure of its four branches during the first quarter.

43 DATE OF AUTHORISATION

These financial statements were authorised for issue on March 29, 2010 by the management of the Bank.

44 GENERAL

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

ARIF USMANI
Managing Director and Citi Country Officer

ANJUM HAI
Chief Financial Officer