

Quarterly Report

September 30, 2011

Commitment Means Results.



Summit *S* **Bank**
Committed to you

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Corporate Information

Board of Directors

Mr. Nasser Abdulla Hussain Lootah
Chairman

Mr. Husain Lawai
President and CEO

Mr. Nasim Beg
Director

Mr. Asadullah Khawaja
Director

Mr. M. Farid Uddin
Director

Dr. Ahmed Khalil Mohammad Samea Al Mutawa
Director

Mr. Shehryar Faruque
Director

Audit Committee

Mr. Asadullah Khawaja
Chairman

Mr. Nasim Beg
Member

Mr. Shehryar Faruque
Member

Risk Management Committee

Mr. Nasim Beg
Chairman

Mr. Husain Lawai
Member

Mr. Asadullah Khawaja
Member

Human Resource (HR) Committee

Mr. Asadullah Khawaja
Chairman

Mr. Husain Lawai
Member

Mr. Shehryar Faruque
Member

CFO and Company Secretary

Mr. Muhammad Amin Bhoori

Auditors

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Legal Advisors

Liaquat Merchant Associates

Head Office

Arif Habib Centre, 23, M.T. Khan Road
Karachi – 74000, Pakistan
UAN: (021) 111 – 124 – 725
Fax: (021) 32435736

Registered Office

Plot No.6-B, F-6, Supermarket, Islamabad, Pakistan

Share Registrar

Technology Trade (Pvt) Ltd
Dagja House, 241 – C, Block 2, PECHS,
Off Shahrah – e – Quaideen,
Karachi – 74000, Pakistan
Tel: (021) 34391316-7
Fax: (021) 34391318

Entity Ratings

Rated by JCR – VIS
Medium to Long term “A”
Short Term “A-2”

Email: info@summitbank.com.pk

Website: www.summitbank.com.pk

Toll Free: 0800-24365

VISION



To be the preferred provider of financial products & services to the markets.

A red textured ball is positioned to the left of the word 'MISSION'. To the right, a grey vertical pole stands on a circular grey base. The background is a light, neutral color with a subtle gradient.

MISSION

- To be a financial institution based on Trust, Integrity, and Good Governance.
- To deliver financial solutions to our customers.
- To provide equal opportunities & professional working environment to our employees.
- To provide fair return to our shareholders on their investment.
- To serve the community at large.
- To discharge corporate social responsibility.

DIRECTORS' REPORT TO THE MEMBERS

On behalf of the Board of Directors of Summit Bank Limited "the Bank", I am pleased to present the unaudited financial statements of the Bank for the quarter ended September 30, 2011.

Financial Highlights

Operational highlights of the Bank for the period under review are as follows:

	Unaudited Nine Months ended September 30, 2011 (Rs. in million)	Unaudited Third Quarter ended September 30, 2011 (Rs. in million)
Operating loss before provisions and diminution in value of investments	(1,442)	(149)
Reversal / (Provision) for non performing advances	(278)	627
Reversal / (Provision) for diminution in value of investments	(58)	(246)
Bad debts written off directly	-	2
Profit / Loss before tax	(1,778)	234
Reversal of provision for taxation	364	(171)
Loss after tax	(1,414)	63
Loss per share – Rupees	(1.89)	0.06

The Bank earned post tax profit of Rs. 63 million during the quarter from July to September 2011 hence has reduced the overall loss to Rs. 1,414 million for the nine months ended September 30, 2011. Substantial amount has been recovered against non-performing loans portfolio due to concerted efforts by the management which resulted in reduction of loss during the period.

Subsequent to completion of merger processes on the close of business of June 30, 2011, the bank has a deposit base of Rs. 84.98 billion as on September 30, 2011. The bank is focusing on strengthening its core deposits base by repaying the high cost deposits and building the CASA deposits. Advances were stood at Rs. 56.12 billion while total assets reported at Rs. 108 billion as on September 30, 2011. In line with the long term and prudent strategy, the Bank maintained high levels of liquidity during the nine months under review.

Minimum Capital Requirement

The paid up capital (free of losses) of the Bank as at September 30, 2011 was Rs. 5.628 billion. SBP has granted exemption to the Bank for compliance with the Minimum Capital Requirement (MCR) and Capital Adequacy Ratio (CAR) till December 31, 2011. During the period the Bank has raised capital of Rs. 1.45 billion by way of issue of right shares.

Branch Network

At the close of third quarter of financial year 2011, the branch network of the Bank has reached 165 branches with the merger of ex-Mybank Limited. The Bank has planned to open more branches in 2012.

Credit rating

JCR-VIS has maintained the credit ratings of the Bank, 'A' for medium to long term, and 'A-2' for the short term.

Future Outlook

Safeguarding stakeholders' value is the primary objective of the Bank and for that the management is focusing on recovery of non-performing loans, increase in core banking income through the increase of good advances and diversifying portfolio. The Bank will also generate revenue from non-markup income through launching of various consumer based products and services. The Bank is also striving to comply with the minimum capital requirements prescribed by the State Bank of Pakistan.

Acknowledgements

We would like to express our gratitude and thanks to the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for their professional support and guidance. Our gratitude is due to our customers for the confidence that they have expressed in the Bank. We would also like to thank our shareholders for their patronage and support, the management and the staff for their hard work and commitment.

On behalf of Board of Directors

Husain Lawai

President & CEO

October 26, 2011



SUMMIT BANK LIMITED

**CONDENSED INTERIM
FINANCIAL STATEMENTS**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

QUARTER ENDED SEPTEMBER 2011

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT SEPTEMBER 30, 2011

		(Un-audited) September 30, 2011	(Audited) December 31, 2010
	Note	----- (Rupees in '000) -----	
ASSETS			
Cash and balances with treasury banks		5,647,420	4,047,554
Balances with other banks		1,540,119	338,244
Lendings to financial institutions		200,000	-
Investments	8	29,016,658	20,501,299
Advances	9	56,118,292	38,771,189
Operating fixed assets		4,587,010	2,690,447
Deferred tax assets - net	10	5,353,155	3,202,761
Other assets		5,824,898	2,717,336
		108,287,552	72,268,830
LIABILITIES			
Bills payable		1,154,129	357,293
Borrowings from financial institutions		14,320,131	5,257,243
Deposits and other accounts	11	84,982,803	61,607,550
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities		2,602,681	1,673,482
		103,059,744	68,895,568
NET ASSETS		5,228,808	3,373,262
REPRESENTED BY			
Share capital		10,779,796	7,250,660
Reserves		(1,551,944)	(1,335,050)
Accumulated loss		(3,599,962)	(2,321,584)
		5,627,890	3,594,026
Deficit on revaluation of assets - net of tax		(400,082)	(220,764)
		5,228,808	3,373,262
CONTINGENCIES AND COMMITMENTS	12		

The annexed notes from 1 to 16 form an integral part of these financial statements.

CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

	Nine months Ended September 30, 2011	Nine months Ended September 30, 2010	Quarter ended September 30, 2011	Quarter ended September 30, 2011
Note	----- (Rupees in '000) -----			
Mark-up / return / interest earned	6,254,880	5,418,199	1,858,490	1,822,061
Mark-up / return / interest expensed	(5,770,778)	(4,464,685)	(1,809,773)	(1,521,567)
Net mark-up / interest income	484,103	953,514	48,718	300,494
Provision against non-performing loans and advances	9.1.1 (278,350)	(1,200,828)	627,703	(308,796)
Provision for diminution in the value of investments	(58,336)	(181,247)	(246,477)	(12,487)
Bad debts written off directly	-	-	2,198	-
	(336,685)	(1,382,075)	383,425	(321,283)
Net mark-up / interest income / (loss) after provisions	147,417	(428,561)	432,142	(20,789)
NON MARK-UP / INTEREST INCOME				
Fee, commission and brokerage income	269,839	240,135	58,194	63,738
Dividend income	53,794	42,855	47,871	20,854
Income from trading in government securities	4,332	1,955	4,332	379
Gain / (loss) from dealing in foreign currencies	77,364	(74,144)	3,346	(21,198)
Gain on sale of securities - net	68,802	126,291	230,702	29,690
Unrealised gain / (loss) on revaluation of investments classified as held-for-trading	18,466	(7,286)	21,080	15,090
Other income	50,388	24,068	10,338	6,916
Total non-mark-up / interest income	542,984	353,874	375,862	115,469
	690,402	(74,687)	808,005	94,680
NON MARK-UP / INTEREST EXPENSES				
Administrative expenses	(2,422,607)	(2,080,794)	(572,064)	(694,580)
Other provisions / write-offs	(30,241)	30,018	4,913	1,602
Other charges	(15,803)	(4,033)	(6,455)	(1,291)
Total non-mark-up / interest expenses	(2,468,652)	(2,054,809)	(573,607)	(694,269)
	(1,778,250)	(2,129,496)	234,398	(599,589)
Extra ordinary / unusual items	-	-	-	-
PROFIT / (LOSS) BEFORE TAXATION	(1,778,250)	(2,129,496)	234,398	(599,589)
Taxation				
Current	(76,887)	(86,181)	(24,052)	(46,040)
Prior years	-	-	-	-
Deferred	441,176	586,542	(147,136)	150,688
	364,290	500,361	(171,189)	104,648
PROFIT / (LOSS) AFTER TAXATION	(1,413,960)	(1,629,135)	63,029	(494,941)
Earnings/(Loss) per share (Rupees) - basic and diluted	(1.89)	(2.34)	0.06	(0.71)

The annexed notes from 1 to 16 form an integral part of these financial statements.

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE PERIOD ENDED SEPTEMBER 30, 2011

	Nine months Ended September 30, 2011	Nine months Ended September 30, 2010	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010
	----- (Rupees in '000) -----			
Profit / (Loss) after taxation	(1,413,960)	(1,629,135)	63,209	(494,941)
Other comprehensive income	-	15,105	-	-
Comprehensive loss transferred to equity	(1,413,960)	(1,614,030)	63,209	(494,941)
Deficit on revaluation of investments	(618,686)	(593,279)	(168,485)	(398,636)
Deferred tax on revaluation of investments	218,605	148,707	142,185	209,603
	(400,082)	(444,572)	(26,300)	(189,033)
Total comprehensive profit / (loss) for the period	<u>(1,814,042)</u>	<u>(2,058,602)</u>	<u>36,909</u>	<u>(683,974)</u>

The annexed notes from 1 to 16 form an integral part of these financial statements.

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

	Share capital	Share premium	Discount on issue	Statutory reserve	Reserve arising on amalgamation	Other reserve	Accumulated loss	Total
	(Rupees in '000)							
Balance as at January 01, 2010, as previously reported	5,000,000	1,000,000	-	64,828	-	-	(1,998,887)	4,065,941
Issue of share capital and adjustments arising from amalgamation with Atlas Bank Limited	2,250,660	-	-	-	(2,399,878)	7,550	2,695,676	2,554,008
Balance as at January 01, 2010 (amalgamated)	7,250,660	1,000,000	-	64,828	(2,399,878)	7,550	696,789	6,619,949
Comprehensive loss transferred to equity during the nine months ended September 30, 2010	-	-	-	-	-	-	(1,629,135)	(1,629,135)
Balance as at September 30, 2010	7,250,660	1,000,000	-	64,828	(2,399,878)	7,550	(932,346)	4,990,814
Comprehensive loss transferred to equity during the quarter ended December 31, 2010	-	-	-	-	-	(7,550)	(1,389,238)	(1,396,788)
Balance as at December 31, 2010	7,250,660	1,000,000	-	64,828	(2,399,878)	-	(2,321,584)	3,594,026
Issuance of right shares during the period	1,450,132	-	-	-	-	-	-	1,450,132
Proposed issue of share capital and adjustments arising on acquisition and amalgamation of non-controlling interest in MyBank Limited (note 7.4)	-	-	-	-	1,080,404	-	1,35,582	1,215,986
Issue of share capital and adjustments arising from amalgamation with MyBank Limited	2,079,004	-	-	-	-	-	-	2,079,004
Comprehensive loss transferred to equity during the nine months ended September 30, 2011	-	-	-	-	-	-	(1,413,960)	(1,413,960)
Discount on issue of share	-	-	(1,297,298)	-	-	-	-	(1,297,298)
Balance as at September 30, 2011	10,779,796	1,000,000	(1,297,298)	64,828	(1,319,474)	-	(3,599,962)	5,627,890

The annexed notes from 1 to 16 form an integral part of these financial statements.

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

	September 30, 2011	September 30, 2010
Note	----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(1,778,250)	(2,129,496)
Dividend income	(53,794)	(42,855)
	(1,832,044)	(2,172,351)
Adjustments:		
Depreciation	301,369	203,562
Amortisation of intangible assets and deferred cost	47,338	41,057
Provision against non-performing advances	278,350	1,200,828
Other provisions / write offs	30,241	(30,018)
Provision for diminution in the value of investments	58,336	181,247
Unrealised (gain) / loss on revaluation of investments in held-for-trading securities	18,466	7,286
Income from trading in government securities - net	4,332	1,955
Income from sale of securities - net	68,802	57,354
Loss from sale of non banking asset acquired in satisfaction of claims	-	(78)
Provision for compensated absences	25,026	668
Provision for gratuity	37,827	2,602
Loss / (gain) on disposal of operating fixed assets	17,350	(179)
	887,437	1,666,284
	(944,608)	(506,067)
(Increase) / decrease in operating assets		
Lendings to financial institutions	(200,000)	(532,445)
Investments in held-for-trading securities - net	(292,956)	(48,530)
Advances	(17,625,453)	(1,488,975)
Other assets	(4,684,035)	(843,576)
	(22,802,443)	(2,913,526)
Increase / (decrease) in operating liabilities		
Bills payable	796,836	280,455
Borrowings from financial institutions	9,062,889	6,471,466
Deposits and other accounts	23,375,253	(6,177,155)
Other liabilities	409,208	(220,936)
	33,644,187	353,830
	9,897,136	(3,065,763)
Compensated absences paid	-	-
Income tax paid	(7,983)	(33,035)
Net cash generated from / (used in) operating activities	9,889,153	(3,098,798)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in available-for-sale securities - net	(4,890,151)	2,241,049
Investments in held-to-maturity - net	(1,403,184)	-
Investments in subsidiaries	-	-
Dividend received	(53,794)	38,427
Investments in operating fixed assets	(2,373,436)	(175,431)
Sale proceed from disposal of non banking asset acquired in satisfaction of claims	-	23,256
Sale proceeds from disposal of property and equipment	110,816	19,423
Net cash (used in) / generated from investing activities	(8,609,749)	2,146,724
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of right shares	1,450,132	-
Share premium on issue of share capital	-	-
Net cash generated from financing activities	1,450,132	-
Decrease in cash and cash equivalents	2,729,536	(952,074)
Cash and cash equivalents at beginning of the year	4,385,798	4,323,112
Cash and cash equivalents at end of the year	7,115,334	3,371,038

The annexed notes from 1 to 16 form an integral part of these financial statements.

PRESIDENT AND CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

DIRECTOR

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED SEPTEMBER 30, 2011

1. STATUS AND NATURE OF BUSINESS

- 1.1 Summit Bank Limited [formerly Arif Habib Bank Limited] (the Bank) was incorporated in Pakistan as public company limited by shares on December 09, 2005 under the Companies Ordinance, 1984. It is listed on all the stock exchanges of Pakistan. Registered office of the Bank is situated at Plot No. 6-B, F-6, Supermarket, Islamabad, Pakistan.
- 1.2 The Bank is principally engaged in the business of banking through its 165 branches (after amalgamation of Atlas Bank Limited having 40 branches and MyBank Limited having 80 branches) in Pakistan as defined in the Banking Companies Ordinance, 1962. The medium to long-term rating of the Bank rated by JCR-VIS, credit rating company, is 'A' with a positive outlook. Short-term rating of the Bank is 'A-2'.
- 1.3 On March 31, 2010, 297,034,854 shares (59.41% of issued shares of the Bank) were transferred by Arif Habib Securities Limited to Suroor Investments Limited (SIL), a company incorporated in Mauritius, under the Share Purchase Agreement dated June 30, 2009 and, consequently, SIL has become parent company of the Bank. As part of change in ownership, effective from August 18, 2010, the name of the Bank was changed to 'Summit Bank Limited.'
- 1.4 Further, the SBP sanctioned a scheme of amalgamation (the scheme) under section 48 of the Banking Companies Ordinance, 1962, on December 31, 2010 by virtue of which Atlas Bank Limited (ATBL) has been merged with and into Summit Bank Limited on December 31, 2010 (at the close of business). This scheme was earlier approved by the shareholders of the Bank in their Extra Ordinary General Meeting held on November 06, 2010.

Under the above referred scheme of amalgamation, the Bank issued 225,065,982 Ordinary shares to the shareholders of ATBL at par value of Rs.10 each.

This amalgamation was accounted for in the books using "Pooling of interest" method as it was a business combination of entities under common control and not covered under the scope of IFRS-3 "Business Combinations". The difference in the net assets of ATBL, the merging entity, and the above shares issued to ATBL has been carried in the books under "Reserve arising on amalgamation".

Further, since "Pooling of interest" method assumes that both ATBL and the Bank were merged from the beginning of the earliest period presented, the issue of share capital and adjustments arising from amalgamation have been shown as at January 01, 2010.

- 1.5 On September 30, 2009, Suroor Investments Limited (SIL) entered into an agreement with a majority shareholder (MS) to sell upto 314,701,450 Ordinary shares constituting 59.34% of shareholding of MyBank Limited (MBL). Subsequently, SIL, Summit Bank Limited (the Bank) and the MS entered into a novation agreement dated February 17, 2011 whereby SIL has agreed to novate and the Bank has agreed to undertake the obligations of SIL to acquire the Ordinary shares from the MS on terms and conditions contained in the agreement.

As part of the agreement, the Bank purchased 270,482,625 shares of MBL at a price of Rs.8 per share resulting in a purchase consideration of Rs.2,163.861 million. Accordingly, MBL became a subsidiary of the Bank and held 51.00% (December 31, 2010: 1.27%) Ordinary shares in MBL as at April 01, 2011. The details of this business combination together with its accounting treatment are given in note 6 to these amalgamated financial statements.

Furthermore, during the period, the State Bank of Pakistan (SBP) sanctioned a scheme of amalgamation (the scheme) under section 48 of the Banking Companies Ordinance, 1962, on June 20, 2011 by virtue of which MBL had been merged with and into the Bank at the close of business on June 30, 2011 (effective date). This scheme has earlier been approved by the shareholders of the Bank in their Extra Ordinary General Meeting held on January 20, 2011.

- 1.6 These financial statements represent the separate standalone financial statements of the Bank.
- 1.7 The State Bank of Pakistan (SBP) through its BSD Circular No. 7 dated April 15, 2009 has prescribed that the minimum paid-up capital (net of losses) for Banks / Development Finance Institutions (DFIs) be raised to

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

Rs.10 billion by the year ending December 31, 2013. The raise is to be achieved in a phased manner requiring Rs.8 billion and Rs.9 billion paid-up capital (free of losses) by the end of the financial year 2011 and 2012, respectively. The paid-up capital (free of losses) of the Bank as at September 30, 2011 is Rs.5.628 billion. Further, vide its aforesaid circular, the SBP has asked the banks to achieve minimum Capital Adequacy Ratio (CAR) of 10% with effect from December 31, 2009 irrespective of their CAMEL-5 rating, till further instructions. However, the Bank's CAR is below the minimum required level as at the half year end.

However, the Bank has been granted an exemption till December 31, 2011 to meet the minimum capital requirement (MCR) and capital adequacy ratio (CAR) by the SBP through its letter No. BSD/BAI-3/608/9203/2011 dated July 16, 2011. Through the above referred letter, the SBP has also requested the Bank to submit a capital plan for meeting the expected shortfall in MCR/CAR, including specific timelines and milestones.

The Bank has injected Rs.1.4 billion capital in the form of right shares during the period.

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 (SBP) has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

3.1 These condensed interim financial statements of the Bank have been prepared in accordance with the requirements of International Accounting Standard 34 - Interim Financial Reporting, provisions of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. In case requirements differ, the provisions of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the said directives have been followed.

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for banking companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 'Financial Instruments: Disclosures' through its notification S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

4. BASIS OF MEASUREMENT

4.1 These condensed interim financial statements have been prepared under the historical cost convention, except that certain investments and commitments in respect of forward exchange contracts have been carried at revalued amounts. All amounts are in Pakistan Rupees which is the functional and presentation currency of the Bank.

4.2 The preparation of financial statements in conformity with approved accounting standards requires certain judgements, accounting estimates and assumptions. It also requires the management to exercise its judgement in the process of applying the Bank's accounting policies. These estimates and associated assumptions are continually evaluated and are based on historical experience, statutory requirements and other factors considered reasonable in the circumstances. Revision to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and assumptions that are expected to have a significant effect on the assets and liabilities, income and expenses have been disclosed in note 6 to these financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2010 except as noted in 5.3 below.

5.2 The financial risk management objectives and policies are consistent with those disclosed in the annual financial statements of the Bank for the year ended December 31, 2010.

5.3 New standards, interpretations and amendments thereof, adopted by the Bank

During the period, following new / revised standards, amendments and interpretations to accounting standards became effective:

Standard or Interpretation	"Effective date (annual periods beginning on or after)
IAS 24 Related Party Transactions (Amendment)	January 01, 2011
IAS 32 Financial Instruments: Presentation (Amendment)	January 01, 2011
"IFRIC 14 Prepayments of a Minimum Funding Requirement	January 01, 2011

Adoption of the above standards, amendments and interpretations did not have any material effect on the financial statements.

5.4 Improvements to IFRSs

In addition to the above, amendments to various accounting standards have also been issued by the International Accounting Standards Board (IASB). Such improvements are generally effective for accounting periods beginning on or after January 01, 2011. The adoption of these improvements to IFRSs did not have any material impact on the Bank's financial statements in the period of initial application.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The basis for significant accounting estimates and judgements adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2010.

7. BUSINESS COMBINATION

As stated in note 1.5, the Bank acquired the majority shareholding of 51% in MyBank Limited (MBL) for cash consideration of Rs.2,163.861 million on the acquisition date of April 01, 2011 and, hence, MBL became a subsidiary of the Bank at that date.

7.1 Provisional accounting for business combination

At the time of preparing amalgamated financial statements, the Bank had not completed the accounting for the acquisition of MBL. Hence, as allowed by IFRS-3, the fair values of the assets and liabilities acquired have been provisionally determined based on management's estimates to be equal to their carrying amounts at the date of acquisition as the independent valuations have not been finalised. Accordingly, detailed valuations after taking into account reasonableness of underlying assumptions especially for assets whose values are based on future projections of earnings and related data have not been carried out.

Further, the fair values of contingent liabilities appearing in the books of MBL have not been included in liabilities acquired and, accordingly, their impact has not been taken in the computation of goodwill. The contingencies have been disclosed as part of the contingent liabilities of the Bank until the fair valuation exercise is concluded.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

Hence, the initial accounting for the business combination is incomplete and will be adjusted based on more accurate and complete information and analysis during the measurement period. The Bank will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. The Bank may also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The management expects that the fair valuation exercise for assets and liabilities acquired will be completed before the end of the current year. However, the accounting treatment of fair valuation of MBL's assets and liabilities (including the contingent liabilities) in the books of the Bank will be finalized and accounted for in the financial statements after prior written clearance of the SBP, as per the directive received from the SBP in this regard.

Accordingly, goodwill arising on acquisition of MBL has been provisionally determined as follows:

	Amount * (Rs. in '000)
Assets	
Cash and balances with treasury banks	2,206,669
Balances with other banks	480,954
Lendings to financial institutions	945,584
Investments	7,510,462
Advances	21,512,969
Operating fixed assets	2,167,248
Deferred tax assets	1,475,793
Other assets	2,005,186
Total assets	38,304,865
Liabilities	
Bills payable	475,537
Borrowings	5,282,024
Deposits and other accounts	28,026,796
Other liabilities	443,586
Total liabilities	34,227,943
Net assets	4,076,922
Cash consideration paid [270,482,682 Ordinary shares @ Rs.8 each (see note 1.5)]	2,163,861
Proportionate share of non-controlling interest (49% of Rs.4,076.922 million)	1,997,692
	4,161,553
Goodwill arising on acquisition (see note 7.2 below)	84,631

* Balances taken from the published financial statements of MBL for the quarter ended March 31, 2011.

7.2 Goodwill

The goodwill recognised represents effect of expected synergies from combining operations of the Bank and its subsidiary, MBL, intangible assets that do not qualify for separate recognition and other factors. The management believes that the entire amount of goodwill is expected to be deductible for tax purposes.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED SEPTEMBER 30, 2011

- 7.3** MBL has contributed Rs.762.885 million of revenue and incurred loss after tax of Rs.136.127 million during the period from April 01, 2011 to June 30, 2011. Had the acquisition been made at January 01, 2011, MBL would have contributed Rs.1,574.357 million of revenue and loss after tax of Rs.917.920 million. The details of loss after tax which pertains to the operations of MBL for the period from April 01, 2011 to June 30, 2011 are as under:

	For the period from April 01, 2011 to June 30, 2011 (Rupees in '000)
Mark-up / return / interest earned	762,885
Mark-up / return / interest expensed	558,937
Net mark-up / interest income	203,948
Provision against non-performing loans and advances	157,248
Reversal for diminution in the value of investments	(246,477)
Bad debts written off directly	2,198
	<u>(87,031)</u>
Net mark-up / interest income / (loss) after provisions	290,979
Non mark-up / interest income	
Fee, commission and brokerage income	50,454
Dividend income	227
Gain / (loss) from dealing in foreign currencies	26,407
Gain / (loss) on sale of securities - net	(99,740)
Unrealised gain / (loss) on revaluation of investments classified as held-for-trading	2,166
Other income	13,389
Total non-mark-up / interest income	(7,097)
Non mark-up / interest expenses	
Administrative expenses	347,759
Other provisions / write-offs	1,639
Other charges	1,092
Total non-mark-up / interest expenses	350,490
Loss before taxation	(66,608)
Taxation	
Current	8,826
Prior years	-
Deferred	60,693
	<u>69,519</u>
Loss after taxation	(136,127)

- 7.4 Acquisition of non-controlling interest**

As at the date of acquisition, the purchase of Non-Controlling Interest (NCI) is measured at the proportionate share of the NCI in the fair value of net assets acquired by the Bank, as allowed under IFRS 3. The management has, at the date of amalgamation, incorporated the share of NCI's post acquisition results of MBL in the proportionate share of the NCI determined as at the acquisition date of MBL (the adjusted balance). The excess of the fair value of equity shares proposed to be issued and the adjusted balance of the NCI amounting to Rs.1,080.404 million has been recognised as part of the equity (shown separately under 'Reserve arising on amalgamation').

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

Subsequent to the above acquisition, as stated in note 1.5, the Bank has acquired the NCI by issuing 207,900,400 Ordinary shares of Rs.10 each to the shareholders of MBL. The fair value of these shares (based on the published quoted price at the close of the business on June 30, 2011) amounted to Rs.781.706 million.

Note	September 30, 2011			December 31, 2010		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
8. INVESTMENTS	(Rupees in '000)					
8.1 Investments by types:						
Held-for-trading securities						
Listed ordinary shares	292,738	-	292,738	35,840	-	35,840
Available-for-sale securities						
Market Treasury Bills	10,259,741	9,824,588	20,084,328	12,664,172	1,869,993	14,534,165
Pakistan Investment Bonds	2,744,945	-	2,744,945	1,558,248	-	1,558,248
Listed Ordinary shares	1,513,462	1,665	1,515,127	1,551,403	-	1,551,403
Unlisted Ordinary shares	41,000	-	41,000	31,000	-	31,000
Mutual fund units - open end	1,100,000	-	1,100,000	300,000	-	300,000
Mutual fund units - closed end	-	-	-	564	-	564
Term Finance Certificates - listed	579,867	-	579,867	553,411	44,955	598,366
Term Finance Certificates - unlisted	1,387,145	-	1,387,145	1,391,805	-	1,391,805
Preference Shares	37,500	-	37,500	-	-	-
Sukuk Bonds	937,836	-	937,836	905,482	-	905,482
	18,601,496	9,826,253	28,427,749	18,956,085	1,914,948	20,871,033
Held to maturity						
Pakistan Investment Bonds	1,403,184	-	1,403,184	-	-	-
Associates						
Unlisted Ordinary shares	-	-	-	37,200	-	37,200
Subsidiaries						
Listed ordinary shares	-	-	-	-	-	-
Unlisted ordinary shares	396,942	-	396,942	396,942	-	396,942
	396,942	-	396,942	396,942	-	396,942
Investment at cost	20,694,360	9,826,253	30,520,613	19,426,067	1,914,948	21,341,015
Less: Provision for diminution in value of investments	8.2 (903,735)	-	(903,735)	(500,060)	-	(500,060)
Investments - net of provisions	19,790,625	9,826,253	29,616,878	18,926,007	1,914,948	20,840,955
Unrealised loss on held-for-trading securities	18,466	-	18,466	874	-	874
Deficit on revaluation of available-for-sale securities	(638,681)	19,995	(618,686)	(339,084)	(1,446)	(340,530)
Total investments at market value	19,170,410	9,846,248	29,016,658	18,587,797	1,913,502	20,501,299

8.2 Particulars of provision	Note	September 30, 2011	December 31, 2010
		----- (Rupees in '000) -----	
Opening balance		500,060	611,872
Provision for diminution in the value of investments of subsidiary at the date of acquisition		597,647	-
Charge for the year		58,336	393,055
Reversal during the year		(311,297)	(504,867)
Reversal during the year		(252,961)	(111,812)
Closing balance		844,746	500,060

8.3 Particulars of provision in respect of Type and Segment

Available-for-sale securities

Ordinary shares of listed companies	205,894	204,332
Ordinary shares of unlisted companies	340,737	103,210
Term Finance Certificates - unlisted	48,115	42,518
Sukuk Bonds	150,000	-
Impairment loss	100,000	150,000
	844,746	500,060

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED SEPTEMBER 30, 2011

9. ADVANCES	Note	September 30,	December 31,
		2011	2010
		----- (Rupees in '000) -----	
Loans, cash credits, running finances, etc.			
In Pakistan		64,050,507	43,164,638
Outside Pakistan		-	9,676
Net investment in finance lease - in Pakistan		382,214	565,910
Bills discounted and purchased (excluding Treasury Bills)			
Payable in Pakistan		2,334,432	667,911
Payable outside Pakistan		383,799	86,998
		2,718,231	754,909
Advances - gross		67,150,952	44,495,133
Provision against non-performing advances	9.1.1	(11,032,660)	(5,723,944)
Advances - net of provision		56,118,292	38,771,189

9.1 Advances include Rs.11,635.388 million (December 31, 2010: Rs.11,394.074 million) which have been placed under non-performing status as detailed below:

Category of	September 30, 2011			December 31, 2010		
	Classified advances	Provision required	Provision held	Classified advances	Provision required	Provision held
----- (Rupees in '000) -----						
Substandard	1,505,444	204,883	204,883	2,078,978	348,060	348,060
Doubtful	4,277,838	740,879	740,879	1,811,271	598,314	598,314
Loss	16,616,652	10,085,593	10,085,593	7,503,825	4,773,140	4,773,140
	22,399,934	11,031,355	11,031,355	11,394,074	5,719,514	5,719,514

9.1.1 Particulars of provision against non-performing advances

	September 30, 2011			December 31, 2010		
	Specific	General	Total	Specific	General	Total
----- (Rupees in '000) -----						
Opening balance	5,719,514	4,430	5,723,944	3,788,679	1,562	3,790,241
Provision against non-performing advances of subsidiary at the date of acquisition	4,923,513	570	4,924,083	-	-	-
Charge for the period	1,766,024	-	1,766,024	2,676,156	4,023	2,680,179
Reversals	(1,316,404)	(3,695)	(1,320,099)	(741,557)	(1,155)	(742,712)
	449,620	(3,695)	445,925	1,934,599	2,868	1,937,467
Transferred to:						
- other assets	-	-	-	(2,218)	-	(2,218)
- capital reserve	-	-	-	7,550	-	7,550
	-	-	-	5,332	-	5,332
Amount written off	(61,292)	-	(61,292)	(9,096)	-	(9,096)
Closing balance	11,031,355	1,305	11,032,660	5,719,514	4,430	5,723,944

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

September 30, December 31,
2011 2010
----- (Rupees in '000) -----

10. DEFERRED TAX ASSETS - net

Deferred debits arising in respect of:

Deficit on revaluation of assets		216,541	119,766
Provision against non performing loans	10.1	2,167,553	774,769
Provision against other assets		10,098	-
Provision for gratuity		51,182	14,350
Provision for compensated absences		41,912	8,186
Unused tax losses		2,881,352	2,443,792
Provision for impairment losses		295,661	90,663
Amortisation of Premium on PIBs		35,389	-
Net investment in lease finance		-	4,738
Unrealised loss on revaluation of investments - held-for-trading		-	-
Minimum tax		184,166	102,356
		5,883,854	3,558,620

Deferred credits arising due to

Difference between accounting and tax written down values		(524,236)	(354,077)
Unrealised gain on revaluation of investments - held-for-trading		(6,463)	(153)
Deferred cost		-	(1,629)
		(530,699)	(355,859)
	10.2	5,353,155	3,202,761

- 10.1** As at September 30, 2011, the Bank has a deferred tax asset on provision against non performing loans amounting to Rs.2,933.554 (December 31, 2010: Rs.1,172.563) million. However, based on the future projections of taxable income, the management has recognised the above benefit only to the extent of Rs.2,167.553 million.
- 10.2** As at September 30, 2011, the Bank has not recognised deferred tax asset amounting to Rs.145.502 million on the unused tax losses of MyBank Limited of Rs.415.721 million due to uncertainty on account of their realisation in the future.
- 10.3** The Bank has an aggregate amount of deferred tax asset of Rs.5,353.155 million which represents management's best estimate of the probable benefits expected to be realised in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward and other taxable temporary differences relating to prior years.

September 30, December 31,
2011 2010
----- (Rupees in '000) -----

11. DEPOSITS AND OTHER ACCOUNTS

Customers

Fixed deposits		35,733,516	26,651,761
Savings deposits		26,524,872	17,393,130
Current accounts - non-remunerative		11,907,744	5,879,797
Margin accounts		1,667,818	737,640
		75,833,950	50,662,328

Financial institutions

Non-remunerative deposits		285,278	713,588
Remunerative deposits		8,863,576	10,231,634
		9,148,854	10,945,222
		84,982,803	61,607,550

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED SEPTEMBER 30, 2011

11.1	Particulars of deposits	September 30,	December 31,
		2011	2010
		----- (Rupees in '000) -----	
	In local currency	81,298,301	58,360,687
	In foreign currencies	3,684,502	3,246,863
		<u>84,982,803</u>	<u>61,607,550</u>

12. CONTINGENCIES AND COMMITMENTS

12.1 Taxation

12.1.1 In respect of the assessment years 1997-1998 to 2002-2003 and tax year 2003, the taxation authorities apportioned / allocated administrative and financial charges against exempt income for the said years. The Bank preferred an appeal against the said action of the authorities before the Commissioner Inland Revenue (Appeals) [CIR(A)] who decided the issue in favour of the Bank. However, the department filed an appeal against the said order before the Appellate Tribunal Inland Revenue (ATIR), Karachi which through a Larger Bench disapproved the formula of apportionment of expenses between exempt capital gain and other taxable income and set aside the assessment with the direction to the assessing officer to allow expenses against exempt income by identifying their nature and relation amongst the various sources of income. The Bank contends that the jurisdiction of Larger Bench was limited only to answer a legal question related to apportionment of administrative expenses and that it could not include the financial charges as well while deciding the matter.

The revised assessments have not been made by the tax department and, accordingly, no tax liability in respect thereof exists at the statement of financial position date nor an estimate could be made of the liability that may result from the unfavourable outcome of the matter.

Based on the opinion of the legal counsel of the Bank and considering the latest judgment of the Honourable Lahore High Court in a similar case, the management believes that the outcome of the above pending assessments would be favourable. Hence, no provision has been made in respect of the above in these financial statements.

12.1.2 In respect of the tax assessments of ATBL in respect of tax year 2003 to 2005 and 2008, various disallowances have been made by assessing officer including provision against non-performing advances, leasing losses, allocation of expenses against exempt income and amortisation of intangibles and deferred cost. In relation to tax year 2003, the Bank filed an appeal before ATIR in respect of disallowances of provision for non-performing advances who confirmed the order of CIR(A) against the Bank. Further, the department has filed tax references before Sindh High Court. In respect of tax years 2004, 2005 and 2008 the Bank has filed appeals before CIR(A) in respect of aforesaid issue. In respect of tax year 2004 the CIR(A) has confirmed the order of the officer and the Bank has preferred an appeal before ATIR. The above matters may result in reduction of claimed tax losses and have an aggregate tax impact of Rs.238.72 million. The management of the Bank is confident about the favourable outcome of the appeals and, hence, no adjustment with regard to the above matters has been made in the amalgamated financial statements.

12.1.3 For assessment of MBL in respect of tax years 2006, 2007, 2008 and 2009, the Taxation Officer has amended the deemed assessment u/s. 122 (5A) of the Income Tax Ordinance, 2001 by making various disallowances, out of which an amount of Rs.230.131 million has not been provided for in the books of account for the reason that the disallowances are based on issues which have already been decided at the higher appellate forums in Bank's favour. The Bank's appeal contesting the settled issues is awaiting disposal before the Commissioner Inland Revenue (CIR) appeals except in respect of the tax year 2006 wherein relief allowed on some issues have been remanded back and few disallowances made has been maintained against which second appeal before the Appellate Tribunal Inland Revenue has been preferred. Hence, the disallowances are likely to be decided as per higher appellate decisions favouring Bank not requiring further tax provision.

12.1.4 With respect to the assessment of MBL in respect of tax years 2004 and 2005, CIR (Appeals) has maintained the disallowances made by taxation officer with aggregate unprovided amount of Rs.29.657 million for the reason that this relates to settled issues decided in Bank's favour by higher appellate forums. The Bank has preferred an appeal before the Inland Revenue Tribunal, where the matter is awaiting hearing.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED SEPTEMBER 30, 2011

12.1.5 With respect to the assessment of MBL for tax year 2003, the Bank filed an appeal against the order of Appellate Tribunal before the Honourable High Court of Sindh at Karachi, which after hearing the case vacated the order and remanded the case back to the Taxation Officer for re-adjudication of the issues strictly as per law. The Taxation Officer passed a new order ignoring the clear direction of Honourable High Court of Sindh against which the Bank has filed an appeal which is presently awaiting hearing before the Appellate Tribunal Inland Revenue. The tax involved in appeal amounts to Rs.36.220 million which relates to a previously settled issue in Bank's favour and, hence, no provision has been made on this account.

12.2 Other Contingencies

12.2.1 In respect of the assessment of MBL for the year 2004, forward sale of Pakistan Investment Bonds (PIB's) with face value of Rs.250 million was entered into with Speedway Fondmetall (Private) Limited (Speedway). The deal was not honoured by Speedway on the due date and the contract was rolled over subject to receipt of Rs.6 million and mortgage of properties. Consequent upon the failure by Speedway to honour the terms of the contract, the Bank served a final notice intimating to settle the deal within stipulated time otherwise the Bank will liquidate the deal, and claim the loss on deal by taking legal recourse. In response, Speedway filed a suit against the Bank and obtained stay from Honourable High Court of Sindh against the sale of PIB's which was vacated by the Honourable High Court of Sindh during the year 2005.

The Bank started proceedings during the financial year 2006 to recover the loss on the deal by disposing off the mortgaged properties. However, Speedway filed another suit and obtained stay from the court against the sale of the properties mortgaged with the Bank, which was also dismissed as withdrawn by Speedway. Speedway filed third suit in the Banking Court No. 2 against publication by which the mortgage properties were put to sale. The Bank also filed recovery suit against Speedway in the Honourable High Court of Sindh. Subsequently the Bank moved an application for transfer of the suit filed by Speedway in Banking Court No. 2 to the Honourable High Court of Sindh, so that the two suits are heard together in the apex Court.

During the financial year 2007, the Honourable High Court of Sindh has passed a decree in Bank's favour for Rs.25.697 million with mark-up at the rate of 20 percent per annum from the date of filing of the suit till its realization. The Bank has filed an execution application in the court. In this regard, provision of Rs.10.915 million has been retained in the amalgamated financial statements as a matter of prudence against the claim receivable.

September 30, December 31,
2011 2010
----- (Rupees in '000) -----

12.3 Direct credit substitutes

Including guarantees and standby letters of credit serving as financial guarantees for loans and securities

Government	304,996	459,226
Financial institutions	400,000	200,000
Others	755,999	755,255
	1,460,995	1,414,481

12.4 Transaction-related contingent liabilities / commitments guarantees issued favoring

Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit favoring:

Government	11,780,899	9,584,994
Banking companies and other financial institutions	5,906	9,596
Others	3,236,533	1,936,848
	15,023,338	11,531,438

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD ENDED SEPTEMBER 30, 2011

	September 30, 2011	December 31, 2010
	----- (Rupees in '000) -----	
12.5 Trade-related contingent liabilities		
Letter of credits	6,862,480	2,380,207
Acceptances	1,235,137	185,534
	8,097,617	2,565,741
12.6 Other contingencies - claims against bank not acknowledged as debt	2,586,716	2,568,716
12.7 Contingent asset		
There was no contingent asset as at June 30, 2011 (December 31, 2010: Nil)		
	September 30, 2011	December 31, 2010
	----- (Rupees in '000) -----	
12.8 Commitments in respect of forward lending		
Forward documentary bills	2,265,375	831,457
Forward Call money lendings	200,000	-
Commitments to extend credit	15,171,532	7,725,738
	17,636,907	8,557,195
12.9 Commitments in respect of forward exchange contracts		
Purchase	5,715,978	1,755,845
Sale	4,752,926	591,844
	10,468,904	2,347,689
12.10 Commitments for the acquisition of operating fixed assets		
Civil works (at branches)	25,112	66,047
12.11 Commitments in respect of purchase of rupee traveler cheques	1,270	3,520
13. CASH AND CASH EQUIVALENTS		
Cash and balance with treasury banks	5,647,420	3,531,781
Balance with other banks	1,540,119	296,192
Overdrawn nostro accounts	(72,206)	(13,688)
	7,115,333	3,814,285

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

14. RELATED PARTY TRANSACTIONS

The Bank has related party transactions with its associates, parent company, subsidiary companies, employee benefit plans and its directors and executive officers (including their associates).

Details of transactions with the related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	September 30, 2011				December 31, 2010		
	Key management personnel	Directors	Parent company	Subsidiaries	Associates / other related parties	Key management personnel / directors **	Parent company / subsidiaries / associates / other related parties **
	(Rupees in '000)						
Advances							
Balance at beginning of the period *	75,453	-	-	-	-	186,432	1,554,489
Sanctioned / granted during the period	14,718	-	-	18,000	-	32,618	3,243,987
Payment received during the period	(17,148)	-	-	-	-	(74,689)	(4,756,777)
Balance at end of the period	73,023	-	-	18,000	-	144,361	41,699
Deposits							
Balance at beginning of the period *	12,330	71,771	-	-	174,617	23,141	1,352,121
Deposits during the period	209,934	99,355	-	1,821,844	2,938,079	1,636,297	43,565,641
Withdrawal during the period	(175,194)	(98,223)	-	(1,805,781)	(2,974,643)	(1,570,728)	(44,552,631)
Balance at end of the period	47,070	72,903	-	16,063	138,053	88,710	365,131

* This balance does not include balances of related parties of prior year.

* This balance does not include balances of related parties of prior year.

Investment in shares / TFC's

Summit Capital (Private) Limited	-	-	-	396,942	-	-	396,942
Subscription of right shares	-	-	856,457	-	-	-	-
Disposal of investment in associates	-	-	-	37,000	-	-	-
Guarantees, letters of credits and acceptances	-	-	-	-	26,139	-	230,121
Commitments in respect of purchase of rupee traveller cheques	-	-	-	-	-	-	-
Contribution paid to the provident fund	-	-	-	-	26,822	-	47,726
Contribution paid to the gratuity fund	-	-	-	-	-	-	11,564
Redemption of mutual fund units	-	-	-	-	-	-	310,991
Other receivable	-	-	27,000	-	-	-	43,371
Other payable	-	-	-	-	1,192	-	4,551
Mark-up payable	-	-	-	-	-	107	3,510
Mark-up receivable	-	-	-	750	-	-	138

	September 30, 2011				September 30, 2010		
	Key management personnel	Directors	Parent company	Subsidiaries	Associates / other related parties	Key management personnel / directors **	Parent company / subsidiaries / associates / other related parties **
	(Rupees in '000)						
Profit / expense for the period							
Brokerage expenses paid - CFS	-	-	-	-	-	-	276
Brokerage expenses paid - equity securities	-	-	-	-	-	-	84
Capital gain / (loss)	-	-	-	(188)	-	-	3,077
Dividend income	-	-	-	-	-	-	3,030
Rent expense	-	-	-	-	-	-	13,877
Rent paid	-	-	-	-	-	-	-
Sharing of rent received	-	-	-	-	-	-	-
Insurance claim	-	-	-	-	-	-	-
Printing and stationary expense	-	-	-	-	-	-	-
Mark-up earned	2,055	-	-	2,229	-	6,292	114,392
Mark-up paid	1,364	-	-	4,045	10,648	3,190	32,229
Contribution paid to provident fund	-	-	-	-	-	-	38,956
Contribution paid to gratuity fund	-	-	-	-	-	-	11,564

** Related party transactions / balances of prior year / period have been taken from the audited financial statements of the Bank for year ended December 31, 2010 as it is not practicable to bifurcate the combined transactions (of the Bank and ATBL) into directors, subsidiaries and parent company.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

15. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 26, 2011 by the Board of Directors of the Bank.

16. GENERAL

The figures in the financial statements have been rounded off to the nearest thousand.



SUMMIT BANK LIMITED

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011

CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT SEPTEMBER 30, 2011

		(Un-audited) September 30, 2011	(Audited) December 31, 2010
	Note	----- (Rupees in '000) -----	
ASSETS			
Cash and balances with treasury banks		5,647,475	4,047,590
Balances with other banks		1,573,383	375,207
Lendings to financial institutions		200,000	-
Investments	8	28,748,094	20,204,357
Advances	9	56,100,994	38,771,413
Operating fixed assets		4,757,877	2,781,943
Deferred tax assets - net	10	5,333,637	3,218,243
Other assets		5,754,633	2,776,151
		108,116,093	72,174,904
LIABILITIES			
Bills payable		1,154,129	357,293
Borrowings from financial institutions		14,320,131	5,275,243
Deposits and other accounts	11	84,967,944	61,537,424
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities - net		-	-
Other liabilities		2,645,347	1,731,676
		103,087,552	68,901,636
NET ASSETS		5,028,541	3,273,268
REPRESENTED BY			
Share capital		10,779,796	7,250,660
Reserves		(1,551,944)	(1,335,050)
Accumulated loss		(3,799,229)	(2,421,578)
		5,428,623	3,494,032
Deficit on revaluation of assets - net of tax		(400,082)	(220,764)
		5,028,541	3,273,268
CONTINGENCIES AND COMMITMENTS	12		

The annexed notes from 1 to 16 form an integral part of these consolidated financial statements.

CONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

	Nine months Ended September 30, 2011	Nine months Ended September 30, 2010	Quarter ended September 30, 2011	Quarter ended September 30, 2010
Note	----- (Rupees in '000) -----			
Mark-up / return / interest earned	6,255,632	5,418,199	1,834,904	1,822,061
Mark-up / return / interest expensed	<u>(5,766,822)</u>	<u>(4,464,685)</u>	<u>(1,805,817)</u>	<u>(1,521,567)</u>
Net mark-up / interest income	488,811	953,514	29,088	300,494
Provision against non-performing loans and advances	9.1.1 (278,350)	(1,200,828)	627,703	(308,796)
Provision for diminution in the value of investments	(58,336)	(181,247)	(246,477)	(12,487)
Bad debts written off directly	-	-	2,198	-
	<u>(336,685)</u>	<u>(1,382,075)</u>	<u>383,425</u>	<u>(321,283)</u>
Net mark-up / interest income / (loss) after provisions	152,125	(428,561)	412,512	(20,789)
NON MARK-UP / INTEREST INCOME				
Fee, commission and brokerage income	287,576	240,135	75,931	63,738
Dividend income	53,794	42,855	47,871	20,854
Income from trading in government securities	4,332	1,955	4,332	379
Gain / (loss) from dealing in foreign currencies	77,364	(74,144)	3,346	(21,198)
Gain on sale of securities - net	68,479	126,291	230,379	29,690
Unrealised gain / (loss) on revaluation of investments classified as held-for-trading	9,644	(7,286)	12,258	15,090
Other income	53,587	24,068	13,537	6,916
Total non-mark-up / interest income	<u>554,775</u>	<u>353,874</u>	<u>387,653</u>	<u>115,469</u>
	706,901	(74,687)	800,166	94,680
NON MARK-UP / INTEREST EXPENSES				
Administrative expenses	(2,453,970)	(2,080,794)	(603,427)	(694,580)
Other provisions / write-offs	(30,241)	30,018	4,913	1,602
Other charges	(15,803)	(4,033)	(6,455)	(1,291)
Total non-mark-up / interest expenses	<u>(2,500,015)</u>	<u>(2,054,809)</u>	<u>(604,970)</u>	<u>(694,269)</u>
	(1,793,114)	(2,129,496)	195,196	(599,589)
Extra ordinary / unusual items	-	-	-	-
LOSS BEFORE TAXATION	<u>(1,793,114)</u>	<u>(2,129,496)</u>	<u>195,196</u>	<u>(599,589)</u>
Taxation				
Current	(79,117)	(86,181)	(26,526)	(46,040)
Prior years	-	-	-	-
Deferred	294,275	586,542	(302,312)	150,688
	<u>215,158</u>	<u>500,361</u>	<u>(328,838)</u>	<u>104,648</u>
LOSS AFTER TAXATION	<u>(1,577,957)</u>	<u>(1,629,135)</u>	<u>(133,643)</u>	<u>(494,941)</u>
Earnings per share (Rupees) - basic and diluted	<u>(2.11)</u>	<u>(2.34)</u>	<u>(0.13)</u>	<u>(0.71)</u>

The annexed notes from 1 to 16 form an integral part of these consolidated financial statements.

CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

	Nine months Ended September 30, 2011	Nine months Ended September 30, 2010	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010
	----- (Rupees in '000) -----			
Loss after taxation	(1,577,957)	(1,629,135)	(133,643)	(494,941)
Other comprehensive income	-	15,105	-	-
Comprehensive loss transferred to equity	<u>(1,577,957)</u>	<u>(1,614,030)</u>	<u>(133,643)</u>	<u>(494,941)</u>
Deficit on revaluation of investments	(618,686)	(593,279)	(168,485)	(398,636)
Deferred tax on revaluation of investments	218,604	148,707	142,185	209,603
	(400,082)	(444,572)	(26,300)	(189,033)
Total comprehensive loss for the period	<u>(1,978,039)</u>	<u>(2,058,602)</u>	<u>(159,943)</u>	<u>(683,974)</u>

The annexed notes from 1 to 16 form an integral part of these consolidated financial statements.

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

	Share capital	Share premium	Discount on issue	Statutory reserve (Rupees in '000)	Reserve arising on amalgamation	Other reserve	Accumulated loss	Total
Balance as at January 01, 2010, as previously reported	5,000,000	1,000,000	-	64,828	-	-	(2,075,914)	3,988,914
Issue of share capital and adjustments arising from amalgamation with Atlas Bank Limited	2,250,660	-	-	-	(2,399,878)	7,550	2,695,676	2,554,008
Balance as at January 01, 2010 (amalgamated)	7,250,660	1,000,000	-	64,828	(2,399,878)	7,550	619,762	6,542,922
Comprehensive loss transferred to equity during the nine months ended September 30, 2010	-	-	-	-	-	-	(1,629,135)	(1,629,135)
Balance as at September 30, 2010	7,250,660	1,000,000	-	64,828	(2,399,878)	7,550	(1,009,373)	4,913,787
Comprehensive loss transferred to equity during the quarter ended December 31, 2010	-	-	-	-	-	(7,550)	(1,347,481)	(1,355,031)
Balance as at December 31, 2010	7,250,660	1,000,000	-	64,828	(2,399,878)	-	(2,356,854)	3,558,756
Issuance of right shares during the period	1,450,132	-	-	-	-	-	-	1,450,132
Proposed issue of share capital and adjustments arising on acquisition and amalgamation of non-controlling interest in MyBank Limited (note 7.4)	-	-	-	-	1,080,404	-	135,582	1,215,986
Issue of share capital and adjustments arising from amalgamation with MyBank Limited	2,079,004	-	-	-	-	-	-	2,079,004
Comprehensive loss transferred to equity during the nine months ended September 30, 2011	-	-	-	-	-	-	(1,577,957)	(1,577,957)
Discount on issue of share	-	-	(1,297,298)	-	-	-	-	(1,297,298)
Balance as at September 30, 2011	10,779,796	1,000,000	(1,297,298)	64,828	(1,319,474)	-	(3,799,229)	5,428,623

The annexed notes from 1 to 15 form an integral part of these consolidated financial statements.

CONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

	September 30, 2011	September 30, 2010
	----- (Rupees in '000) -----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(1,793,114)	(2,139,639)
Dividend income	(53,794)	(42,855)
	<u>(1,846,908)</u>	<u>(2,182,494)</u>
Adjustments:		
Depreciation	304,956	207,304
Amortisation of intangible assets and deferred cost	47,867	41,534
Provision against non-performing advances	278,350	1,200,828
Other provisions / write offs	30,241	(30,018)
Provision for diminution in the value of investments	58,336	181,247
Unrealised (gain) / loss on revaluation of investments in held-for-trading securities	18,466	7,286
Income from trading in government securities - net	4,332	1,955
Income from sale of securities - net	68,802	57,354
Loss from sale of non banking asset acquired in satisfaction of claims	-	(78)
Provision for compensated absences	25,026	668
Provision for gratuity	37,827	2,602
Loss / (gain) on disposal of operating fixed assets	17,673	(654)
	<u>891,876</u>	<u>1,670,028</u>
	(955,033)	(512,466)
(Increase) / decrease in operating assets		
Lendings to financial institutions	(200,000)	(502,445)
Investments in held-for-trading securities - net	(321,334)	(48,530)
Advances	(17,625,453)	(1,488,378)
Other assets	(4,694,386)	(929,633)
	<u>(22,841,172)</u>	<u>(2,968,986)</u>
Increase / (decrease) in operating liabilities		
Bills payable	796,836	280,455
Borrowings from financial institutions	8,990,680	6,401,466
Deposits and other accounts	23,375,253	(6,176,412)
Other liabilities	466,981	(201,431)
	<u>33,629,751</u>	<u>304,078</u>
	9,833,545	(3,177,374)
Compensated absences paid	-	-
Income tax paid	(11,809)	78,582
Net cash generated from operating activities	<u>9,821,736</u>	<u>(3,098,792)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in available-for-sale securities - net	(4,890,148)	2,227,824
Investments in held-to-maturity - net	(1,403,184)	-
Investments in subsidiaries	-	-
Dividend received	(53,794)	38,427
Investments in operating fixed assets	(2,380,268)	(176,456)
Sale proceed from disposal of non banking asset acquired in satisfaction of claims	-	23,256
Sale proceeds from disposal of property and equipment	111,255	20,436
Net cash used in investing activities	<u>(8,616,139)</u>	<u>2,133,487</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of right shares	1,450,132	-
Share premium on issue of share capital	-	-
Net cash generated from financing activities	<u>1,450,132</u>	<u>-</u>
Decrease in cash and cash equivalents	2,655,729	(965,305)
Cash and cash equivalents at beginning of the year	4,492,923	4,388,821
Cash and cash equivalents at end of the year	<u>7,148,652</u>	<u>3,423,516</u>

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The annexed notes from 1 to 16 form an integral part of these consolidated financial statements.

CONSOLIDATED CONDENSED INTERIM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

respectively. The paid-up capital (free of losses) of the Bank as at September 30, 2011 is Rs.5.429 billion. Further, vide its aforesaid circular, the SBP has asked the banks to achieve minimum Capital Adequacy Ratio (CAR) of 10% with effect from December 31, 2009 irrespective of their CAMEL-S rating, till further instructions. However, the Bank's CAR is below the minimum required level as at the half year end.

However, the Bank has been granted an exemption till December 31, 2011 to meet the minimum capital requirement (MCR) and capital adequacy ratio (CAR) by the SBP through its letter No. BSD/BAI-3/608/9203/2011 dated July 16, 2011. Through the above referred letter, the SBP has also requested the Bank to submit a capital plan for meeting the expected shortfall in MCR/CAR, including specific timelines and milestones.

The Bank has injected Rs.1.4 billion capital in the form of right shares during the year.

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 (SBP) has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchase and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

3.1 These consolidated condensed interim financial statements of the Bank have been prepared in accordance with the requirements of International Accounting Standard 34 - Interim Financial Reporting, provisions of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the SBP. In case requirements differ, the provisions of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the said directives have been followed.

3.2 The SBP has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for banking companies through BSD Circular Letter No. 10 dated August 26, 2002 till further instructions. Further, the SECP has deferred the applicability of International Financial Reporting Standard (IFRS) 7 'Financial Instruments: Disclosures' through its notification S.R.O. 411(I)/2008 dated April 28, 2008. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

4. BASIS OF MEASUREMENT

4.1 These consolidated condensed interim financial statements have been prepared under the historical cost convention, except that certain investments and commitments in respect of forward exchange contracts have been carried at revalued amounts. All amounts are in Pakistan Rupees which is the functional and presentation currency of the Bank.

4.2 The preparation of financial statements in conformity with approved accounting standards requires certain judgements, accounting estimates and assumptions. It also requires the management to exercise its judgement in the process of applying the Bank's accounting policies. These estimates and associated assumptions are continually evaluated and are based on historical experience, statutory requirements and other factors considered reasonable in the circumstances. Revision to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and assumptions that are expected to have a significant effect on the assets and liabilities, income and expenses have been disclosed in note 6 to these financial statements.



CONSOLIDATED CONDENSED INTERIM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

1. STATUS AND NATURE OF BUSINESS

- 1.1 Summit Bank Limited [formerly Arif Habib Bank Limited] (the Bank) was incorporated in Pakistan as public company limited by shares on December 09, 2005 under the Companies Ordinance, 1984. It is listed on all the stock exchanges of Pakistan. Registered office of the Bank is situated at Plot No. 6-B, F-6, Supermarket, Islamabad, Pakistan.
- 1.2 The Bank is principally engaged in the business of banking through its 165 branches (after amalgamation of Atlas Bank Limited having 40 branches and My Bank Limited having 80 branches) in Pakistan as defined in the Banking Companies Ordinance, 1962. The medium to long-term rating of the Bank rated by JCR-VIS, credit rating company, is 'A' with a positive outlook. Short-term rating of the Bank is 'A-2'.
- 1.3 On March 31, 2010, 297,034,854 shares (59.41% of issued shares of the Bank) were transferred by Arif Habib Securities Limited to Suroor Investments Limited (SIL), a company incorporated in Mauritius, under the Share Purchase Agreement dated June 30, 2009 and, consequently, SIL has become parent company of the Bank. As part of change in ownership, effective from August 18, 2010, the name of the Bank has been changed to 'Summit Bank Limited.'
- 1.4 Further, the SBP sanctioned a scheme of amalgamation (the scheme) under section 48 of the Banking Companies Ordinance, 1962, on December 31, 2010 by virtue of which Atlas Bank Limited (ATBL) has been merged with and into Summit Bank Limited on December 31, 2010 (at the close of business). This scheme was earlier approved by the shareholders of the Bank in their Extra Ordinary General Meeting held on November 06, 2010.

Under the above referred scheme of amalgamation, the Bank issued 225,065,982 Ordinary shares to the shareholders of ATBL at par value of Rs.10 each.

This amalgamation was accounted for in the books using "Pooling of interest" method as it was a business combination of entities under common control and not covered under the scope of IFRS-3 "Business Combinations". The difference in the net assets of ATBL, the merging entity, and the above shares issued to ATBL has been carried in the books under "Reserve arising on amalgamation".

Further, since "Pooling of interest" method assumes that both ATBL and the Bank were merged from the beginning of the earliest period presented, the issue of share capital and adjustments arising from amalgamation have been shown as at January 01, 2010.

- 1.5 On September 30, 2009, Suroor Investments Limited (SIL) entered into an agreement with a majority shareholder (MS) to sell upto 314,701,450 Ordinary shares constituting 59.34% of shareholding of MyBank Limited (MBL). Subsequently, SIL, Summit Bank Limited (the Bank) and the MS entered into a novation agreement dated February 17, 2011 whereby SIL has agreed to novate and the Bank has agreed to undertake the obligations of SIL to acquire the Ordinary shares from the MS on terms and conditions contained in the agreement.

As part of the agreement, the Bank purchased 270,482,625 shares of MBL at a price of Rs.8 per share. Accordingly, now MBL is a subsidiary of the Bank and holds 50.99% (December 31, 2010: 1.27%) Ordinary shares in MBL as at the effective date.

Furthermore, during the half year, the State Bank of Pakistan (SBP) sanctioned a scheme of amalgamation (the scheme) under section 48 of the Banking Companies Ordinance, 1962, on June 20, 2011 by virtue of which MBL had been merged with and into the Bank at the close of business on June 30, 2011 (effective date). This scheme has earlier been approved by the shareholders of the Bank in their Extra Ordinary General Meeting held on January 20, 2011.

- 1.6 The State Bank of Pakistan (SBP) through its BSD Circular No. 7 dated April 15, 2009 has prescribed that the minimum paid-up capital (net of losses) for Banks / Development Finance Institutions (DFIs) 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.8 billion and Rs.9 billion paid-up capital (free of losses) by the end of the financial year 2011 and 2012,

CONSOLIDATED CONDENSED INTERIM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 The accounting policies adopted in the preparation of these consolidated condensed interim financial statements are consistent with those applied in the preparation of the consolidated annual financial statements of the Bank for the year ended December 31, 2010 except as noted in 5.3 below.

5.2 The financial risk management objectives and policies are consistent with those disclosed in the consolidated annual financial statements of the Bank for the year ended December 31, 2010.

5.3 New standards, interpretations and amendments thereof, adopted by the Bank

During the period, following new / revised standards, amendments and interpretations to accounting standards became effective:

Standard or Interpretation	"Effective date (annual periods beginning on or after)
IAS 24 Related Party Transactions (Amendment)	January 01, 2011
IAS 32 Financial Instruments: Presentation (Amendment)	January 01, 2011
"IFRIC 14 Prepayments of a Minimum Funding Requirement	January 01, 2011

Adoption of the above standards, amendments and interpretations did not have any material effect on the financial statements.

5.4 Improvements to IFRSs

In addition to the above, amendments to various accounting standards have also been issued by the International Accounting Standards Board (IASB). Such improvements are generally effective for accounting periods beginning on or after January 01, 2011. The adoption of these improvements to IFRSs did not have any material impact on the Bank's financial statements in the period of initial application.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The basis for significant accounting estimates and judgements adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the annual financial statements of the Bank for the year ended December 31, 2010.

7. BUSINESS COMBINATION

As stated in note 1.5, the Bank acquired the majority shareholding of 51% in MyBank Limited (MBL) for cash consideration of Rs.2,163.861 million on the acquisition date of April 01, 2011 and, hence, MBL became a subsidiary of the Bank at that date.

7.1 Provisional accounting for business combination

At the time of preparing amalgamated financial statements, the Bank had not completed the accounting for the acquisition of MBL. Hence, as allowed by IFRS-3, the fair values of the assets and liabilities acquired have been provisionally determined based on management's estimates to be equal to their carrying amounts at the date of acquisition as the independent valuations have not been finalised. Accordingly, detailed valuations after taking into account reasonableness of underlying assumptions especially for assets whose values are based on future projections of earnings and related data have not been carried out.

Further, the fair values of contingent liabilities appearing in the books of MBL have not been included in liabilities acquired and, accordingly, their impact has not been taken in the computation of goodwill. The contingencies have been disclosed as part of the contingent liabilities of the Bank until the fair valuation exercise is concluded.

CONSOLIDATED CONDENSED INTERIM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

Hence, the initial accounting for the business combination is incomplete and will be adjusted based on more accurate and complete information and analysis during the measurement period. The Bank will retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. The Bank may also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The management expects that the fair valuation exercise for assets and liabilities acquired will be completed before the end of the current year. However, the accounting treatment of fair valuation of MBL's assets and liabilities (including the contingent liabilities) in the books of the Bank will be finalized and accounted for in the financial statements after prior written clearance of the SBP, as per the directive received from the SBP in this regard.

Accordingly, goodwill arising on acquisition of MBL has been provisionally determined as follows:

	Amount * (Rs. in '000)
Assets	
Cash and balances with treasury banks	2,206,669
Balances with other banks	480,954
Lendings to financial institutions	945,584
Investments	7,510,462
Advances	21,512,969
Operating fixed assets	2,167,248
Deferred tax assets	1,475,793
Other assets	2,005,186
Total assets	<u>38,304,865</u>
Liabilities	
Bills payable	475,537
Borrowings	5,282,024
Deposits and other accounts	28,026,796
Other liabilities	443,586
Total liabilities	<u>34,227,943</u>
Net assets	<u>4,076,922</u>
Cash consideration paid	
[270,482,682 Ordinary shares @ Rs.8 each (see note 1.5)]	2,163,861
Proportionate share of non-controlling interest (49% of Rs.4,076.922 million)	1,997,692
	<u>4,161,553</u>
Goodwill arising on acquisition (see note 7.2 below)	<u>84,631</u>

* Balances taken from the published financial statements of MBL for the quarter ended March 31, 2011.

7.2 Goodwill

The goodwill recognised represents effect of expected synergies from combining operations of the Bank and its subsidiary, MBL, intangible assets that do not qualify for separate recognition and other factors. The management believes that the entire amount of goodwill is expected to be deductible for tax purposes.

CONSOLIDATED CONDENSED INTERIM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

- 7.3** MBL has contributed Rs.762.885 million of revenue and incurred loss after tax of Rs.136.127 million during the period from April 01, 2011 to June 30, 2011. Had the acquisition been made at January 01, 2011, MBL would have contributed Rs.1,574.357 million of revenue and loss after tax of Rs.917.920 million. The details of loss after tax which pertains to the operations of MBL for the period from April 01, 2011 to June 30, 2011 are as under:

	For the period from April 01, 2011 to June 30, 2011 (Rupees in '000)
Mark-up / return / interest earned	762,885
Mark-up / return / interest expensed	558,937
Net mark-up / interest income	203,948
Provision against non-performing loans and advances	157,248
Reversal for diminution in the value of investments	(246,477)
Bad debts written off directly	2,198
	<u>(87,031)</u>
Net mark-up / interest income / (loss) after provisions	290,979
Non mark-up / interest income	
Fee, commission and brokerage income	50,454
Dividend income	227
Gain / (loss) from dealing in foreign currencies	26,407
Gain / (loss) on sale of securities - net	(99,740)
Unrealised gain / (loss) on revaluation of investments classified as held-for-trading	2,166
Other income	13,389
Total non-mark-up / interest income	(7,097)
Non mark-up / interest expenses	
Administrative expenses	347,759
Other provisions / write-offs	1,639
Other charges	1,092
Total non-mark-up / interest expenses	350,490
Loss before taxation	(66,608)
Taxation	
Current	8,826
Prior years	-
Deferred	60,693
	<u>69,519</u>
Loss after taxation	(136,127)

7.4 Acquisition of non-controlling interest

As at the date of acquisition, the purchase of Non-Controlling Interest (NCI) is measured at the proportionate share of the NCI in the fair value of net assets acquired by the Bank, as allowed under IFRS 3. The management has, at the date of amalgamation, incorporated the share of NCI's post acquisition results of MBL in the proportionate share of the NCI determined as at the acquisition date of MBL (the adjusted balance). The excess of the fair value of equity shares proposed to be issued and the adjusted balance of the NCI amounting to Rs.1,080.404 million has been recognised as part of the equity (shown separately under 'Reserve arising on amalgamation').

CONSOLIDATED CONDENSED INTERIM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

Subsequent to the above acquisition, as stated in note 1.5, the Bank has acquired the NCI by issuing 207,900,400 Ordinary shares of Rs.10 each to the shareholders of MBL. The fair value of these shares (based on the published quoted price at the close of the business on June 30, 2011) amounted to Rs.781.706 million.

8. INVESTMENTS	Note	September 30, 2011			December 31, 2010		
		Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
(Rupees in '000)							
8.1	Investments by types:						
	Held-for-trading securities						
	Listed ordinary shares	292,738	-	292,738	35,840	-	35,840
	Available-for-sale securities						
	Market Treasury Bills	10,259,741	9,824,588	20,084,328	12,664,172	1,869,993	14,534,165
	Pakistan Investment Bonds	2,744,945	-	2,744,945	1,558,248	-	1,558,248
	Listed Ordinary shares	1,513,462	1,665	1,515,127	1,551,403	-	1,551,403
	Unlisted Ordinary shares	69,378	-	69,378	31,000	-	31,000
	Mutual fund units - open end	1,100,000	-	1,100,000	300,000	-	300,000
	Mutual fund units - closed end	-	-	-	564	-	564
	Term Finance Certificates - listed	579,867	-	579,867	553,411	44,955	598,366
	Term Finance Certificates - unlisted	1,387,145	-	1,387,145	1,391,805	-	1,391,805
	Preference Shares	37,500	-	37,500	-	-	-
	Sukuk Bonds	937,836	-	937,836	905,482	-	905,482
		18,629,874	9,826,253	28,456,127	18,956,085	1,914,948	20,871,033
	Held to maturity						
	Pakistan Investment Bonds	1,403,184	-	1,403,184	-	-	-
	Associates						
	Unlisted Ordinary shares	-	-	-	37,200	-	37,200
	Subsidiaries						
	Listed ordinary shares	-	-	-	-	-	-
	Unlisted ordinary shares	-	-	-	-	-	-
	Investment at cost	20,325,796	9,826,253	30,152,049	19,029,125	1,914,948	20,944,073
	Less: Provision for diminution in value of investments	(803,735)	-	(803,735)	(400,060)	-	(400,060)
	Investments - net of provisions	19,522,061	9,826,253	29,348,314	18,629,065	1,914,948	20,544,013
	Unrealised loss on held-for-trading securities	18,466	-	18,466	874	-	874
	Deficit on revaluation of available-for-sale securities	(638,681)	19,995	(618,686)	(339,084)	(1,446)	(340,530)
	Total investments at market value	18,901,846	9,846,248	28,748,094	18,290,855	1,913,502	20,204,357

8.2	Particulars of provision	Note	September 30,	December 31,
			2011	2010
(Rupees in '000)				
	Opening balance		400,060	611,872
	Provision for diminution in the value of investments of subsidiary at the date of acquisition		597,647	-
	Charge for the year		58,337	293,055
	Reversal during the year		(252,309)	(504,867)
	Reversal during the year		(193,972)	(211,812)
	Closing balance		803,735	400,060

8.3 Particulars of provision in respect of Type and Segment

Available-for-sale securities

Ordinary shares of listed companies	589,910	204,333
Ordinary shares of unlisted companies	3,210	3,210
Term Finance Certificates - unlisted	60,615	42,517
Sukuk Bonds	150,000	150,000
Impairment loss	-	-
	803,735	400,060

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9. ADVANCES

Loans, cash credits, running finances, etc.		
In Pakistan	64,033,209	43,164,862
Outside Pakistan	-	9,676
Net investment in finance lease - in Pakistan	382,214	565,910
Bills discounted and purchased (excluding Treasury Bills)		
Payable in Pakistan	2,334,432	667,911
Payable outside Pakistan	383,799	86,998
	2,718,231	754,909
Advances - gross	67,133,654	44,495,357
Provision against non-performing advances	9.1.1	(11,032,660)
Advances - net of provision	56,100,994	38,771,413

9.1 Advances include Rs.11,635.388 million (December 31, 2010: Rs.11,394.074 million) which have been placed under non-performing status as detailed below:

Category of classification	September 30, 2011			December 31, 2010		
	Classified advances	Provision required	Provision held	Classified advances	Provision required	Provision held
	----- (Rupees in '000) -----					
Substandard	1,505,444	204,883	204,883	2,078,978	348,060	348,060
Doubtful	4,277,838	740,879	740,879	1,811,271	598,314	598,314
Loss	16,616,652	10,085,593	10,085,593	7,503,825	4,773,140	4,773,140
	22,399,934	11,031,355	11,031,355	11,394,074	5,719,514	5,719,514

9.1.1 Particulars of provision against non-performing advances

	September 30, 2011			December 31, 2010		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
Opening balance	5,719,514	4,430	5,723,944	3,788,679	1,562	3,790,241
Provision against non-performing advances of subsidiary at the date of acquisition	4,923,513	570	4,924,083	-	-	-
Charge for the period	1,766,024	-	1,766,024	2,676,156	4,023	2,680,179
Reversals	(1,316,404)	(3,695)	(1,320,099)	(741,557)	(1,155)	(742,712)
	449,620	(3,695)	445,925	1,934,599	2,868	1,937,467
Transferred to:						
- other assets	-	-	-	(2,218)	-	(2,218)
- capital reserve	-	-	-	7,550	-	7,550
	-	-	-	5,332	-	5,332
Amount written off	(61,292)	-	(61,292)	(9,096)	-	(9,096)
Closing balance	11,031,355	1,305	11,032,660	5,719,514	4,430	5,723,944

CONSOLIDATED CONDENSED INTERIM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

10. DEFERRED TAX ASSETS - net		September 30, 2011	December 31, 2010
		----- (Rupees in '000) -----	
Deferred debits arising in respect of:			
Deficit on revaluation of assets		216,541	119,766
Provision against non performing loans	10.1	2,167,553	774,769
Provision against other assets		10,098	
Provision for gratuity		51,182	15,437
Provision for compensated absences		41,912	8,426
Unused tax losses		2,881,352	2,460,340
Provision for impairment losses		260,661	90,663
Amortisation of Premium on PIBs		35,389	
Net investment in lease finance		-	4,738
Unrealised loss on revaluation of investments - held-for-trading		-	-
Minimum tax		184,166	102,356
		5,848,854	3,576,495
Deferred credits arising due to			
Difference between accounting and tax written down values		(508,754)	(356,470)
Unrealised gain on revaluation of investments - held-for-trading		(6,463)	(153)
Deferred cost		-	(1,629)
		(515,217)	(358,252)
	10.2	5,333,637	3,218,243
10.1	As at September 30, 2011, the Bank has a deferred tax asset on provision against non performing loans amounting to Rs.2,933.554 (December 31, 2010: Rs.1,172.563) million. However, based on the future projections of taxable income, the management has recognised the above benefit only to the extent of Rs.2,167.553 million.		
10.2	As at September 30, 2011, the Bank has not recognised deferred tax asset amounting to Rs.145.502 million on the unused tax losses of MyBank Limited of Rs.415.721 million due to uncertainty on account of their realisation in the future.		
10.2	The Bank has an aggregate amount of deferred tax asset of Rs.5,333.637 million which represents management's best estimate of the probable benefits expected to be realised in future years in the form of reduced tax liability as the Bank would be able to set off the profits earned in those years against losses carried forward and other taxable temporary differences relating to prior years.		
11. DEPOSITS AND OTHER ACCOUNTS		September 30, 2011	December 31, 2010
		----- (Rupees in '000) -----	
Customers			
Fixed deposits		35,733,516	28,082,564
Savings deposits		26,510,013	26,111,317
Current accounts - non-remunerative		11,907,744	5,890,178
Margin accounts		1,667,818	737,889
		75,819,091	60,821,948
Financial institutions			
Non-remunerative deposits		285,278	57,568
Remunerative deposits		8,863,576	657,908
		9,148,854	715,476
		84,967,944	61,537,424
11.1	Particulars of deposits		
	In local currency	81,283,442	58,290,561
	In foreign currencies	3,684,502	3,246,863
		84,967,944	61,537,424

CONSOLIDATED CONDENSED INTERIM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

12. CONTINGENCIES AND COMMITMENTS

12.1 Taxation

12.1.1 In respect of the assessment years 1997-1998 to 2002-2003 and tax year 2003, the taxation authorities apportioned / allocated administrative and financial charges against exempt income for the said years. The Bank preferred an appeal against the said action of the authorities before the Commissioner Inland Revenue (Appeals) [CIR(A)] who decided the issue in favour of the Bank. However, the department filed an appeal against the said order before the Appellate Tribunal Inland Revenue (ATIR), Karachi which through a Larger Bench disapproved the formula of apportionment of expenses between exempt capital gain and other taxable income and set aside the assessment with the direction to the assessing officer to allow expenses against exempt income by identifying their nature and relation amongst the various sources of income. The Bank contends that the jurisdiction of Larger Bench was limited only to answer a legal question related to apportionment of administrative expenses and that it could not include the financial charges as well while deciding the matter.

The revised assessments have not been made by the tax department and, accordingly, no tax liability in respect thereof exists at the statement of financial position date nor an estimate could be made of the liability that may result from the unfavourable outcome of the matter.

Based on the opinion of the legal counsel of the Bank and considering the latest judgment of the Honourable Lahore High Court in a similar case, the management believes that the outcome of the above pending assessments would be favourable. Hence, no provision has been made in respect of the above in these financial statements.

12.1.2 In respect of the tax assessments of ATBL in respect of tax year 2003 to 2005 and 2008, various disallowances have been made by assessing officer including provision against non-performing advances, leasing losses, allocation of expenses against exempt income and amortisation of intangibles and deferred cost. In relation to tax year 2003, the Bank filed an appeal before ATIR in respect of disallowances of provision for non-performing advances who confirmed the order of CIR(A) against the Bank. Further, the department has filed tax references before Sindh High Court. In respect of tax years 2004, 2005 and 2008 the Bank has filed appeals before CIR(A) in respect of aforesaid issue. In respect of tax year 2004 the CIR(A) has confirmed the order of the officer and the Bank has preferred an appeal before ATIR. The above matters may result in reduction of claimed tax losses and have an aggregate tax impact of Rs.238.72 million. The management of the Bank is confident about the favourable outcome of the appeals and, hence, no adjustment with regard to the above matters has been made in the amalgamated financial statements.

12.1.3 For assessment of MBL in respect of tax years 2006, 2007, 2008 and 2009, the Taxation Officer has amended the deemed assessment u/s. 122 (5A) of the Income Tax Ordinance, 2001 by making various disallowances, out of which an amount of Rs.230.131 million has not been provided for in the books of account for the reason that the disallowances are based on issues which have already been decided at the higher appellate forums in Bank's favour. The Bank's appeal contesting the settled issues is awaiting disposal before the Commissioner Inland Revenue (CIR) appeals except in respect of the tax year 2006 wherein relief allowed on some issues have been remanded back and few disallowances made has been maintained against which second appeal before the Appellate Tribunal Inland Revenue has been preferred. Hence, the disallowances are likely to be decided as per higher appellate decisions favouring Bank not requiring further tax provision.

12.1.4 With respect to the assessment of MBL in respect of tax years 2004 and 2005, CIR (Appeals) has maintained the disallowances made by taxation officer with aggregate unprovided amount of Rs.29.657 million for the reason that this relates to settled issues decided in Bank's favour by higher appellate forums. The Bank has preferred an appeal before the Inland Revenue Tribunal, where the matter is awaiting hearing.

12.1.5 With respect to the assessment of MBL for tax year 2003, the Bank filed an appeal against the order of Appellate Tribunal before the Honourable High Court of Sindh at Karachi, which after hearing the case vacated the order and remanded the case back to the Taxation Officer for re-adjudication of the issues strictly as per law. The Taxation Officer passed a new order ignoring the clear direction of Honourable High Court of Sindh against which the Bank has filed an appeal which is presently awaiting hearing before the

CONSOLIDATED CONDENSED INTERIM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2011

Appellate Tribunal Inland Revenue. The tax involved in appeal amounts to Rs.36.220 million which relates to a previously settled issue in Bank's favour and, hence, no provision has been made on this account.

12.2 Other Contingencies

12.2.1 In respect of the assessment of MBL for the year 2004, forward sale of Pakistan Investment Bonds (PIB's) with face value of Rs.250 million was entered into with Speedway Fondmetall (Private) Limited (Speedway). The deal was not honoured by Speedway on the due date and the contract was rolled over subject to receipt of Rs.6 million and mortgage of properties. Consequent upon the failure by Speedway to honour the terms of the contract, the Bank served a final notice intimating to settle the deal within stipulated time otherwise the Bank will liquidate the deal, and claim the loss on deal by taking legal recourse. In response, Speedway filed a suit against the Bank and obtained stay from Honourable High Court of Sindh against the sale of PIB's which was vacated by the Honourable High Court of Sindh during the year 2005.

The Bank started proceedings during the financial year 2006 to recover the loss on the deal by disposing off the mortgaged properties. However, Speedway filed another suit and obtained stay from the court against the sale of the properties mortgaged with the Bank, which was also dismissed as withdrawn by Speedway. Speedway filed third suit in the Banking Court No. 2 against publication by which the mortgage properties were put to sale. The Bank also filed recovery suit against Speedway in the Honourable High Court of Sindh. Subsequently the Bank moved an application for transfer of the suit filed by Speedway in Banking Court No. 2 to the Honourable High Court of Sindh, so that the two suits are heard together in the apex Court.

During the financial year 2007, the Honourable High Court of Sindh has passed a decree in Bank's favour for Rs.25.697 million with mark-up at the rate of 20 percent per annum from the date of filing of the suit till its realization. The Bank has filed an execution application in the court. In this regard, provision of Rs.10.915 million has been retained in the amalgamated financial statements as a matter of prudence against the claim receivable.

September 30, December 31,
2011 2010
----- (Rupees in '000) -----

12.3 Direct credit substitutes

Including guarantees and standby letters of credit serving as financial guarantees for loans and securities

Government	304,996	459,226
Financial institutions	400,000	200,000
Others	755,999	755,255
	1,460,995	1,414,481

12.4 Transaction-related contingent liabilities / commitments guarantees issued favoring

Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit favoring:

Government	11,780,899	9,584,994
Banking companies and other financial institutions	5,906	9,596
Others	3,236,533	1,936,848
	15,023,338	11,531,438

12.5 Trade-related contingent liabilities

Letter of credits	6,862,480	2,380,207
Acceptances	1,235,137	185,534
	8,097,617	2,565,741

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	September 30, 2011 ----- (Rupees in '000) -----	December 31, 2010 -----
12.6 Other contingencies - claims against bank not acknowledged as debt	<u>2,586,716</u>	<u>2,568,716</u>
12.7 Contingent asset There was no contingent asset as at June 30, 2011 (December 31, 2010: Nil)		
12.8 Commitments in respect of forward lending		
Forward documentary bills	2,265,375	831,457
Forward Call money lendings	200,000	-
Commitments to extend credit	15,171,532	7,725,738
	<u>17,636,907</u>	<u>8,557,195</u>
12.9 Commitments in respect of forward exchange contracts		
Purchase	5,715,978	1,755,845
Sale	4,752,926	591,844
	<u>10,468,904</u>	<u>2,347,689</u>
12.10 Commitments for the acquisition of operating fixed assets		
Civil works (at branches)	<u>25,112</u>	<u>66,047</u>
12.11 Commitments in respect of purchase of rupee traveler cheques	<u>1,270</u>	<u>3,520</u>
12. CASH AND CASH EQUIVALENTS		
Cash and balance with treasury banks	5,647,475	3,531,781
Balance with other banks	1,573,383	296,192
Overdrawn nostro accounts	(72,206)	(13,688)
	<u>7,148,652</u>	<u>3,814,285</u>

CONSOLIDATED CONDENSED INTERIM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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14. RELATED PARTY TRANSACTIONS

The Bank has related party transactions with its associates, parent company, subsidiary companies, employee benefit plans and its directors and executive officers (including their associates).

Details of transactions with the related parties, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	September 30, 2011				December 31, 2010		
	Key management personnel	Directors	Parent company	Subsidiaries	Associates / other related parties	Key management personnel / directors **	Parent company / subsidiaries / associates / other related parties **
	(Rupees in '000)						
Advances							
Balance at beginning of the period *	75,453	-	-	-	-	186,432	1,554,489
Sanctioned / granted during the period	14,718	-	-	-	-	32,618	3,243,987
Payment received during the period	(17,148)	-	-	-	-	(74,689)	(4,756,777)
Balance at end of the period	73,023	-	-	-	-	144,361	41,699

* This balance does not include balances of related parties of prior year.

	September 30, 2011				September 30, 2010		
	Key management personnel	Directors	Parent company	Subsidiaries	Associates / other related parties	Key management personnel / directors **	Parent company / subsidiaries / associates / other related parties **
Deposits							
Balance at beginning of the period *	12,330	71,771	-	-	174,617	23,141	1,352,121
Deposits during the period	209,934	99,355	-	-	2,938,079	1,636,297	43,565,641
Withdrawal during the period	(175,194)	(98,223)	-	-	(2,974,643)	(1,570,728)	(44,552,631)
Balance at end of the period	47,070	72,903	-	-	138,053	88,710	365,131

* This balance does not include balances of related parties of prior year.

Subscription of right shares	-	-	856,457	-	-	-	-
Disposal of investment in associates	-	-	-	-	37,000	-	-
Guarantees, letters of credits and acceptances	-	-	-	-	26,139	-	230,121
Commitments in respect of purchase of rupee traveller cheques	-	-	-	-	-	-	-
Contribution paid to the provident fund	-	-	-	-	26,822	-	47,726
Contribution paid to the gratuity fund	-	-	-	-	-	-	11,564
Redemption of mutual fund units	-	-	-	-	-	-	310,991
Other receivable	-	-	27,000	-	-	-	43,371
Other payable	-	-	-	-	1,192	-	4,551
Mark-up payable	-	-	-	-	-	107	3,510
Mark-up receivable	-	-	-	-	-	-	138

	September 30, 2011				September 30, 2010		
	Key management personnel	Directors	Parent company	Subsidiaries	Associates / other related parties	Key management personnel / directors **	Parent company / subsidiaries / associates / other related parties **
	(Rupees in '000)						
Profit / expense for the period							
Brokerage expenses paid - CFS	-	-	-	-	-	-	276
Brokerage expenses paid - equity securities	-	-	-	-	-	-	-
Capital gain / (loss)	-	-	-	-	(188)	-	10,188
Dividend income	-	-	-	-	-	-	3,030
Rent expense	-	-	-	-	-	-	13,877
Rent paid	-	-	-	-	-	-	-
Sharing of rent received	-	-	-	-	-	-	-
Insurance claim	-	-	-	-	-	-	-
Printing and stationary expense	-	-	-	-	-	-	-
Mark-up earned	2,055	-	-	-	-	6,292	114,392
Mark-up paid	1,364	-	-	-	10,648	3,190	32,229
Contribution paid to provident fund	-	-	-	-	-	-	38,356
Contribution paid to gratuity fund	-	-	-	-	-	-	11,564

** Related party transactions / balances of prior year / period have been taken from the audited financial statements of the Bank for year ended December 31, 2010 as it is not practicable to bifurcate the combined transactions (of the Bank and ATBL) into directors, subsidiaries and parent company.



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15. DATE OF AUTHORISATION FOR ISSUE

These consolidated financial statements were authorised for issue on October 26, 2011 by the Board of Directors of the Bank.

16. GENERAL

The figures in the financial statements have been rounded off to the nearest thousand.