

Faysal Bank Limited

Balance Sheet

As at December 31, 2007

	Note	2007	2006
		Rupees '000	
ASSETS			
Cash and balances with treasury banks	8	6,872,032	7,207,998
Balances with other banks	9	3,708,451	2,883,040
Lendings to financial institutions	10	7,078,102	4,608,205
Investments	11	31,553,108	22,525,358
Advances	12	87,346,401	74,468,644
Operating fixed assets	13	2,514,959	2,239,392
Deferred tax assets - net		-	-
Other assets	14	2,204,368	1,537,764
		141,277,421	115,470,401
LIABILITIES			
Bills payable	15	2,406,927	4,516,125
Borrowings from financial institutions	16	9,995,855	14,965,037
Deposits and other accounts	17	102,067,422	74,413,641
Sub-ordinated loans	18	1,000,000	-
Liabilities against assets subject to finance lease	19	7,827	14,664
Deferred tax liabilities - net	20	2,691,466	1,839,860
Other liabilities	21	6,951,421	5,924,440
		125,120,918	101,673,767
NET ASSETS		16,156,503	13,796,634
REPRESENTED BY			
Share capital	22	5,296,445	4,237,157
Reserves	23	3,567,033	3,079,527
Unappropriated profit		1,481,668	1,815,643
		10,345,146	9,132,327
Surplus on revaluation of assets	24	5,811,357	4,664,307
		16,156,503	13,796,634
CONTINGENCIES AND COMMITMENTS	25		

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

Acting President & CEO

Director

Director

Directo

Faysal Bank Limited
Profit and Loss Account
For the year ended December 31, 2007

	Note	2007	2006
		Rupees '000	
Mark-up / return / interest earned	27	11,610,781	9,728,046
Mark-up / return / interest expensed	28	7,459,392	6,089,255
Net mark-up / interest income		4,151,389	3,638,791
Provision against non-performing loans and advances	12.5	1,797,432	517,027
Provision for consumer loans - general	12.6	74,537	105,305
Provision / (Reversal) for diminution in the value of investments	11.3	207,075	(792)
Bad debts written off directly	12.7	-	67
		2,079,044	621,607
Net mark-up / interest income after provisions		2,072,345	3,017,184
Non mark-up / interest income			
Fee, commission and brokerage income		743,913	603,667
Dividend income		1,221,217	1,249,522
Income from dealing in foreign currencies		313,597	120,992
Gain on sale of securities	29	1,115,613	330,061
Unrealised gain on revaluation of investments classified as held for trading		2,984	647
Other income	30	43,821	447,708
Total non mark-up / interest income		3,441,145	2,752,597
		5,513,490	5,769,781
Non mark-up / interest expenses			
Administrative expenses	31	2,799,747	1,866,584
Other provisions	14.3	6,061	-
Other charges	32	9,855	32,857
Total non mark-up / interest expenses		2,815,663	1,899,441
		2,697,827	3,870,340
Extraordinary items / unusual items		-	-
Profit before taxation		2,697,827	3,870,340
Taxation - Current	33	282,381	383,442
- Prior years		(48,433)	93,118
- Deferred		191,771	577,208
		425,719	1,053,768
Profit after taxation		2,272,108	2,816,572
Unappropriated profit brought forward		1,815,643	1,911,246
Profit available for appropriation		4,087,751	4,727,818
Basic and diluted earnings per share - Rupees	34	4.29	5.32

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

Acting President & CEO

Director

Director

Director

Faysal Bank Limited

Cash Flow Statement

For the year ended December 31, 2007

	Note	2007	2006
		Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		2,697,827	3,870,340
Less: Dividend income		(1,221,217)	(1,249,522)
Profit on available for sale securities		(1,333,820)	(1,631,964)
		<u>142,790</u>	<u>988,854</u>
Adjustments for :			
Depreciation / Amortisation		339,198	193,784
Provision against non-performing advances		1,797,432	517,027
Provision for consumer loans - general		74,537	105,305
Provision / (Reversal) for diminution in value of investments		207,075	(792)
Provision for other assets		6,061	-
Bad debts written off directly		-	67
Unrealised gain on revaluation of held-for-trading financial instruments		(2,984)	(647)
Gain on disposal of fixed assets		(3,171)	(320,295)
Finance charges on leased assets		725	1,529
Exchange gains		(349,848)	(220,005)
		<u>2,069,025</u>	<u>275,973</u>
		2,211,815	1,264,827
(Increase) / Decrease in operating assets			
Lendings to financial institutions		(1,669,897)	6,134,636
Held-for-trading securities		26,960	(26,960)
Advances		(14,749,726)	(12,767,535)
Other assets (excluding advance taxation)		(676,151)	(67,957)
		<u>(17,068,814)</u>	<u>(6,727,816)</u>
Increase / (Decrease) in operating liabilities			
Bills payable		(2,109,198)	3,322,816
Borrowings from financial institutions		(4,969,182)	(330,693)
Deposits		27,653,781	(323,076)
Other liabilities		1,793,867	1,093,831
		<u>22,369,268</u>	<u>3,762,878</u>
		7,512,269	(1,700,111)
Income tax (paid) / refund received		(250,182)	961,051
Net cash flow from operating activities		<u>7,262,087</u>	<u>(739,060)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities		(7,451,916)	424,838
Dividends received		1,228,194	1,244,903
Profit received on available for sale securities		1,330,329	1,625,564
Fixed capital expenditure		(634,972)	(836,216)
Sale proceeds from disposal of fixed assets		23,378	449,422
Net cash flow from investing activities		<u>(5,504,987)</u>	<u>2,908,511</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Payments of lease obligations		(7,562)	(9,414)
Sub-ordinated loan		250,000	750,000
Dividends paid		(1,059,941)	(1,781,605)
Net cash used in financing activities		<u>(817,503)</u>	<u>(1,041,019)</u>
Increase in cash and cash equivalents		<u>939,597</u>	<u>1,128,432</u>
Cash and cash equivalents at beginning of the year		10,091,038	8,742,601
Effects of exchange rate changes on cash and cash equivalents		349,848	220,005
Cash and cash equivalents at beginning of the year		<u>10,440,886</u>	<u>8,962,606</u>
Cash and cash equivalents at end of the year	35	<u>11,380,483</u>	<u>10,091,038</u>

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

Acting President & CEO

Director

Director

Director

Faysal Bank Limited
Statement of Changes In Equity
For the year ended December 31, 2007

	Reserves				Unappropriated profit	Total	
	Capital		Statutory reserve	Revenue			
	Share premium	Reserve for issue of bonus shares		Capital market reserve			
Rupees ' 000							
Balance as at December 31, 2005	3,684,484	-	-	2,159,754	356,457	1,911,246	8,111,941
Changes in equity for 2006:							
Final dividend for the year ended December 31, 2005 at Rs. 2.00 per share approved subsequent to the year end	-	-	-	-	-	(736,897)	(736,897)
Transfer to reserve for issue of bonus shares @ 15% approved subsequent to the year end (i.e. December 31, 2005)	-	-	552,673	-	-	(552,673)	-
Bonus shares issued - final 2005	552,673	-	(552,673)	-	-	-	-
Profit after tax for the year ended December 31, 2006	-	-	-	-	-	2,816,572	2,816,572
Interim cash dividend @ Rs. 2.50 per share	-	-	-	-	-	(1,059,289)	(1,059,289)
Transfer to statutory reserve	-	-	-	563,316	-	(563,316)	-
Balance as at December 31, 2006	4,237,157	-	-	2,723,070	356,457	1,815,643	9,132,327
Changes in equity for 2007:							
Final dividend for the year ended December 31, 2006 at Rs. 2.50 per share approved subsequent to the year end	-	-	-	-	-	(1,059,289)	(1,059,289)
Transfer to capital market reserve	-	-	-	-	33,085	(33,085)	-
Profit after tax for the year ended December 31, 2007	-	-	-	-	-	2,272,108	2,272,108
Transfer to reserve for issue of bonus shares	-	-	1,059,288	-	-	(1,059,288)	-
Issue of bonus shares	1,059,288	-	(1,059,288)	-	-	-	-
Transfer to statutory reserve	-	-	-	454,421	-	(454,421)	-
Balance as at December 31, 2007	5,296,445	-	-	3,177,491	389,542	1,481,668	10,345,146

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

Acting President & CEO

Director

Director

Director

Faysal Bank Limited

Notes to the Financial Statements

For the year ended December 31, 2007

1. STATUS AND NATURE OF BUSINESS

Faysal Bank Limited was incorporated in Pakistan on October 3, 1994 as a public limited company under the Companies Ordinance, 1984. Its shares are listed on Karachi and Lahore Stock Exchanges. The bank is engaged in Commercial, Consumer and Investment banking activities. The bank has a branch network of 105 branches (2006: 75 branches) and operates 5 (2006: Nil) service centres.

The Registered Office (Head Office) of the bank is located at Shahra-e-Faisal, Karachi.

Ithmaar Bank B.S.C., an Investment Bank listed in Bahrain, is the ultimate holding company of Faysal Bank Limited.

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

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

The State Bank of Pakistan as per BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40). Accordingly, the requirements of these standards and their relevant interpretations (issued by the Standards Interpretation Committee - SICs, and the International Financial Reporting Interpretations Committee - IFRICs) have not been considered in the preparation of these financial statements. However, the investments have been classified in accordance with the categories prescribed by the State Bank of Pakistan through various circulars.

In addition, Securities and Exchange Commission of Pakistan has notified the Islamic Financial Accounting Standard (IFAS) 1 - Morabaha and IFAS 2 - Ijara issued by the Institute of Chartered Accountants of Pakistan. IFAS 1 was effective for financial periods beginning on or after January 1, 2006 and IFAS 2 was effective for leases entered into after July 1, 2007. These standards are not applicable on the bank as the bank is not a scheduled "Islamic" Bank.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for the following financial instruments:

- Derivative financial instruments are measured at fair value; and
- Investments classified as held for trading and available-for-sale are also measured at fair values.

5. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements have been presented in Pakistani Rupee, which is the bank's functional as well as the reporting currency.

6. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses in the current and future reporting periods. The actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

Judgements made by the management that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 41 to these financial statements.

7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

7.1 Financial assets and liabilities

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

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

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

7.2 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash, money at call and balances with treasury and other banks.

7.3 Lendings to / borrowings from financial institutions

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

(a) Sale under repurchase obligation

Securities sold subject to a re-purchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The differential in sale and re-purchase value is accrued over the period of the contract and recorded as an expense.

(b) Purchase under resale obligation

Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions or financing as appropriate. The underlying security is not recognised as a separate asset in the financial statements. The difference between the contracted price and resale price is amortised over the period of the contract and recorded as income.

(c) Other borrowings

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

7.4 Investments

Investments in securities, other than investments in subsidiaries and associates are classified as follows:

(a) Held for trading (HFT)

These represent securities, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists.

(b) Held to maturity (HTM)

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

(c) Available-for-sale (AFS)

These represent securities, which do not fall under the held for trading or held to maturity categories.

Investments other than those classified as held for trading and investments in subsidiaries or associates, are initially recognised at fair value including transaction costs associated with such investments. Investments classified as held for trading are initially recognised at fair value. Subsequently, aforesaid quoted securities are stated at market value. Held to maturity investments are carried at amortised cost as per the requirements laid down in BSD Circular No. 14 dated September 24, 2004, issued by the State Bank of Pakistan. As per SBP directives, the surplus / deficit arising on revaluation is taken to the profit and loss account for trading securities, while for available for sale securities, it is reported below equity.

In accordance with SBP's BSD Circular No. 11 of 2004 and BSD Circular No. 06 of 2007, investments in subsidiaries and associates, as defined in approved accounting standards are stated at cost less impairment loss (if any) and are not subject to mark to market.

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

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

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying value recognised in the profit and loss account. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Provision for diminution in the value of securities (except term finance certificates) is made for permanent impairment, if any. Provision for diminution in value of term finance certificates is made as per the aging criteria prescribed by the Prudential Regulations issued by the State Bank of Pakistan.

7.5 Advances

These are stated net of specific and general provision.

Specific provision is made for non-performing advances in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. The bank also maintains general provision in accordance with the requirements of the Prudential Regulations and for present potential losses on performing loans, finance leases and consumer loan portfolio.

Finance leases where the bank transfers substantially all the risks and rewards incidental to ownership of an asset are recognised at an amount equal to the present value of the minimum lease payment including any guaranteed residual value.

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

7.6 Operating fixed assets

Owned

Items of property and equipment are stated at cost less accumulated depreciation and impairment (if any) except freehold and leasehold land which are stated at cost.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Capital work in progress is stated at cost.

Assets subject to finance lease

Leases in terms of which the bank assumes substantially all the risks and rewards of ownership are classified as assets subject to finance lease. These are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (if any). Financial charges are allocated over the period of the lease term so as to provide a constant periodic rate of financial charge on the outstanding liability.

Intangibles

Intangible assets with definite useful lives are stated at cost less accumulated amortisation and impairment losses (if any). Intangible assets with indefinite useful lives are stated at cost less impairment losses (if any).

Subsequent costs

Renewals and improvements are included in an asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. All other expenses are charged to income during the financial period in which they are incurred.

Depreciation and amortisation

Depreciation on property and equipment other than freehold and leasehold land, and amortisation on intangibles is charged to income using the straight-line method so as to write off the depreciable amount of an asset over its estimated useful life at the rates given in notes 13.2 and 13.3. The residual value is assessed annually.

A full month's depreciation / amortisation is charged in the month of addition and no depreciation / amortisation is charged in the month of disposal.

Impairment of operating fixed assets

The carrying amounts of the bank's operating fixed assets are regularly reviewed to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Such losses are recognised directly in the profit and loss account.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. Such reversals are only made to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

7.7 Operating leases

Lease payments under operating leases are charged to income on straight line basis over the lease term.

7.8 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity or below equity, in which case it is recognised in equity or below equity.

Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the prevailing laws for taxation on income. The charge for the current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date. The charge for current tax also includes adjustments, where considered necessary relating to prior years.

Deferred

Deferred tax is recognised using the balance sheet method on all temporary differences arising between tax base of assets and liabilities and their carrying amounts appearing in the financial statements. No deferred tax is provided on the initial recognition of assets and liabilities that affect neither accounting nor taxable profits. A deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

7.9 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognised separately as part of other liabilities and is charged to the profit and loss account over the period.

7.10 Provisions and Impairment

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

The carrying amount of the bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, an impairment loss is recognised in the profit and loss account.

7.11 Staff retirement benefits

The bank operates:

- a) an approved funded gratuity scheme for all its permanent employees. Contributions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to income. Cumulative net unrecognised actuarial gains and losses at the end of the previous year are charged or credited to income over the expected average remaining working lives of the employees.
- b) an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the bank and the employees at the rate of 10 percent of basic salary.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

7.12 Revenue recognition

- a) Profit and return on regular advances and investments is recognised on accrual basis. Profit on classified advances and investments is recognised on receipt basis. Gains and losses on termination and documentation charges are recognised on receipt basis.
- b) Fee, commission and brokerage income is recognised when earned.
- c) Dividend income from investments is recognised when the bank's right to receive the dividend is established.
- d) Gains and losses on sale of investments and operating fixed assets are recognised in the profit and loss account, when the risks and rewards of ownership are transferred.
- e) All exchange differences are recognised in income.

7.13 Dividends and appropriation to reserves

Dividend and appropriation to reserves are recognised in the year in which these are approved, except appropriations required by the law, which are recorded in the period to which they pertain.

7.14 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as assets when net fair value is positive and liabilities when net fair value is negative. Any change in the fair value is recognised in the profit and loss account.

7.15 Foreign currencies

All monetary assets, liabilities and commitments for letters of credit, acceptances and guarantees in foreign currencies are translated at rates of exchange approximating those prevailing at the balance sheet date. Foreign currency transactions are recorded at the rates prevailing on the transaction date.

Foreign bills purchased and forward contracts and swaps are valued at forward rates applicable to the respective maturities of the relevant contracts.

7.16 Off Setting

Financial assets and liabilities are set off and the net amount is reported in the balance sheet when and only when, the bank has a legal right to set off the amounts and it intends either to settle on a net basis or to realise the asset and to settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the approved accounting standards, or for gains and losses arising from a group of similar transactions.

7.17 Segment Reporting

A segment is a distinguishable component of the bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented as per the bank's functional structure and the guidance of State Bank of Pakistan. The bank comprises of the following main business segments:

7.17.1 Business Segments

Corporate finance

This includes investment banking activities such as mergers and acquisitions, underwriting, privatization, securitisation, Initial Public Offers (IPOs) and secondary private placements.

Trading and Sales

This segment undertakes the bank's treasury, money market and capital market activities.

Retail banking

Retail banking provides services to small borrowers i.e. consumers, small and medium enterprises (SMEs) and borrowers' agriculture sector. It includes loans, deposits, other transactions and balances with retail customers.

Commercial banking

This includes loans, deposits, other transactions and balances with corporate customers.

7.17.2 Geographical segment

The bank conducts all its operations in Pakistan.

8. CASH AND BALANCES WITH TREASURY BANKS	Note	2007	2006
		Rupees '000	
In hand			
- local currency		1,190,472	607,804
- foreign currency		334,029	121,752
With State Bank of Pakistan in			
- local currency current account	8.1	4,302,738	4,854,587
- foreign currency current account	8.2	434,975	386,701
- foreign currency deposit account	8.3	455,699	1,192,336
With National Bank of Pakistan in			
- local currency current account		154,119	44,288
- local currency deposit account		-	530
		<u>6,872,032</u>	<u>7,207,998</u>
8.1	This represents current account maintained with SBP under the requirements of section 22 (Cash Reserve Requirement) of the Banking Companies Ordinance, 1962.		
8.2	This represents cash reserve of 5% on FE 25 deposits, maintained with SBP under the requirements of BSD Circular No. 18 dated March 31, 2001.		
8.3	This represents special cash reserve maintained with SBP under the requirements of BSD Circular No. 09 of 2007 dated December 03, 2007 and local USD clearing account maintained with SBP to facilitate USD Clearing. Profit rates on these balances are fixed on monthly basis by SBP. Profit ranging between 3.71% to 4.72% per annum (2006: 3.39% to 4.39% per annum) was earned during the year.		
9. BALANCES WITH OTHER BANKS	Note	2007	2006
		Rupees '000	
In Pakistan			
- Current accounts		18,583	223,720
- Deposit accounts		-	43
Outside Pakistan			
- Current accounts		869,753	2,367,734
- Deposit accounts	9.1	2,820,115	291,543
		<u>3,708,451</u>	<u>2,883,040</u>
9.1	As of December 31, 2007, there were no placements with associated companies. As at the previous year end, term placement of USD 1.75 million was made with associated company @ 5.75% per annum.		
10. LENDINGS TO FINANCIAL INSTITUTIONS	Note	2007	2006
		Rupees '000	
Call money lendings	10.2	800,000	-
Repurchase agreement lendings (Reverse Repo)	10.3	4,578,102	3,808,205
Certificates of investment	10.4	1,700,000	800,000
		<u>7,078,102</u>	<u>4,608,205</u>
10.1 Particulars of lending			
In local currency		7,078,102	4,608,205
In foreign currencies		-	-
		<u>7,078,102</u>	<u>4,608,205</u>

10.2 Call money lendings have been extended to banks at rates ranging from 9.8% to 10.0% per annum (2006:Nil), maturing upto March, 2008.

10.3 Securities held as collateral against lendings to financial institutions

	2007			2006		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
----- Rupees '000 -----						
Market Treasury Bills - note 10.3.1	2,504,602	-	2,504,602	3,208,205	-	3,208,205
Pakistan Investments Bonds - note 10.3.2	2,073,500	-	2,073,500	600,000	-	600,000
	<u>4,578,102</u>	<u>-</u>	<u>4,578,102</u>	<u>3,808,205</u>	<u>-</u>	<u>3,808,205</u>

10.3.1 Market Treasury Bills have been purchased under resale agreements at rates ranging from 8.90% to 9.95% (2006: 8.68% to 9.40% per annum) with maturities up to March 2008. The market value of these securities is Rs. 2.56 billion (2006 : Rs 3.23 billion).

10.3.2 Pakistan Investment Bonds have been purchased under resale agreements at the rates ranging from 9.30% to 9.55% per annum (2006: 8.95% to 9.25% per annum) with maturities up to March 2008. The market value of these securities is Rs. 2.19 billion (2006 : Rs. 643 million).

10.4 These represent placements in certificates of investments with banks and financial institutions at rates ranging from 10.4% to 11.0% per annum (2006: 12.6% to 13.5% per annum) with maturities up to March 2008.

11. INVESTMENTS

Investments by type and segment are given below while the detailed break down is contained in Annexure I to these financial statements.

11.1 Investments by type

	2007			2006		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
----- Rupees '000 -----						
Held for trading securities						
Fully paid up ordinary shares	-	-	-	26,960	-	26,960
Available-for-sale securities						
Market Treasury Bills	16,899,271	-	16,899,271	7,003,298	348,375	7,351,673
Pakistan Investment Bonds	1,174,945	-	1,174,945	1,192,927	-	1,192,927
Units of open ended mutual funds						
- National Investment (Unit) Trust - note 11.2.4	2,670,544	-	2,670,544	2,895,623	-	2,895,623
- Pakistan Income Fund	-	-	-	7,928	-	7,928
- Faysal Balanced Growth Fund	80,374	-	80,374	152,638	-	152,638
- Faysal Income & Growth Fund	-	-	-	250,000	-	250,000
- Faysal Savings Growth Fund	207,411	-	207,411	-	-	-
- NAFA Cash Fund	-	-	-	50,000	-	50,000
- KASB Liquid Fund	-	-	-	15,002	-	15,002
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	1,421,466	-	1,421,466	2,382,526	-	2,382,526
Fully paid up preference shares	517,677	-	517,677	485,427	-	485,427
Term finance certificates and bonds	2,350,039	-	2,350,039	3,086,067	-	3,086,067
	<u>25,321,727</u>	<u>-</u>	<u>25,321,727</u>	<u>17,521,436</u>	<u>348,375</u>	<u>17,869,811</u>
Subsidiaries						
Shares of Faysal Management Services (Private) Ltd.	108,000	-	108,000	108,000	-	108,000
Associates						
Shares of						
- Faysal Asset Management Ltd.	15,000	-	15,000	15,000	-	15,000
Investments at cost	<u>25,444,727</u>	<u>-</u>	<u>25,444,727</u>	<u>17,671,396</u>	<u>348,375</u>	<u>18,019,771</u>
Provision for diminution in the value of investments – note 11.3	(280,313)	-	(280,313)	(73,238)	-	(73,238)
Investments (Net of Provisions)	<u>25,164,414</u>	<u>-</u>	<u>25,164,414</u>	<u>17,598,158</u>	<u>348,375</u>	<u>17,946,533</u>
Surplus on revaluation of available for sale securities (net) - note 24	6,388,694	-	6,388,694	4,580,614	1,195	4,581,809
Deficit on revaluation of held for trading financial instruments - note 11.5	-	-	-	(2,984)	-	(2,984)
Total investments at market value	<u>31,553,108</u>	<u>-</u>	<u>31,553,108</u>	<u>22,175,788</u>	<u>349,570</u>	<u>22,525,358</u>

11.1.1 Strategic Investments	2007	2006
	Rupees '000	
Available-for-sale securities - Listed		
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	238,981	235,890
Units of open ended mutual funds	80,374	100,000
Available-for-sale securities - Unlisted		
Fully paid up ordinary shares	966,936	966,936
Subsidiary	108,000	108,000
Associate	15,000	15,000
	<u>1,409,291</u>	<u>1,425,826</u>
Provision for diminution in the value of investments	(160,440)	-
	<u>1,248,851</u>	<u>1,425,826</u>
Surplus on revaluation of investments	133,960	69,261
	<u>1,382,811</u>	<u>1,495,087</u>

Strategic investments are those which the bank makes with the intention of holding them for a long term duration and are marked as such at the time of investment. Disposals of such investments can only be made subject to fulfillments of criteria prescribed by SBP in the Prudential Regulations. The exposure limits for equity investments prescribed by SBP does not apply to these investments. Further, as per SBP instructions in BPD Circular Letter No 16 of 2006 dated August 01, 2006, investments marked as strategic have a minimum retention period of 5 years from the original purchase date, however, these can be sold before the stipulated period with the prior permission of SBP.

11.2 Investments by segment	Note	2007	2006
		Rupees '000	
Federal Government Securities			
- Market Treasury Bills	11.2.1	16,899,271	7,351,673
- Pakistan Investment Bonds	11.2.2	1,174,945	1,192,927
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units			
- Listed companies/ modarabas/ mutual funds		452,743	1,440,763
- Unlisted companies		1,091,723	1,091,723
Fully Paid up Preference Shares			
- Listed companies		492,677	366,427
- Unlisted companies		25,000	119,000
Term Finance Certificates and Bonds			
- Listed TFCs		1,443,237	1,987,313
- Unlisted TFCs	11.2.3	906,802	1,098,754
Open ended Mutual Fund Units		<u>2,958,329</u>	<u>3,371,191</u>
		<u>25,444,727</u>	<u>18,019,771</u>
Provision for diminution in the value of investments	11.3	<u>(280,313)</u>	<u>(73,238)</u>
Investments (Net of Provisions)		<u>25,164,414</u>	<u>17,946,533</u>
Surplus on revaluation of available-for-sale securities	24	6,388,694	4,581,809
Deficit on revaluation of held for trading financial instruments	11.5	-	(2,984)
Total investments at market value		<u>31,553,108</u>	<u>22,525,358</u>

11.2.1 Market Treasury Bills have a tenor of one year. Bank's yield on these instruments ranges from 9.0% to 9.4% per annum (2006: 8.8% per annum) with maturities up to September 2008.

- 11.2.2** Pakistan Investment Bonds are for period of 10 years. Bank's return on these investments ranges from 4.6% to 6.3% per annum (2006: 4.6% to 6.3% per annum) with maturities from June 30, 2013 to December 31, 2013.
- 11.2.3** This represents unlisted Term Finance Certificates (TFCs) of Rs. 0.907 billion (2006: Rs. 1.098 billion) which have been issued by Dewan Cement Limited (formerly Pakland Cement Limited) and Dewan Hattar Cement Limited (formerly Saadi Cement Limited). In the current year both the entities were merged under the name of Dewan Cement Limited. These TFCs are in the process of being re-structured for which creditors approval has been obtained. Under the proposed terms of re-structuring, the company is offering early settlement of Series B TFCs, and the bank has accordingly made a provision of Rs. 58.625 million on account of the resulting prepayment discount.

According to the directives issued by the State Bank of Pakistan (SBP) vide letter no. BPD/PU-22/22.03/15749/2005/8720 dated July 14, 2005, the above TFCs are classified as investments.

- 11.2.4** This includes 150,268,315 NIT Units (2006:166,964,780 NIT units) covered under letter of comfort (LOC) dated December 14, 2007 issued by the Federal Government with an expiry / renewal date of December 31, 2008.

In accordance with the policy decision of the Government of Pakistan (GOP) and approval of the Board of Directors of National Investment Unit Trust (NITL), the NITL has been split in two broad segments from April 01, 2007 i.e. one belonging to the LOC holders and the other segment belonging to the non-LOC holders. The two segments are being managed separately from April 01, 2007.

So far both GOP as well as the bank have exchanged proposals offering various exit options but the matter is yet to be finalised. However, in December 2007, the parties agreed and executed the redemption of 10% of the portfolio at prevailing repurchase prices.

- 11.2.5** The term of Fayzan Manufacturing Modaraba, previously classified as a subsidiary of the bank ended on September 27, 2006 and the investment of the bank was repaid. The liquidator conducted the final meeting on December 12, 2007 to approve liquidators account of Fayzan Manufacturing Modaraba. All winding up legal requirements have been completed as at December 31, 2007, except for issuance of winding up certificate which is awaited from the Registrar of Modarabas.

11.3 Particulars of provision for diminution in the value of investments	Note	2007	2006
		Rupees '000	
Opening balance		73,238	74,030
Charge for the year	11.3.1	239,137	-
Reversals		(32,062)	(792)
		207,075	(792)
Closing balance		280,313	73,238

- 11.3.1** This includes provision of Rs.160 million recognised in respect of the difference between carrying value and break-up value of investment in Sukh Chayn Gardens (Pvt.) Ltd, and Rs. 58.625 million being prepayment discount in respect of unlisted term finance certificates of Dewan Cement Ltd. as referred to in note 11.2.3.

	2007	2006
	Rupees '000	
11.3.2 Particulars of Provision in respect of Type and Segment		
Available-for-sale securities		
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units		
- Listed companies / modarabas / mutual funds	50,670	71,460
- Unlisted companies	162,218	1,778
Term Finance Certificates and Bonds		
- Listed TFCs	8,800	-
- Unlisted TFCs	58,625	
	280,313	73,238

11.4 Quality of Available-for-Sale Securities

The details regarding the quality of available-for-sale securities is contained in Annexure 1, which forms an integral part of these financial statements.

11.5 Unrealised Gain / (Loss) on revaluation of investments classified as held for trading

	Note	2007 Rupees '000	2006
Fully paid up ordinary shares		-	(2,984)
		<u>-</u>	<u>(2,984)</u>

12. ADVANCES

Loans, cash credits, running finances, etc. – In Pakistan		68,955,681	57,978,082
Net investment in finance lease – In Pakistan	12.2	15,885,502	13,840,587
		84,841,183	71,818,669
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan	12.3	790,852	648,577
Payable outside Pakistan		991,364	479,450
		1,782,216	1,128,027
		86,623,399	72,946,696
Margin Financing / reverse repo transactions		4,392,879	3,337,322
Provision for non-performing advances	12.5	(3,348,257)	(1,568,291)
Provision for consumer loans - general	12.6	(321,620)	(247,083)
		87,346,401	74,468,644

12.1 Particulars of advances

12.1.1 In local currency		82,500,881	73,798,985
In foreign currency		4,845,520	669,659
		87,346,401	74,468,644
12.1.2 Short term (for upto one year)		56,578,273	45,478,028
Long term (for over one year)		30,768,128	28,990,616
		87,346,401	74,468,644

12.2 Net investment in finance lease	2007				2006			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	----- Rupees '000 -----							
Lease rentals receivable	6,195,668	9,521,760	27,533	15,744,961	3,554,752	10,664,256	-	14,219,008
Residual value	643,043	3,019,995	6,608	3,669,646	750,052	2,250,157	-	3,000,209
Minimum lease payments	6,838,711	12,541,755	34,141	19,414,607	4,304,804	12,914,413	-	17,219,217
Financial charge for future periods	(1,511,987)	(2,014,059)	(3,059)	(3,529,105)	(1,381,720)	(1,996,910)	-	(3,378,630)
Present value of minimum lease payments	5,326,724	10,527,696	31,082	15,885,502	2,923,084	10,917,503	-	13,840,587

12.3 This includes receivable of a customer discounted by the bank. The balance outstanding at December 31, 2007 amounts to Rs. 45.922 million (2006: Rs. 89.223 million). The amount is receivable from the National Bank of Pakistan.

12.4 Advances includes Rs. 4.753 billion (2006: Rs. 3.535 billion) which have been placed under non-performing status as detailed below

	2007								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- Rupees '000 -----								
Category of classification									
Other assets especially mentioned (Agri)	123,930	-	123,930	-	-	-	-	-	-
Substandard	1,527,739	-	1,527,739	489,878	-	489,878	489,878	-	489,878
Doubtful	567,431	-	567,431	236,502	-	236,502	236,502	-	236,502
Loss	2,534,315	-	2,534,315	2,473,201	-	2,473,201	2,473,201	-	2,473,201
	<u>4,753,415</u>	<u>-</u>	<u>4,753,415</u>	<u>3,199,581</u>	<u>-</u>	<u>3,199,581</u>	<u>3,199,581</u>	<u>-</u>	<u>3,199,581</u>

	2006								
	Classified Financing			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	----- Rupees '000 -----								
Category of classification									
Other assets especially mentioned (Agri)	24,970	-	24,970	-	-	-	-	-	-
Substandard	347,936	-	347,936	49,964	-	49,964	49,964	-	49,964
Doubtful	396,415	-	396,415	98,135	-	98,135	98,135	-	98,135
Loss	2,765,872	-	2,765,872	1,156,240	-	1,156,240	1,156,240	-	1,156,240
	<u>3,535,193</u>	<u>-</u>	<u>3,535,193</u>	<u>1,304,339</u>	<u>-</u>	<u>1,304,339</u>	<u>1,304,339</u>	<u>-</u>	<u>1,304,339</u>

12.4.1 In accordance with the BSD Circular No. 07 dated October 12, 2007 issued by the State Bank of Pakistan, the bank has not considered the benefit of forced sale valuations while determining the requirement against non - performing advances (NPL), except home mortgage loans. Furthermore, as per the aforementioned circular the personal loans are now required 100% provisioning if the amount is overdue by 180 days. Previously, these were applicable to loans and advances over Rs.10 million and provisions against personal loans were created when the amount was overdue by 365 days. Had this provision against NPL been determined in accordance with the previous requirements of the SBP, the specific provision requirements against NPL would have been lower and consequently profit before tax would have been higher by Rs. 1.825 billion.

12.5 Particulars of provision for non-performing advances - in local currency

	2007			2006		
	Specific	General	Total	Specific	General	Total
	----- Rupees '000 -----					
Opening balance	1,304,339	263,952	1,568,291	1,001,264	50,000	1,051,264
Charge for the year	1,977,376	58,676	2,036,052	574,486	263,952	838,438
Transfer to specific provision from general provision	173,952	(173,952)	-	-	-	-
Reversals	(238,620)	-	(238,620)	(271,411)	(50,000)	(321,411)
	1,912,708	(115,276)	1,797,432	303,075	213,952	517,027
Amounts written off - note 12.7	(17,466)	-	(17,466)	-	-	-
Closing balance	<u>3,199,581</u>	<u>148,676</u>	<u>3,348,257</u>	<u>1,304,339</u>	<u>263,952</u>	<u>1,568,291</u>

12.5.1 Particulars of provision for non-performing advances:

	2007			2006		
	Specific	General	Total	Specific	General	Total
	----- Rupees '000 -----					
In local currency	3,199,581	148,676	3,348,257	1,304,339	263,952	1,568,291
In foreign currencies	-	-	-	-	-	-
	<u>3,199,581</u>	<u>148,676</u>	<u>3,348,257</u>	<u>1,304,339</u>	<u>263,952</u>	<u>1,568,291</u>

12.5.2 General provision represents provision made for potential losses and has been determined on the basis of management's best estimate.

12.6 Particulars of provision for consumer loans - general - in local currency

	2007	2006
	Rupees '000	
Opening balance	247,083	141,778
Charge for the year	74,537	105,305
Reversals	-	-
	<u>321,620</u>	<u>247,083</u>

12.6.1 General provision against consumer loans has been determined in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan (i.e. 1.5% of secured loans and 5% of unsecured loans).

	Note	2007	2006
		Rupees '000	
12.7 Particulars of write-off			
12.7.1 Against provisions	12.5	17,466	-
Directly charged to profit and loss account		-	67
		<u>17,466</u>	<u>67</u>
12.7.2 Write-offs of Rs. 500,000 and above		17,466	-
Write-offs below Rs. 500,000	12.8	-	67
		<u>17,466</u>	<u>67</u>
12.8 Details of loans written off of Rs 500,000 and above			

The statement in respect of write-offs or any other financial relief of five hundred thousand rupees or above as required under sub-section (3) of section 33A of the Banking Companies Ordinance, 1962 is given as "Annexure II" to these financial statements.

	Note	2007	2006
		Rupees '000	
12.9 Particulars of loans and advances to directors, associated companies, etc.			
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons:			
Balance at beginning of year		363,749	278,320
Loans granted during the year		254,881	156,244
Repayments		(211,359)	(70,815)
Balance at end of year		407,271	363,749
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members			
Balance at beginning of year		-	-
Loans granted during the year		-	-
Repayments		-	-
Balance at end of year		-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties			
Balance at beginning of year		975,060	1,018,603
Loans granted during the year		31,576	618,252
Repayments		(199,647)	(661,795)
Balance at end of year		806,989	975,060
		<u>1,214,260</u>	<u>1,338,809</u>
12.9.1 Maximum total amount of advances including temporary advances granted during the year			
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons		411,166	363,749
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members		-	-
Debts due by subsidiaries, controlled firms, managed modarabas and other related parties		975,060	1,026,298
		<u>1,386,226</u>	<u>1,390,047</u>
13. OPERATING FIXED ASSETS			
Capital work-in-progress	13.1	397,485	323,596
Property and equipment	13.2	1,976,095	1,895,000
Intangible assets	13.3	141,379	20,796
		<u>2,514,959</u>	<u>2,239,392</u>
13.1 Capital work-in-progress			
Civil works		179,612	50,752
Advances to suppliers and contractors		217,873	272,844
		<u>397,485</u>	<u>323,596</u>

13.2 Property and equipment

	COST					ACCUMULATED DEPRECIATION					Book value at		Rate of depreciation % per annum
	As at January 1, 2006	Additions/ (deletions)/	As at January 1, 2007	Additions/ (deletions)/	As at December 31, 2007	As at January 1, 2006	Charge/ (on deletions)/	As at January 1, 2007	Charge/ (on deletions)/	As at December 31, 2007	December 31, 2007	December 31, 2006	
----- Rupees '000 -----													
Owned													
Freehold land	72,541	9,687 (42,044)	40,184	-	40,184	-	-	-	-	-	40,184	40,184	-
Leasehold land	370,306	11,345	381,651	35,357	417,008	19,206	-	19,206	-	19,206	397,802	362,445	-
Building on freehold land	46,076	- (4,428)	41,648	-	41,648	11,111	862 (111)	11,862	2,736	14,598	27,050	29,786	2
Leasehold property and improvement	498,563	531,976 (37,146)	993,393	74,853 (1,879)	1,066,367	83,712	35,434 (12,910)	106,236	90,623 (763)	196,096	870,271	887,157	2 to 20
Office furniture, fixtures, equipments and computers	535,866	414,769 (61,361)	889,274	237,151 (13,292)	1,113,133	368,563	115,671 (20,762)	463,472	183,248 (9,275)	637,445	475,688	425,802	20 to 33.33
Vehicles	164,607	67,055 (32,332)	199,330	75,156 (32,838)	241,648	47,524	32,768 (17,927)	62,365	40,689 (19,995) *	83,059	158,589	136,965	20
	1,687,959	1,034,832 (177,311)	2,545,480	422,517 (48,009)	2,919,988	530,116	184,735 (51,710)	663,141	317,296 (30,033)	950,404	1,969,584	1,882,339	
Assets subject to finance lease													
Vehicles	27,079	- (5,669)	21,410	- (5,411)	15,999	6,363	4,529 (2,143)	8,749	3,919 (3,180)	9,488	6,511	12,661	20
	1,715,038	1,034,832 (182,980)	2,566,890	422,517 (53,420)	2,935,987	536,479	189,264 (53,853)	671,890	321,215 (33,213)	959,892	1,976,095	1,895,000	

* Accumulated depreciation on vehicles disposed during the year has been adjusted at the financial statement level to account for the impact of residual value.

13.2.1 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 357.849 million (2006: Rs. 290.162 million).

13.2.2 One of these properties is encumbered to the extent of Rs. 34 million on account of a claim by a local bank in settlement of its second charge.

13.3 Intangible assets

	COST					ACCUMULATED AMORTISATION					Book value at December 31, 2007	Book value at December 31, 2006	Rate of amortisation % per annum
	As at January 1, 2006	Additions/ (deletions)/	As at January 1, 2007	Additions/ (deletions)/	As at December 31, 2007	As at January 1, 2006	Charge/ (on deletions)/	As at January 1, 2007	Charge/ (on deletions)/	As at December 31, 2007			
----- Rupees '000 -----													
Computer software	22,711	4,113	26,824	138,566	165,390	1,508	4,520	6,028	17,983	24,011	141,379	20,796	20 to 33.33
		-		-			-		-				

13.4 Details of disposal of fixed assets to executives and other persons having cost more than Rs.1 million or net book value Rs. 250,000 or above are as follows:

Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
-----Rupees '000-----					
Owned - Vehicles					
788	410	378	560	Insurance Claim	EFU Insurance Company
620	166	454	405	Policy	Mr. Syed Rehan (Employee)
849	464	385	720	Bid	Mr. Afroz Qureshi (Ex-Employee)
1,147	245	902	861	Policy	Mr. Dilawar Khan (Employee)
849	453	396	365	Policy	Mr. Atiq-U-Rehman (Executive)
521	208	313	280	Policy	Mr. Syed Kauser Nadeem (Executive)
886	236	650	579	Policy	Mr. Shakil Akhtar Qureshi (Executive)
829	486	343	461	Policy	Mr. Parvaiz Ahmad (Executive)
807	452	355	280	Policy	Mr. Taimur Afzal (Executive)
1,097	614	483	381	Policy	Mr. Taimur Afzal (Executive)
984	420	564	504	Policy	Ms. Anjum Hai (Executive)
535	193	342	308	Policy	Mr. Habib Ameer Ali (Employee)
585	234	351	371	Bid	Mr. Asim Ali House No# 1095, Street 110 G9/4, Islamabad
560	105	455	560	Insurance Claim	EFU Insurance Company
886	94	792	775	Insurance Claim	EFU Insurance Company
464	154	310	249	Policy	Mr. Imran Siraj Khan (Employee)
673	170	503	441	Policy	Mr. M. Saeed (Employee)
560	119	441	388	Policy	Mr. Khawar Ali Shah (Employee)
849	532	317	328	Policy	Mr. M.A Sayeed (Executive)
885	248	637	566	Policy	Mr. Mustufa Hamdani (Executive)
886	248	638	638	Policy	Mr. Samih Khan (Executive)
560	90	470	429	Policy	Mr. Majid Ali (Employee)
575	184	391	616	Bid	Mr. Kamran Raza (Individual) Address details not available
653	235	418	384	Policy	Mr. Najeeb Ahmad (Executive)
525	203	322	295	Policy	Mr. Saud Malik (Employee)
556	81	475	518	Policy	Mr. Ali Raza (Executive)
560	142	418	366	Policy	Mr. Perwaiz I. Khan (Executive)
530	191	339	305	Policy	Mr. Salman Latif (Ex-Employee)
3,500	980	2,520	2,755	Bid	Doctor Shah Azam Khan (Individual) A-26/4; KDA I Karsaz Karachi
560	374	186	202	Policy	Mr. Kaleem Jafry (Executive)
617	132	485	440	Bid	M/s Itihad Motors Showroom no 10, Madina Bagh Apts 55, Muslimabad Karachi
475	26	449	390	Bid	M/s Itihad Motors Showroom no 10, Madina Bagh Apts 55, Muslimabad Karachi
560	366	194	202	Policy	Mr. Khalid Maqsood (Executive)
976	611	365	675	Bid	M/s Itihad Motors Showroom no 10, Madina Bagh Apts 55, Muslimabad Karachi
Owned - Office furniture, fixtures, equipments and computers					
799	546	253	125	Bid	Mr. Muhammad Iqbal Address details not available
1,970	1,970	-	1,750	Bid	Mr. Muhammad Iqbal A-13, Block 5, Gulistan-e-Jouhar, Karachi
205	205	-	155	Policy	Mr. Khalid S. Tirmizey (Acting President and CEO)
3,180	2,547	633	597	Policy	Mr. Farook Bengali (Ex-President and CEO)
Assets subject to finance lease - Vehicles					
1,111	651	460	366	Policy	Mr. Arif Hassan Khan (Executive)
4,301	1,893	2,408	2,408	Policy	Mr. Farook Bengali (Ex-President and CEO)

	<i>Note</i>	2007	2006
		Rupees '000	
14. OTHER ASSETS			
Income/mark-up accrued in local currency		1,323,986	1,267,788
Income/mark-up accrued in foreign currency		44,056	3,998
Advances, deposits, advance rent and other prepayments		202,778	127,029
Non-banking assets acquired in satisfaction of claim	14.1	307,376	60,895
Stationery and stamps on hand		5,309	4,945
Branch adjustment account		91,173	42,418
Receivable from brokers - secured	14.2	5,290	87
Others		235,569	35,712
		<u>2,215,537</u>	<u>1,542,872</u>
Less: Provision held against other assets	14.3	<u>(11,169)</u>	<u>(5,108)</u>
		<u>2,204,368</u>	<u>1,537,764</u>
14.1 Market value of non-banking assets acquired in satisfaction of claim - determined by professional valuer		<u>542,780</u>	<u>165,043</u>
14.2 This represents amount receivable from brokers against sale of shares.			
14.3 Provision against other assets			
Opening balance		5,108	5,108
Charge for the year	14.3.1	6,061	-
Reversals		-	-
Closing balance		<u>11,169</u>	<u>5,108</u>

14.3.1 This represents estimated charge in respect of damages to various assets of the bank during riots at the year end.

	<i>Note</i>	2007	2006
		Rupees '000	
15. BILLS PAYABLE			
In Pakistan		2,396,076	4,505,590
Outside Pakistan		10,851	10,535
		<u>2,406,927</u>	<u>4,516,125</u>
16. BORROWINGS FROM FINANCIAL INSTITUTIONS			
In Pakistan		9,733,864	14,924,721
Outside Pakistan		261,991	40,316
		<u>9,995,855</u>	<u>14,965,037</u>
16.1 Particulars of borrowings from financial institutions			
In local currency		9,733,864	14,852,353
In foreign currencies		261,991	112,684
		<u>9,995,855</u>	<u>14,965,037</u>
16.2 Details of borrowings from financial institutions			
Secured			
Borrowings from State Bank of Pakistan			
- Under Export Refinance Scheme - Part I and II	16.3	4,992,256	5,575,514
- Under Locally Manufactured Machinery (LMM) scheme		-	-
- Under scheme for Long Term Financing of Export Projects - (LTF-EOP)	16.4	2,642,084	2,294,233
Repurchase agreement borrowings	16.5	-	347,290
		<u>7,634,340</u>	<u>8,217,037</u>
Unsecured			
Interbank borrowings	16.6	2,080,600	6,707,684
Overdrawn nostro accounts		280,915	40,316
		<u>2,361,515</u>	<u>6,748,000</u>
		<u>9,995,855</u>	<u>14,965,037</u>

- 16.3** These represent borrowings from SBP under export refinance scheme at 6.50% per annum (2006: 6.50% to 7.50% per annum) maturing within six months up to June 2008. As per the terms of the agreement, the bank has granted SBP a right to recover the outstanding amount from the bank at the date of maturity of finances by directly debiting the current account of the bank maintained with SBP.
- 16.4** These represent borrowings from SBP under scheme for long term financing of export oriented projects at rates ranging from 4.0% to 5.0% per annum (2006: 4.0% to 5.0% per annum), and have varying long term maturities stipulated by SBP. As per the terms of the agreement, the bank has granted SBP a right to recover the outstanding amount from the bank at the respective date of maturity of finances by directly debiting the current account of the bank maintained with SBP.
- 16.5** As at the year end, there was no collateralised borrowing. As at December 31, 2006, outstanding borrowing was made against market treasury bills at rates ranging from 8.25% to 8.75% with maturity falling in January 2007.
- 16.6** These borrowings are from various institutions in the interbank market, made at rates ranging from 4.90% to 9.25% per annum (2006: 5.0% to 11.0% per annum) maturing up to March 2008.

17. DEPOSITS AND OTHER ACCOUNTS

	2007	2006
	Rupees '000	
Customers		
Term deposits	56,600,711	36,063,308
Saving deposits	25,848,248	19,125,304
Current accounts – Remunerative	-	-
Current accounts – Non-remunerative	18,032,874	14,460,797
Margin accounts	875,641	2,279,896
	<u>101,357,474</u>	<u>71,929,305</u>
Financial Institutions		
Remunerative deposits	579,657	2,463,541
Non-remunerative deposits	130,291	20,795
	<u>709,948</u>	<u>2,484,336</u>
	<u>102,067,422</u>	<u>74,413,641</u>
17.1 Particulars of deposits		
In local currency	93,286,214	66,820,856
In foreign currencies	8,781,208	7,592,785
	<u>102,067,422</u>	<u>74,413,641</u>

- 17.2** The above includes deposits of related parties amounting to Rs. 194.29 million (2006 : Rs. 541.84 million).

18. SUB-ORDINATED LOANS

These represent listed, rated and un-secured Term Finance Certificates (TFCs). The salient features of the issue are as follows :

	Rupees '000
Total Issue Amount	<u>1,000,000</u>
Pre – IPO subscription received	<u>750,000</u>
Initial Public Offering	<u>250,000</u>
Rating	"AA-" (Double A Minus)
Rate	Base Rate + 1.40%
	The Base Rate is defined as the Average Ask Rate of Six Months Karachi Inter-bank Offered Rate (KIBOR).
Subordination	The TFCs will be subordinated to all other indebtedness of the bank including deposits.
Tenor and maturity	7 years from the date of issue
Principal Repayment	0.20% of the principal amount would be redeemed during the first 60 months and the remaining principal in 4 semi-annual installments of 24.95% each of the issue amount, starting from the 66th month.
Profit Payment	Profit is payable semi-annually in arrears, with the first payment date falling due in the second quarter of 2008.

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2007			2006		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	-----Rupees '000-----					
Not later than one year	3,932	239	3,693	6,476	735	5,741
Later than one year and not later than five years	4,147	13	4,134	9,287	364	8,923
	8,079	252	7,827	15,763	1,099	14,664

- 19.1** The bank has entered into agreements with a modaraba for lease of vehicles on commercial terms. Lease rentals are payable periodically and include finance charges at 8.0% per annum (2006: 7.5% to 14.0% per annum) which has been used as the discounting factor. There are no financial restrictions in the lease agreements.

20. DEFERRED TAX LIABILITIES

	2007			
	Opening Balance	Recognised in profit and loss	Recognised in surplus on revaluation	Closing Balance
	-----Rupees '000-----			
Deferred credits arising in respect of:				
- Finance lease arrangements	1,779,162	598,857	-	2,378,019
- Accelerated depreciation allowance	158,744	14,311	-	173,055
- Surplus on revaluation of securities	-	-	663,666	663,666
Deferred debits arising in respect of:				
- Provision against non-performing advances	(15,548)	(13,710)	-	(29,258)
- Provision for diminution in the value of investments	-	(51,958)	-	(51,958)
- Taxable business losses	-	(355,729)	-	(355,729)
- Deficit on revaluation of government securities	(82,498)	-	(3,831)	(86,329)
	1,839,860	191,771	659,835	2,691,466
	-----Rupees '000-----			
	2006			
	Opening Balance	Recognised in profit and loss	Recognised in surplus on revaluation	Closing Balance
Deferred credits arising in respect of:				
- Finance lease arrangements	1,277,728	501,434	-	1,779,162
- Accelerated depreciation allowance	80,051	78,693	-	158,744
Deferred debits arising in respect of:				
- Provision against non-performing advances	(12,629)	(2,919)	-	(15,548)
- Deficit on revaluation of government securities	(76,843)	-	(5,655)	(82,498)
	1,268,307	577,208	(5,655)	1,839,860

21. OTHER LIABILITIES

	Note	2007	2006
		Rupees '000	
Mark-up / return payable in local currency		1,714,329	1,169,925
Mark-up / return payable in foreign currency		50,027	5,733
Unearned commission / income		105,041	42,743
Accrued expenses		191,209	115,824
Current taxation (provisions less payments)		545,588	561,822
Unclaimed dividends		40,192	40,844
Exchange difference on revaluation of forward foreign exchange contracts		-	8,421
Subscription against Term Finance Certificates	21.1	-	750,000
Withholding tax payable		38,101	12,658
Central Excise Duty payable		-	4,088
Security deposits against finance leases		3,669,646	2,797,385
Payable to brokers	21.2	11,883	31,404
Others		585,405	383,593
		6,951,421	5,924,440

- 21.1** Approvals from the Securities and Exchange Commission of Pakistan (SECP), and the Karachi Stock Exchange (KSE) for Initial Public Offering (IPO) which was pending upto December 31, 2006 were received in the current year. Consequently public issue of term finance certificates was made in 2007. Accordingly, the amount has been disclosed as sub-ordinated debt as given in note 18.

- 21.2** This represents amounts payable to brokers against purchase of shares.

22. SHARE CAPITAL**22.1 Authorised capital**

2007	2006		2007	2006
Number of Shares			Rupees '000	
<u>600,000,000</u>	<u>600,000,000</u>	Ordinary shares of Rs. 10 each	<u>6,000,000</u>	<u>6,000,000</u>

22.2 Issued, subscribed and paid-up capital

2007	2006	Ordinary shares		
Number of Shares				
201,451,420	201,451,420	Fully paid in cash	2,014,514	2,014,514
312,533,051	206,604,257	Issued as bonus shares	3,125,331	2,066,043
15,660,000	15,660,000	Issued for consideration other than cash	156,600	156,600
<u>529,644,471</u>	<u>423,715,677</u>		<u>5,296,445</u>	<u>4,237,157</u>

As at December 31, 2007, Ithmaar Bank (the ultimate holding company of the bank) through its subsidiaries and nominees held 354,556,291 ordinary shares of Rs. 10 each (2006 : 283,646,932 ordinary shares).

	Note	2007	2006
		Rupees '000	
23. RESERVES			
Statutory reserve	23.1	3,177,491	2,723,070
Capital market reserve	23.2	<u>389,542</u>	<u>356,457</u>
		<u>3,567,033</u>	<u>3,079,527</u>

23.1 Appropriations are made to statutory reserve as required by section 21 of the Banking Companies Ordinance, 1962, @ 20% of profit after tax for the year.

23.2 This represents reserve created to meet unforeseen future contingencies in the capital market.

	Note	2007	2006
		Rupees '000	
24. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS			
- BY TYPE AND SEGMENT			
Federal Government Securities			
- Market Treasury Bills		(50,478)	(6,325)
- Pakistan Investment Bonds		(197,477)	(229,385)
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units			
- Listed companies/ modarabas/ mutual funds		58,262	(27,865)
- Unlisted companies		-	-
Fully Paid up Preference Shares			
- Listed companies		(28,326)	(18,940)
- Unlisted companies		-	-
Term Finance Certificates and Bond			
- Listed TFCs		(52,836)	(41,938)
- Unlisted TFCs		-	-
Open ended Mutual Fund Units		<u>6,659,549</u>	<u>4,906,262</u>
		<u>6,388,694</u>	<u>4,581,809</u>
Deferred tax (liability) / asset	24.1	<u>(577,337)</u>	<u>82,498</u>
		<u>5,811,357</u>	<u>4,664,307</u>

24.1 This represents deferred tax computed on surplus on revaluation of federal government securities and on quoted securities. As the tax exemption on sale of listed securities has been withdrawn, the bank has provided deferred tax on quoted securities as at the balance sheet date.

25. CONTINGENCIES AND COMMITMENTS

2007 2006
Rupees '000

25.1 Direct credit substitutes

Contingent liability in respect of guarantees favouring:

i) Government	-	-
ii) Banking companies and other financial institutions	3,275	3,275
iii) Others	1,479,270	4,115,050
	1,482,545	4,118,325

25.2 Transaction-related contingent liabilities

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

i) Government	3,976,830	6,475,630
ii) Banking companies and other financial institutions	76,236	1,430,784
iii) Others	14,055,339	3,783,452
	18,108,405	11,689,866

25.3 Trade-related contingent liabilitiesLetters of credit
Acceptances

11,107,840	9,050,368
2,364,361	3,488,459
13,472,201	12,538,827

25.4 Other Contingencies

i) Suit filed by a customer for recovery of alleged losses suffered which is pending in the High Court of Sindh; bank's legal advisors are confident that the bank has a strong case	2,500,000	2,500,000
ii) Indemnity issued favouring the High Court in above case	457,543	457,543
iii) Claims against the bank not acknowledged as debt	839,454	839,454

25.5 Commitments in respect of forward lending

Commitment to extend credit - advances	1,200,000	176,408
Commitment to invest in securities	1,000,000	1,219,830

25.6 Commitments in respect of forward exchange contracts

Purchase

- Customers	734,181	733,920
- Banks	1,940,112	9,622,488
	2,674,293	10,356,408

Sale

- Customers	136,434	619,141
- Banks	3,887,537	6,320,422
	4,023,971	6,939,563

25.7 Commitments for the acquisition of operating fixed assets

67,860 145,622

25.8 Commitments in respect of repo transactions

Repurchase	-	6,765,761
Resale	4,736,709	7,239,038

26. DERIVATIVE INSTRUMENTS

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The principal derivatives used by the bank are forward foreign exchange contracts and equity futures. The bank at this stage does not engage in Interest Rate Swaps, Forward Rate Agreements and FX Options.

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Equity futures are exchange traded contractual agreements to either buy or sell a specified security at a specific price and date in the future. The bank enters into these contracts for the purposes of squaring currency positions.

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations. The principal amount of the derivative contract does not represent real exposure to credit risk, which is limited to the positive fair value of instruments.

The details of commitments under forward foreign exchange contracts outstanding at year-end have been given in note 25. There was no equity futures position at the year end.

27. MARK-UP/RETURN EARNED	<i>Note</i>	2007	2006
		Rupees '000	
a) On financing to:			
i) customers		8,633,779	6,636,517
ii) financial institutions		137,274	115,722
b) On investments in:			
i) held for trading securities		-	-
ii) available for sale securities		1,333,820	1,631,964
c) On deposits with treasury bank and financial institutions		460,837	435,332
d) On securities purchased under resale agreements		1,045,071	908,511
		<u>11,610,781</u>	<u>9,728,046</u>
28. MARK-UP/RETURN EXPENSED			
Deposits		6,179,693	4,699,154
Securities sold under repurchase agreements		111,927	464,119
Other short term borrowings		986,304	820,021
Long term borrowings		90,321	82,663
Sub-ordinated debt		91,147	23,298
		<u>7,459,392</u>	<u>6,089,255</u>
29. GAIN ON SALE OF SECURITIES			
Gain on sale of shares - listed		1,115,613	330,061
		<u>1,115,613</u>	<u>330,061</u>
30. OTHER INCOME			
Profit on disposal of fixed assets	30.1	3,171	320,295
Compensation on delayed tax refund	30.2	-	117,203
Rent on property		37,389	8,178
Maintenance charges on property rented		3,261	2,032
		<u>43,821</u>	<u>447,708</u>

- 30.1** Prior year amount included a gain on sale of property (Gulberg, Branch II, Lahore) of Rs. 213.638 million.
- 30.2** In 2006, income representing amount acknowledged by the assessing officer of the Federal Board of Revenue as compensation due on delayed tax refunds through orders dated June 30, 2006, passed under section 171 of the Income Tax Ordinance, 2001 was recognised. The refunds pertained to assessment years 1997-98 to 2002-03.

31. ADMINISTRATIVE EXPENSES	Note	2007	2006
		Rupees '000	
Salaries, allowances and other employee benefits		1,435,750	874,238
Charge for defined benefit plan		23,917	20,263
Contribution to defined contribution plan		33,368	26,675
Rent, taxes, insurance, electricity, etc.		291,267	194,162
Legal and professional charges		47,670	16,230
Communications		56,079	35,271
Repairs and maintenance		73,956	44,018
Lease rentals		-	7,909
Donations	31.1	4,600	-
Finance charge on leased assets		725	1,529
Stationery and printing		62,409	50,307
Advertisement and publicity		58,085	74,968
License and technical fee		47,896	50,011
Auditors' remuneration	31.2	5,275	3,600
Depreciation	13.2	321,215	189,264
Amortisation	13.3	17,983	4,520
Travelling, conveyance and entertainment		32,544	38,380
Vehicle running expenses		43,091	39,592
Books, periodicals and subscription		17,387	14,729
Brokerage and commission		34,057	40,645
Others		192,473	140,273
		<u>2,799,747</u>	<u>1,866,584</u>
31.1 Donations made in the year were as follows:			
Donee			
Waqf Faisal (Trust) - This is a charitable public welfare project (The Acting President and CEO of the bank is the Managing Trustee of the Trust)		4,600	-
		<u>4,600</u>	<u>-</u>
31.2 Auditors' remuneration			
Audit fee		2,750	1,375
Review of half yearly financial statements		275	275
Special certifications and sundry advisory services		1,900	1,800
Out-of-pocket expenses		350	150
		<u>5,275</u>	<u>3,600</u>
32. OTHER CHARGES			
Penalties imposed by the State Bank of Pakistan		9,855	32,857
		<u>9,855</u>	<u>32,857</u>

33. TAXATION		2007	2006
		Rupees '000	
For the year			
Current		282,381	383,442
Deferred		191,771	533,906
		474,152	917,348
For prior year			
Current		(48,433)	93,118
Deferred		-	43,302
		(48,433)	136,420
		425,719	1,053,768
33.1 Relationship between tax expense and accounting profit			
Profit before tax		2,697,827	3,870,340
Tax calculated at the rate of 35% (2006: 35%)		944,239	1,354,619
Effect of :			
- permanent differences		79,650	41,783
- income chargeable to tax at reduced rate		(317,499)	(82,734)
- income exempt from tax		(232,238)	(396,320)
- prior year charge		(48,433)	136,420
Tax charge for the year		425,719	1,053,768
33.2	Income tax assessments of the bank have been finalised upto the tax year 2005 (Accounting year 2004). Returns filed for tax year 2006 (Accounting year 2005) and tax year 2007 (Accounting year 2006) are also deemed to have been assessed as per tax law, unless selected for detailed audit.		
34. BASIC AND DILUTED EARNINGS PER SHARE	Note	2007	2006
		Rupees '000	
Profit for the year		2,272,108	2,816,572
		In thousands	
Number of ordinary shares	22	529,644	529,644
		Rupees	
Basic and diluted earnings per share		4.29	5.32
35. CASH AND CASH EQUIVALENTS		2007	2006
		Rupees '000	
Cash and balance with treasury banks	8	6,872,032	7,207,998
Balances with other banks	9	3,708,451	2,883,040
Call money lendings	10.2	800,000	-
		11,380,483	10,091,038
36. STAFF STRENGTH		In Numbers	
Permanent		1,394	1,109
Temporary / on contractual basis		365	354
Bank's own staff strength at the end of the year		1,759	1,463
Outsourced	36.1	716	606
Total Staff Strength		2,475	2,069
36.1	Outsourced represent employees hired by an outside contractor/agency and posted in the bank to perform various tasks/activities of the bank.		

37. DEFINED BENEFIT PLAN**37.1 Principal actuarial assumptions**

The latest actuarial valuation of the bank's defined benefit plan based on Projected Unit Credit Actuarial Cost Method was carried out as at December 31, 2007. Following are the significant assumptions used in the valuation:

	Note	2007	2006			
Discount factor used (%age per annum)		10	10			
Expected long term rate of return on plan assets (%age per annum)		10	10			
Salary increase (%age per annum)		10	10			
Normal retirement age (Years)		60 years	60 years			
		2007	2006			
		Rupees '000				
37.2 Reconciliation of payable to defined benefit plan						
Present value of defined benefit obligations	37.3	123,141	118,509			
Fair value of plan assets	37.4	(97,739)	(97,253)			
Net actuarial gain/(loss) not recognised		(25,402)	(21,256)			
		-	-			
37.3 Movement in present value of defined benefit obligation						
Opening balance		118,509	93,553			
Current service cost		20,406	17,846			
Interest cost		12,385	8,293			
(Gain) / Loss on defined benefit obligation		2,818	4,231			
Actual benefits paid during the year		(30,977)	(5,414)			
Closing balance		123,141	118,509			
37.4 Movement in fair value of plan assets						
Opening balance		97,253	79,599			
Expected return on plan assets		10,291	6,949			
Contribution made		23,917	20,263			
Benefits paid by the fund		(30,977)	(5,414)			
Gain / (Loss) on plan assets		(2,745)	(4,144)			
Closing balance		97,739	97,253			
37.4.1 Plan assets consist of the following:						
Balances with banks and financial institutions		38,383	62,931			
Certificates of investment		-	8,000			
Units of open ended mutual funds		40,000	10,000			
Term finance certificates		19,356	16,322			
		97,739	97,253			
37.5 Movement in payable to defined benefit plan						
Opening balance		465	465			
Charge for the year	37.6	23,917	20,263			
Contribution to fund made during the year		(23,917)	(20,263)			
Closing balance		465	465			
37.6 Charge for defined benefit plan						
Current service cost		20,406	17,846			
Interest cost		12,385	8,293			
Expected return on plan assets		(10,291)	(6,949)			
Amortisation of loss		1,417	1,073			
		23,917	20,263			
37.7 Actual return on plan assets		8,189	7,837			
37.8 Historical information		2007	2006	2005	2004	2003
		-----Rupees '000-----				
Defined Benefit Obligation		(123,141)	(118,509)	(93,553)	(79,512)	(56,912)
Fair value of plan assets		97,739	97,253	79,134	64,070	60,376
Surplus/ (Deficit)		(25,402)	(21,256)	(14,419)	(15,442)	3,464
Experience adjustments on plan liabilities		(2,818)	(4,231)	581	(17,557)	1,386
Experience adjustments on plan assets		(2,745)	888	767	397	508

38. DEFINED CONTRIBUTION PLAN

The bank operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the bank and the employees at the rate of 10 % of basic salary. The financial statements of the fund are separately prepared and audited and are not included as part of these financial statements.

39. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Chief Executive Officer*		Executives	
	2007	2006	2007	2006
	----- Rupees '000 -----			
Managerial remuneration	48,586	61,865	125,978	214,570
Payments to Ex President for past services	304,200	-	-	-
Charge for defined benefit plan	2,206	1,863	6,631	6,330
Contribution to defined contribution plan	2,649	2,236	7,960	7,599
Rent and house maintenance	6,329	1,744	36,741	33,813
Utilities	2,649	2,236	8,132	7,599
Medical	147	84	5,718	6,021
Leave fare assistance	8,217	2,236	12,589	12,476
Others	1,944	317	33,949	24,338
	<u>376,927</u>	<u>72,581</u>	<u>237,698</u>	<u>312,746</u>
Number of persons	<u>2</u>	<u>1</u>	<u>83</u>	<u>69</u>

* Remuneration of the Chief Executive Officer in the year 2007 includes Ex-Chief Executive Officer and the Acting Chief Executive Officer

39.1 In addition to the above, the Chief Executive and Executives are provided with free use of bank's maintained cars and security services.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest financial statements.

Fair value of fixed term advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of advances has been calculated in accordance with bank's accounting policy as stated in note 7.5 of these financial statements.

The maturity and repricing profile and effective rates are stated in note 46.6.1 and 46.5 respectively.

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

41. ACCOUNTING ESTIMATES AND JUDGEMENTS

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Some of the critical accounting estimates and judgements are as follows:

41.1 Provision against advances portfolio

The bank reviews its advances portfolio to assess amount of non-performing advances and provision required there against on a quarterly basis. The provision is made in accordance with Prudential Regulations issued by the State Bank of Pakistan (SBP). On October 12, 2007, SBP issued a circular advising complete withdrawal of the benefit of forced sale valuations (FSVs) against all non-performing loans, except home mortgage loans, while calculating the provisioning requirements. The circular became effective from December 31, 2007. Further, as per the circular, personal loans now require 100% provisioning as against the previous benchmark of one year past due. The management has revised its accounting estimate for determining provisions in the light of the State Bank of Pakistan's directives, the impact of which is given in note 12.4.1. The forced sale values in respect of collaterals in the case of home mortgage loans are estimated by independent valuations of the assets mortgaged/pledged. General provision in respect of unidentified loan losses is made based on historical experience for assets with credit risk characteristics.

41.2 Income taxes

In making the estimates for income taxes currently payable by the bank, the management looks at the current income tax law and the decisions of appellate authorities on disputed issues in the past. The allocation of expenses between income chargeable to tax under final tax regime (FTR) and normal tax regime (NTR) is based on the prior assessment orders of the bank. The consensus between the banking sector and the tax department is yet to be reached on the matter of allocation of expenses, which could have a tax implication on the bank. No amount is shown as a contingent liability of the bank in this regard as the bank's liability is determined on the basis of accepted past practices.

41.3 Impairment in respect of listed securities

The bank determines that listed AFS securities are impaired when there has been a significant or prolonged decline in fair value below its cost. In making this judgement, the bank evaluates among other factors volatility in share prices in normal course.

If the bank considers that a deficit is temporary, it is classified as a revaluation loss / (deficit) and if the impairment is considered of a permanent nature, it is treated as provision for diminution in value of investments.

41.4 Gratuity

The bank has adopted certain actuarial assumptions as disclosed in note 37.1 to the financial statements for determining present value of defined benefit obligations and fair value of plan assets, based on actuarial advice. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

41.5 Segmentation

As per the requirements of the new format of financial statements issued by the State Bank of Pakistan, the management has divided the bank into four functional segments. The basis of segmentation and related assumptions are disclosed in note 7.17.

41.6 Fair Value of securities

The fair value of some of the securities may invoke some discounts at the time of sale of these securities. These have not been adjusted from the revaluation surplus on the assumption that these will be sold at the prevailing market rates.

42. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Primary segment information

For management purposes the bank is organised into four major business segments

Corporate Finance;
Trading and Sales;
Retail Banking; and
Commercial Banking.

All assets, liabilities, off balances sheet items, and items of income and expense are distributed in primary segments in accordance with the core functions performed by the business groups.

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	-----Rupees '000-----			
2007				
Total income	1,041,294	2,601,331	4,051,249	7,362,924
Total expenses	<u>(673,875)</u>	<u>(1,731,629)</u>	<u>(3,644,489)</u>	<u>(6,734,697)</u>
Net income (loss)	<u>367,419</u>	<u>869,702</u>	<u>406,760</u>	<u>628,227</u>
Segment assets (Gross)	7,657,073	17,730,889	46,120,943	73,718,706
Segment non performing assets	273,186	91,460	2,105,390	2,648,025
Segment provision required	(160,440)	(61,248)	(1,188,153)	(2,540,349)
Segment liabilities	(1,301,319)	(6,848,633)	(44,593,360)	(72,377,603)
Segment return on assets (ROA) (%) *	<u>13.60</u>	<u>14.67</u>	<u>8.78</u>	<u>9.99</u>
Segment cost of funds (%) *	<u>7.60</u>	<u>15.26</u>	<u>5.32</u>	<u>5.45</u>
2006				
Total income	1,088,999	2,072,331	3,890,309	5,429,796
Total expenses	<u>(537,509)</u>	<u>(1,550,763)</u>	<u>(2,938,646)</u>	<u>(4,637,985)</u>
Net income (loss)	<u>551,490</u>	<u>521,568</u>	<u>951,663</u>	<u>791,811</u>
Segment assets (Gross)	8,285,864	13,433,219	38,554,126	57,085,804
Segment non performing assets	-	182,354	894,108	2,869,497
Segment provision required	-	(73,238)	(410,040)	(1,405,334)
Segment liabilities	(1,063,043)	(7,088,218)	(34,740,061)	(58,782,445)
Segment return on assets (ROA) (%) *	<u>13.14</u>	<u>15.43</u>	<u>10.09</u>	<u>9.51</u>
Segment cost of funds (%) *	<u>3.51</u>	<u>14.13</u>	<u>5.58</u>	<u>5.00</u>

* These percentages have been computed based on closing assets / liability figure instead of average balances.

Note : The above table is based on best estimates / assumptions. Comparatives have been rearranged for comparative purpose

43. TRUST ACTIVITIES

The bank is not engaged in any significant trust activities. However, it acts as security agent for various Term Finance Certificates it arranges and distributes on behalf of its customers.

44. RELATED PARTY TRANSACTIONS

The bank has related party relations with its associated undertakings, subsidiary companies (refer note 11.1), group companies, employee benefit plans (refer note 7.11) and its directors and executive officers (including their associates). Transactions with key management personnel and entities in which the bank has a strategic investment are also disclosed as part of related party transactions.

Banking transactions with the related parties are executed substantially on the same terms, except transaction with directors and executive officers that are as per their terms of employment, including mark-up rates and collateral, as those prevailing at the time of comparable transactions with unrelated parties and do not involve more than a normal risk. Details of advances to the companies or firms in which the directors of the Bank are interested as directors, partners or in case of private companies as members are given in note 12.9 to these financial statements.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of contribution plan (refer note 7.11 and note 37 to these financial statements for the details of the plans). Remuneration of key management personnel, including salaries and other short-term employee benefits and post-employee benefits is given below. Remuneration to executives (including key management personnel) of the bank is disclosed in note 39 to these financial statements. Such remuneration is determined in accordance with the terms of their appointment. Strategic investments are disclosed in note 11.1.1.

	2007				
	Directors and Key Management Personnel	Group Companies	Associates	Subsidiaries	Strategic Investments
-----Rupees '000-----					
Deposits					
Balance at the beginning of the year	71,086	1,187	5,287	240,690	223,589
Placements during the year	1,131,960	51,010	833,046	2,957,224	4,229,246
Withdrawals during the year	(1,154,559)	(50,169)	(838,260)	(3,189,696)	(4,317,355)
Balance at end of the year	48,487	2,028	73	8,218	135,480
Advances					
Balance at the beginning of the year	25,489	-	-	-	975,060
Disbursement during the year	-	-	-	-	31,576
Repayment during the year	(21,343)	-	-	-	(199,647)
Balance at the end of the year	4,146	-	-	-	806,989
	2006				
	Directors and Key Management Personnel	Group Companies	Associates	Subsidiaries	Strategic Investments
-----Rupees '000-----					
Deposits					
Balance at the beginning of the year	25,046	304,609	347,385	141,182	445,054
Placements during the year	631,972	593,217	5,583,776	2,118,857	4,258,249
Withdrawals during the year	(585,932)	(896,639)	(5,925,874)	(2,019,349)	(4,479,714)
Balance at end of the year	71,086	1,187	5,287	240,690	223,589
Advances					
Balance at the beginning of the year	50,509	-	320,000	285,599	413,004
Disbursement during the year	-	-	-	-	618,252
Repayment during the year	(25,020)	-	(320,000)	(285,599)	(56,196)
Balance at the end of the year	25,489	-	-	-	975,060

Balances pertaining to parties that were related at the beginning of the year but ceased to be so related during any part of the current period are not reflected as part of the closing balance. The same are accounted for through the movement presented above.

	2007	2006
	Rupees '000	
Foreign Currency Placement of funds / Nostro balances with associates	5,147	128,229
Transactions involving Sale / Purchase of investments with related parties		
Shares / Units purchased during the year	250,000	93,755
Shares / Units / Term Finance Certificates sold during the year	364,852	477,792
Income on foreign currency placement of funds	10,215	28,961
Profit paid/ accrued	11,223	10,934
Profit return/ earned	70,480	26,730
Technical Fee paid	46,472	49,497
Dividend income from subsidiaries	32,684	128,891
Dividend paid to holding company and associates	709,117	1,210,856
Commission charged on guarantee given to a subsidiary	-	40
Remuneration of key management personnel		
- Salaries and other short-term employee benefits	97,633	168,075
- Post-employment benefits	7,003	7,613
- Payments to Ex President for past services	304,200	-
Contributions to staff retirement benefits	57,286	46,938

Disposal of vehicles to key management personnel and other executives is disclosed in note 13.4 to these financial statements.

45. CAPITAL ADEQUACY

45.1 The bank's objectives when managing its capital are:

- a) To comply with the capital requirements set by the State Bank of Pakistan;
- b) To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- c) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the State Bank of Pakistan for supervisory purposes. The required information is submitted to the State Bank of Pakistan on a quarterly basis. During 2007, the parallel run of Basel I and II (standardised approach) basis of computing capital adequacy was in practice. The disclosure given is, however based on the Basel I approach.

The State Bank of Pakistan requires each bank or banking group to: (a) hold the minimum level of the paid up capital and (b) maintain a ratio of total regulatory capital to the risk-weighted assets (the 'Basel ratio') at or above the internationally agreed minimum of 8%.

The bank's regulatory capital is divided into two tiers:

- a) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings; and
- b) Tier 2 capital: qualifying subordinated loan capital, general provision and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

Investments in subsidiaries are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The bank will continue to maintain the required regulatory capital either through its risk management strategies or by increasing the capital requirements in line with the business and capital needs.

The State Bank has prescribed a minimum paid-up capital requirement (net of losses) of Rs. 6 billion for all banks to be achieved by December 31, 2009. The required minimum Capital Adequacy Ratio (CAR), on consolidated as well as on stand alone basis is 8%. CAR is also calculated based on the Institutional Risk Assessment Framework (IRAF) Rating assigned by the State Bank to each bank and DFI. For this purpose, SBP intimates IRAF rating to each bank/DFI separately. No such rating has been received by the bank so far.

Failure to meet the minimum paid up capital requirement or prescribed Capital Adequacy Ratios would attract restrictions on operations, de-scheduling or even cancellation of banking license.

45.2 The capital to risk weighted assets ratio, calculated in accordance with the State Bank's guidelines on capital adequacy was as follows:-

Regulatory Capital Base	Note	2007	2006
Tier I Capital		Rupees '000	
Shareholders capital		5,296,445	4,237,157
Reserves		3,567,033	3,079,527
Unappropriated profits (net of proposed cash dividend)		157,558	756,354
		9,021,036	8,073,038
Adjustments			
Investments in equity of subsidiary companies engaged in banking and activities (Incl. Insurance) not consolidated in the balance sheet		(108,000)	(108,000)
Total Tier I Capital		8,913,036	7,965,038
Tier II Capital			
General provisions subject to 1.25% of total risk weighted assets		471,332	337,083
Revaluation reserve (upto 50%)		3,010,269	2,429,727
Sub-ordinated debt (upto 50% of Total Tier I Capital)		1,000,000	-
Total Tier II Capital		4,481,601	2,766,810
Eligible Tier III Capital		-	-
Total Regulatory Capital (a)		13,394,637	10,731,848

Risk-Weighted Exposures	2007		2006	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
	-----Rupees '000-----		-----Rupees '000-----	
Credit Risk				
Balance Sheet Items:-				
Cash and other liquid assets	10,580,483	772,514	10,091,038	585,572
Money at call	7,078,102	740,000	4,608,205	400,000
Investments	31,553,108	8,991,629	22,501,382	10,089,478
Advances	82,789,881	82,513,474	70,755,755	64,499,184
Fixed assets	2,514,958	2,514,958	2,239,392	2,239,392
Other assets	2,461,854	2,444,516	1,586,998	1,575,595
	136,978,386	97,977,091	111,782,770	79,389,221
Off Balance Sheet items				
Loan repayment guarantees	2,360,727	2,360,727	3,775,480	3,688,940
Purchase and resale agreements	650,000	-	-	-
Performance bonds etc	17,869,214	6,995,571	10,012,493	4,690,138
Revolving underwriting commitments	-	-	-	-
Standby letters of credit	12,473,212	6,236,606	12,264,921	5,960,873
Outstanding foreign exchange contracts				
-Purchase	2,674,292	20,772	2,922,902	19,304
-Sale	3,781,064	15,076	3,804,387	25,126
	39,808,509	15,628,752	32,780,183	14,384,381
Credit risk-weighted exposures (b)		113,605,843		93,773,602
Market Risk				
General market Risk		1,778		3,432
Specific market Risk		18,320		11,481
Market risk-weighted exposures (c)		20,098		14,913
Market risk-weighted exposure (c)*12.5 (d)		251,225		186,413
Total Risk-Weighted exposures (b+d) (e)		113,857,068		93,960,015
Capital Adequacy Ratio - Credit Risk [(a) / (b) x (100)]		11.79		11.44
Total Capital Adequacy Ratio [(a) / (e) x (100)]		11.76		11.42

45.2.1 Book values reported above are net of cash margin held.

46. RISK MANAGEMENT

The bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits.

Risk management is carried out by the bank under policies approved by the Board of Directors. The principal risks associated with the banking business are credit risk, market risk, liquidity risk and operational risk.

46.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit exposures arise principally in lending activities that lead to loans and advances. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

Credit risk management and control are carried out by credit risk management teams, which report to the board of directors through risk management committees. The bank has well defined credit structures under which credit committees, comprising senior officers with required credit background, critically scrutinise and sanction financing. The Bank's exposure to credit is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

The credit evaluation primarily realise on a well define internal risk rating systems which gauges risk rating of existing and potential customers in corporate, commercial and SME divisions. The rating model evaluates all customers based on predefined parameters, which include financial statements analysis, sponsors and management profile, industry and business analysis and outlook, relationship with the banking industry, external rating and repayment behavior of the customer.

Out of the total financial assets of Rs. 138.252 billion, the financial assets which were subject to credit risk amounted to Rs. 131.380 billion. Investments in Federal Government Securities amounting to Rs. 18.074 billion are guaranteed by the Government of Pakistan (GoP). Also guaranteed through a letter of comfort issued by GoP is investment to the extent of Rs. 8.979 billion in NIT Units, as referred to in note 11.2.4 to the financial statements. The bank's major credit risk is concentrated in textile & power sectors. To manage credit risk, the bank grants credit limits to its customers and obtains adequate collaterals against advances.

46.1.1 Segment by class of business

Portfolio management is an integral part of the bank's credit process. Risk concentration may arise where total exposure to a particular group or industry is high in relation to shareholders' equity. The bank has set up a portfolio strategy and planning function with an aim to monitor the overall risk and to avoid high exposure to a single group or industry.

Segmental information in respect of the class of business and geographical distribution of advances, deposits, and contingencies and commitments is given below:

	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and Pharmaceuticals	2,732,554	3.13	1,584,505	1.55	975,247	2.91
Agribusiness	2,806,910	3.21	2,032,446	1.99	509,423	1.52
Textile	12,627,595	14.46	1,091,039	1.07	2,470,765	7.37
Cement	5,575,180	6.38	302,128	0.30	1,714,023	5.11
Telecommunication	-	-	8,721	0.01	1,567,209	4.68
Sugar	1,624,007	1.86	37,345	0.04	9,894	0.03
Construction	2,781,506	3.18	2,487,339	2.44	2,581,411	7.70
Ready made garments	2,084,721	2.39	135,991	0.13	18,896	0.06
Shoes and leather garments	1,143,908	1.31	234,294	0.23	115,293	0.34
Automobile and transportation equipment	222,376	0.25	167,730	0.16	422,533	1.26
Transportation, Road and Air	2,384,186	2.73	-	-	-	-
Financial	5,096,307	5.83	3,911,522	3.83	772,154	2.30
Oil Refining / Marketing	198,073	0.23	19,277,956	18.89	2,032,669	6.06
Distribution / Trading	5,871,123	6.72	1,961,520	1.92	442,716	1.32
Electronics and electrical appliances	942,614	1.08	565,494	0.55	1,304,608	3.89
Production and transmission of energy	5,368,869	6.15	2,391,451	2.34	13,197,524	39.37
Iron and Steel	747,497	0.86	427,948	0.42	344,834	1.03
Food and Allied	-	-	-	-	190,200	0.57
Synthetic and Rayon	-	-	59,184	0.06	44,408	0.13
Food Industries	4,669,556	5.35	311,716	0.31	40,171	0.12
Paper and Board	639,559	0.73	431,083	0.42	177,486	0.53
Individuals	15,589,414	17.85	28,328,709	27.75	73,103	0.22
Others	14,240,446	16.30	36,319,301	35.59	4,516,127	13.48
	87,346,401	100.00	102,067,422	100.00	33,520,694	100.00

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and Pharmaceuticals	2,514,898	3.38	1,266,470	1.70	3,802,283	13.20
Agribusiness	1,140,932	1.53	1,715,704	2.31	432,243	1.50
Textile	13,829,068	18.57	2,347,914	3.16	4,040,577	14.03
Cement	2,448,434	3.29	480,286	0.65	908,165	3.15
Sugar	1,441,312	1.94	502,966	0.68	9,894	0.03
Construction	1,742,574	2.34	2,065,756	2.78	1,675,880	5.82
Ready made garments	1,911,772	2.57	349,456	0.47	69,801	0.24
Shoes and leather garments	986,902	1.33	173,734	0.23	43,865	0.15
Automobile and transportation equipment	202,206	0.27	2,447,997	3.29	251,809	0.87
Financial	5,010,156	6.73	2,106,681	2.83	1,114,776	3.87
Oil Refining / Marketing	901,250	1.21	14,276,176	19.18	7,026,691	24.39
Distribution / Trading	5,127,944	6.89	4,288,879	5.76	118,864	0.41
Electronics and electrical appliances	1,734,323	2.33	325,862	0.44	780,756	2.71
Production and transmission of energy	3,728,271	5.01	193,148	0.26	2,653,701	9.21
Iron and Steel	437,141	0.59	365,442	0.49	479,920	1.67
Synthetic and Rayon	-	-	102,934	0.14	96,707	0.34
Food Industries	4,029,362	5.41	1,209,182	1.62	216,437	0.75
Paper and Board	556,506	0.75	913,328	1.23	711,868	2.47
Individuals	13,863,876	18.62	16,553,223	22.24	180,167	0.63
Others	12,861,717	17.24	22,728,503	30.54	4,190,165	14.56
	74,468,644	100.00	74,413,641	100.00	28,804,569	100.00

46.1.2 Segment by sector	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	1,148,481	1.31	4,505,076	4.41	11,497,679	34.30
Private	86,197,920	98.69	97,562,346	95.59	22,023,015	65.70
	87,346,401	100.00	102,067,422	100.00	33,520,694	100.00

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	1,006,806	1.35	16,838,717	22.63	9,940,888	34.51
Private	73,461,838	98.65	57,574,924	77.37	18,863,681	65.49
	74,468,644	100.00	74,413,641	100.00	28,804,569	100.00

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

	2007		2006	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	-----Rupees '000-----			
Chemical and Pharmaceuticals	727,617	699,000	687,237	215,505
Agribusiness	144,720	7,271	25,019	50
Textile	874,729	669,981	962,201	570,799
Transportation, Road and Air	170,402	116,857	199,768	69,349
Construction	50,028	34,420	25,136	9,973
Ready Made Garments	79,659	61,279	72,861	22,814
Shoes and leather garments	-	-	1,925	963
Financial	7,750	7,750	7,750	1,938
Distribution / Trading	357,896	284,857	28,143	14,619
Electronics and electrical appliances	5,791	1,274	8,471	3,218
Production and transmission of energy	970,355	516,663	393,887	138,903
Iron & Steel	5,448	1,362	675	531
Food Industries	83,769	33,875	297,426	134,142
Paper & Board	49,743	49,743	-	-
Individuals	546,656	183,638	214,647	55,396
Others (including manufacturing, and real estate)	678,852	531,605	610,047	66,139
	<u>4,753,415</u>	<u>3,199,575</u>	<u>3,535,193</u>	<u>1,304,339</u>

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

Public/ Government	-	-	-	-
Private	4,753,415	3,199,575	3,535,193	1,304,339
	<u>4,753,415</u>	<u>3,199,575</u>	<u>3,535,193</u>	<u>1,304,339</u>

46.1.5 Geographical segment analysis

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees '000-----			
Pakistan	2,697,827	141,277,421	16,156,503	33,520,694
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>2,697,827</u>	<u>141,277,421</u>	<u>16,156,503</u>	<u>33,520,694</u>
	-----Rupees '000-----			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees '000-----			
Pakistan	3,870,340	115,470,401	13,796,634	28,804,569
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	<u>3,870,340</u>	<u>115,470,401</u>	<u>13,796,634</u>	<u>28,804,569</u>

Total assets employed shown above mean total assets shown on the balance sheet and intra group items. Net assets employed mean net assets shown on the balance sheet.

46.2 Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in currency, equity, profit rate and other products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, credit spreads, foreign exchange rates and equity prices.

The bank seeks to mitigate market risk by employing strategies that correlate rate, price, and spread movements of its earning assets, liabilities and trading activities. The most significant market risks the bank faces are interest rate, credit spread, foreign exchange and equity price risks. The details of market risk faced by the bank are discussed in following notes.

46.3 Foreign Exchange Risk / Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealing.

The bank does not take any currency exposure except to the extent of statutory Net Open Position limit prescribed by SBP. Foreign exchange open and mismatch positions are controlled through internal limits and are marked to market on a daily basis to contain forward exposures.

Counterparty and stop loss limits are also in place in accordance with the bank's approved Standard Operating Procedures to limit risk and concentration

46.3.1 Currency Risk

	2007			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net currency exposure
----- Rupees '000 -----				
Pakistan rupee	130,505,594	132,078,173	1,380,333	(192,246)
United States dollar	9,464,146	7,952,053	(1,291,550)	220,543
Great Britain pound	807,492	792,247	(22,356)	(7,111)
Japanese yen	114,944	144,599	32,103	2,448
Euro	379,231	310,321	(98,530)	(29,620)
Other currencies	6,014	28	-	5,986
	<u>141,277,421</u>	<u>141,277,421</u>	<u>-</u>	<u>-</u>
	2006			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net foreign currency exposure
----- Rupees '000 -----				
Pakistan rupee	110,420,316	107,619,672	(2,889,089)	(88,445)
United States dollar	4,218,827	6,321,645	2,166,779	63,961
Great Britain pound	540,298	1,323,676	763,983	(19,395)
Japanese yen	49,571	2	2,368	51,937
Euro	239,419	205,299	(42,734)	(8,614)
Other currencies	1,970	107	(1,307)	556
	<u>115,470,401</u>	<u>115,470,401</u>	<u>-</u>	<u>-</u>

46.4 Equity position risk

Equity position risk is the risk arising from taking long or short positions, in the trading book, in the equities and all instruments that exhibit market behavior similar to equities. This results from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock or a defined basket of stocks.

The bank's equity position is governed by SBP limits for overall investment and per script exposure. In addition, there are internal limits set for trading positions as well as stop loss limits. At times, the bank also deals in equity future contracts.

46.5 Mismatch of Interest Rate Sensitive Assets and Liabilities / Yield / Interest Rate Risk

2007												
Effective Yield/Interest rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments	
		Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years		
Rupees in '000												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.32	6,872,032	455,699	-	-	-	-	-	-	-	-	6,416,333
Balances with other banks	5.41	3,708,451	2,820,115	-	-	-	-	-	-	-	-	888,336
Lending to financial institutions	9.24	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	-	-
Investments	8.19	31,553,108	1,081,797	3,323,492	5,667,718	8,296,623	164,685	208,853	263,287	1,045,126	-	11,501,527
Advances	12.34	87,346,401	16,311,952	17,587,808	10,836,185	15,324,285	9,158,285	6,227,014	6,748,716	2,133,746	1,935,907	1,082,503
Other assets		1,694,214	-	-	-	-	-	-	-	-	-	1,694,214
		138,252,308	22,438,471	26,220,494	16,503,903	23,620,908	9,322,970	6,435,867	7,012,003	3,178,872	1,935,907	21,582,913
Liabilities												
Bills payable		2,406,927	-	-	-	-	-	-	-	-	-	2,406,927
Borrowings from financial institutions	6.66	9,995,855	675,243	5,273,290	2,012,767	309,904	698,387	253,859	281,844	209,648	-	280,913
Deposits and other accounts	6.76	102,067,422	36,209,052	18,395,137	7,590,863	16,305,712	1,728,423	1,868,857	350,915	-	-	19,618,463
Sub-ordinated loans	11.36	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	8.00	7,827	-	983	983	1,272	4,589	-	-	-	-	-
Other liabilities		6,300,791	-	-	-	-	-	-	-	-	-	6,300,791
		121,778,822	36,884,295	23,669,410	10,604,613	16,616,888	2,431,399	2,122,716	632,759	209,648	-	28,607,094
On-balance sheet gap		16,473,486	(14,445,824)	2,551,084	5,899,290	7,004,020	6,891,571	4,313,151	6,379,244	2,969,224	1,935,907	(7,024,181)
Off-balance sheet financial instruments												
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)		(2,200,000)	(2,200,000)	-	-	-	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		(2,200,000)	(2,200,000)	-	-	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		(16,645,824)	2,551,084	5,899,290	7,004,020	6,891,571	4,313,151	6,379,244	2,969,224	1,935,907		
Cumulative Yield/Interest Risk Sensitivity Gap		(16,645,824)	(14,094,740)	(8,195,450)	(1,191,430)	5,700,141	10,013,292	16,392,536	19,361,760	21,297,667		

2006												
Effective Yield/Interest rate	Total	Exposed to Yield/ Interest risk									Non-interest bearing financial instruments	
		Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years		
Rupees in '000												
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.35	7,207,998	1,192,864	-	-	-	-	-	-	-	-	6,015,134
Balances with other banks	10.00	2,883,040	291,586	-	-	-	-	-	-	-	-	2,591,454
Lendings to financial institutions	9.49	4,608,205	1,309,293	3,298,912	-	-	-	-	-	-	-	-
Investments	8.73	22,525,358	3,499,428	3,995,256	55,991	2,617,678	24,567	16,901	16,901	1,126,297	-	11,172,339
Advances	11.64	74,468,644	9,994,778	15,410,735	9,324,835	26,863,204	3,869,960	3,623,807	2,749,851	785,515	126,140	1,719,819
Other assets		1,349,840	-	-	-	-	-	-	-	-	-	1,349,840
		113,043,085	16,287,949	22,704,903	9,380,826	29,480,882	3,894,527	3,640,708	2,766,752	1,911,812	126,140	22,848,586
Liabilities												
Bills payable		4,516,125	-	-	-	-	-	-	-	-	-	4,516,125
Borrowings	8.90	14,965,037	4,161,556	7,046,340	1,796,923	24,938	36,733	866,638	494,542	497,051	-	40,316
Deposits and other accounts	5.90	74,413,641	28,505,446	12,157,746	6,539,038	7,143,152	1,516,860	1,089,309	699,771	-	-	16,762,319
Sub-ordinated loans		-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	8.00	14,664	97	1,257	1,382	3,005	4,516	4,407	-	-	-	-
Other liabilities	12.10	5,303,129	-	-	750,000	-	-	-	-	-	-	4,553,129
		99,212,596	32,667,099	19,205,343	9,087,343	7,171,095	1,558,109	1,960,354	1,194,313	497,051	-	25,871,889
On-balance sheet gap		13,830,489	(16,379,150)	3,499,560	293,483	22,309,787	2,336,418	1,680,354	1,572,439	1,414,761	126,140	(3,023,303)
Off-balance sheet financial instruments												
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)		(1,396,238)	(33,330)	-	(1,336,500)	(26,408)	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		(1,396,238)	(33,330)	-	(1,336,500)	(26,408)	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap		(16,412,480)	3,499,560	(1,043,017)	22,283,379	2,336,418	1,680,354	1,572,439	1,414,761	126,140		
Cumulative Yield/Interest Risk Sensitivity Gap		(16,412,480)	(12,912,920)	(13,955,937)	8,327,442	10,663,860	12,344,214	13,916,653	15,331,414	15,457,554		

- 46.5.1** Yield risk is the risk of decline in earnings due to adverse movement of the yield curve.
- 46.5.2** Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market interest rates.
- 46.5.3** The interest rate exposure taken by the bank arises from investing in corporate, small medium enterprises, consumer loans, investment banking and interbank activities where variation in market interest rates may affect the profitability of the bank. This risk is addressed by an Asset and Liability Management Committee which reviews the interest rate dynamics at regular intervals and decides repricing of assets and liabilities ensuring that the spread of the bank remains at an acceptable level.
- 46.5.4** The advances and deposits of the bank are repriced on a periodic basis based on interest rates scenario.
- 46.5.5** Operating fixed assets and deferred tax assets and prepayments are non financial assets. Similarly, provision for taxation, deferred tax liability and prepayments are non-financial liabilities. These are not considered in the yield / interest risk sensitivity gap. The difference between the total assets and financial assets and total liabilities and financial liabilities is Rs. 3.025 billion and Rs. 3.342 billion respectively.

46.6 Liquidity Risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay investors and fulfill commitments to lend.

The bank's Asset and Liability Management Committee manages the liquidity position on a continuous basis. The bank's liquidity risk management process, as carried out within the bank and monitored by management of the bank, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting of treasury and capital market maturities is done through monitoring of daily maturities. Similarly the overall liquidity maintenance is done through monthly maturity gap analysis at balance sheet level. Hence, monitoring and reporting takes the form of regular and periodic cash flow measurement and projections. Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

46.6.1 Maturities of Assets and Liabilities (based on contractual maturities)

Total	2007									
	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	
-----Rupees '000-----										
Assets										
Cash and balances with treasury banks *	6,872,032	6,872,032	-	-	-	-	-	-	-	
Balances with other banks	3,708,451	3,708,451	-	-	-	-	-	-	-	
Lendings to financial institutions	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	
Investments	31,553,108	999,086	3,382,118	6,015,895	7,951,149	9,553,252	316,421	2,064,527	1,270,660	
Advances	87,346,401	17,394,457	17,587,809	10,836,185	10,759,822	10,236,064	6,928,165	7,313,366	2,820,775	
Operating fixed assets	2,514,959	18,106	54,324	58,167	108,649	217,297	268,714	462,938	1,086,487	
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	
Other assets	2,204,368	540,117	121,002	-	1,270,873	-	272,376	-	-	
	141,277,421	31,301,157	26,454,447	16,910,247	20,090,493	20,006,613	7,785,676	9,840,831	5,177,922	3,710,035
Liabilities										
Bills payable	2,406,927	2,406,927	-	-	-	-	-	-	-	
Borrowings from financial institutions	9,995,855	956,156	5,273,290	2,012,767	309,904	698,387	253,859	281,844	209,648	
Deposits and other accounts **	102,067,422	55,827,515	18,395,137	7,590,863	16,305,712	1,728,423	1,868,857	350,915	-	
Sub-ordinated loans	1,000,000	-	-	200	200	400	400	800	998,000	
Liabilities against assets subject to finance lease	7,827	616	261	629	1,835	4,486	-	-	-	
Deferred tax liabilities - net	2,691,466	-	-	-	-	-	-	2,691,466	-	
Other liabilities	6,951,421	3,046,185	485,188	325,063	1,029,823	492,235	427,542	1,145,385	-	
	125,120,918	62,237,399	24,153,876	9,929,522	17,647,474	2,923,931	2,550,658	4,470,410	1,207,648	-
Net assets	<u>16,156,503</u>	<u>(30,936,242)</u>	<u>2,300,571</u>	<u>6,980,725</u>	<u>2,443,019</u>	<u>17,082,682</u>	<u>5,235,018</u>	<u>5,370,421</u>	<u>3,970,274</u>	<u>3,710,035</u>
Share capital	5,296,445									
Reserves	3,567,033									
Unappropriated profit	1,481,668									
Surplus on revaluation of assets	5,811,357									
	<u>16,156,503</u>									
-----Rupees '000-----										
2006										
Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	
-----Rupees '000-----										
Assets										
Cash and balances with treasury banks *	7,207,998	7,207,998	-	-	-	-	-	-	-	
Balances with other banks	2,883,040	2,883,040	-	-	-	-	-	-	-	
Lendings to financial institutions	4,608,205	1,309,293	3,298,912	-	-	-	-	-	-	
Investments	22,525,358	3,523,405	3,995,256	2,951,614	3,165,463	402,509	5,733,302	886,709	1,867,100	
Advances	74,468,644	11,888,548	15,410,735	9,324,836	8,853,910	8,818,183	7,459,839	6,061,832	2,381,987	
Operating fixed assets	2,239,392	16,147	48,446	48,446	96,892	193,784	239,637	412,844	968,920	
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	
Other assets	1,537,764	79,020	98,990	38,980	1,294,718	161	25,895	-	-	
	115,470,401	26,907,451	22,852,339	12,363,876	13,410,983	9,414,637	13,458,673	7,361,385	5,218,007	4,483,051
Liabilities										
Bills payable	4,516,125	4,516,125	-	-	-	-	-	-	-	
Borrowings from financial institutions	14,965,037	4,201,873	7,046,339	1,796,923	24,938	36,733	866,638	494,542	497,051	
Deposits and other accounts **	74,413,641	45,267,766	12,157,745	6,539,038	7,143,152	1,516,860	1,089,309	699,771	-	
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	
Liabilities against assets subject to finance lease	14,664	96	1,258	1,382	3,005	4,516	4,407	-	-	
Deferred tax liabilities - net	1,839,860	-	-	-	-	-	-	1,839,860	-	
Other liabilities	5,924,440	636,263	249,239	141,600	1,033,000	456,235	889,749	1,688,873	828,635	
	101,673,767	54,622,123	19,454,581	8,478,943	8,204,095	2,014,344	2,850,103	4,723,046	1,325,686	846
Net assets	<u>13,796,634</u>	<u>(27,714,672)</u>	<u>3,397,758</u>	<u>3,884,933</u>	<u>5,206,888</u>	<u>7,400,293</u>	<u>10,608,570</u>	<u>2,638,339</u>	<u>3,892,321</u>	<u>4,482,205</u>
Share capital	4,237,157									
Reserves	3,079,527									
Unappropriated profit	1,815,643									
Surplus on revaluation of assets	4,664,307									
	<u>13,796,634</u>									

* Included in cash and balances with treasury banks are the current and deposit accounts with the State Bank of Pakistan which are maintained to meet the Statutory Liquidity Reserve Requirements (SLR). Since such balances have no actual maturity, the same are classified in the earliest maturity band of upto one month.

** As per the IAS requirement, the entire balance held in saving deposit accounts is classified under the maturity band of upto one month. On the basis of history the bank expects that these deposits will be maintained over a longer period without withdrawal.

46.6.2 Maturities of Assets and Liabilities - Based on expected maturities

The following maturity analysis is presented as an additional disclosure to depict the maturities of assets and liabilities as determined by the bank's Asset and Liabilities Management Committee (ALCO) keeping in view the historical withdrawal pattern of deposits and cash and bank balances.

Total	2007									
	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	
-----Rupees '000-----										
Assets										
Cash and balances										
with treasury banks *	6,872,032	2,524,365	1,191,274	525,804	943,090	261,942	371,756	332,509	404,634	316,658
Balances with other banks	3,708,451	3,708,451	-	-	-	-	-	-	-	-
Lendings to financial institutions	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	-
Investments	31,553,108	999,086	3,382,118	6,015,895	7,951,149	9,553,252	316,421	2,064,527	1,270,660	-
Advances	87,346,401	17,394,457	17,587,809	10,836,185	10,759,821	10,236,064	6,928,165	7,313,366	2,820,775	3,469,759
Operating fixed assets	2,514,959	18,106	54,324	58,167	108,650	217,297	268,714	462,938	1,086,487	240,276
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	2,204,368	540,118	121,002	-	1,270,871	-	272,377	-	-	-
	141,277,421	26,953,491	27,645,721	17,436,051	21,033,581	20,268,555	8,157,433	10,173,340	5,582,556	4,026,693
Liabilities										
Bills payable	2,406,927	2,406,927	-	-	-	-	-	-	-	-
Borrowings from financial institutions	9,995,855	956,156	5,723,290	1,562,767	309,904	698,387	253,859	281,844	209,648	-
Deposits and other accounts **	102,067,422	16,749,069	21,096,335	10,621,599	20,228,269	5,289,559	7,671,845	7,013,841	6,662,926	6,733,979
Sub-ordinated loans	1,000,000	-	-	200	200	400	400	800	998,000	-
Liabilities against assets subject to finance lease	7,827	-	982	983	1,272	4,590	-	-	-	-
Deferred tax liabilities - net	2,691,466	-	-	-	-	-	-	2,691,466	-	-
Other liabilities	6,951,421	3,046,185	485,188	325,063	1,029,823	492,235	427,542	1,145,385	-	-
	125,120,918	23,158,337	27,305,795	12,510,612	21,569,468	6,485,171	8,353,646	11,133,336	7,870,574	6,733,979
Net assets	<u>16,156,503</u>	<u>3,795,154</u>	<u>339,926</u>	<u>4,925,439</u>	<u>(535,887)</u>	<u>13,783,384</u>	<u>(196,213)</u>	<u>(959,996)</u>	<u>(2,288,018)</u>	<u>(2,707,286)</u>
Share capital	5,296,445									
Reserves	3,567,033									
Unappropriated profit	1,481,668									
Surplus on revaluation of assets	5,811,357									
	<u>16,156,503</u>									

46.7 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk and losses originate from operational process reliability, IT security, natural disasters, dependence on key suppliers, frauds, errors, customer service quality, regulatory compliance, retention of staff and social and environment impacts. The bank has implemented risk controls and loss mitigation actions for curtailing operational risk. Operational risk management unit has been centralized under risk management department, with representatives in each department, which have processes and systems in place to address operational risks within their areas. These include key controls and the provision of business continuity plans to protect against each disruption. An operational loss database has been established which will further strengthen the process of operational risk management.

47. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 21, 2008 by the Board of Directors of the bank.

48. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 21, 2008 has proposed a cash dividend of Rs. 2.5 per share (2006: Rs 2.5 per share) and a transfer of Rs. Nil (2006: Rs. 33.085 million) to Capital Market Reserve. These appropriations will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2007 do not include the effect of current year's appropriations which will be accounted for in the financial statements for the year ending December 31, 2008.

49. GENERAL

49.1 Presentation and disclosures in the annual financial statements

These financial statements have been prepared using the revised format of financial statements prescribed through BSD circular No. 04 dated February 17, 2006 issued by the State Bank of Pakistan. The format for presentation of financial statements became applicable for annual financial statements for periods commencing from January 01, 2006. The changes in the revised format for presentation of financial statements include the introduction of disclosures in respect of segment details with respect of business activities and capital adequacy and expanded disclosures in respect of derivative instruments and risk management. As per SBP Circular No. BSD/SU-4/546/101/2007 dated January 13, 2007, it had been clarified that disclosures pertaining to Basel II would be applicable after final implementation, i.e. completion of trial run. These financial statements, therefore, do not include these specific disclosures.

49.2 Amendments to published standards and new interpretations effective in 2007

Amendment to IAS 1-"Presentation of Financial Statements - Capital Disclosures", introduced new disclosures about the level of an entity's capital and how it manages capital. Adoption of this amendment has only resulted in additional disclosures given in note 45.1 to the financial statements.

Other new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after January 01, 2007 which are not considered relevant nor have any significant effect on the bank's operations have not been considered in these financial statements.

49.3 Standards, interpretations and amendments published / approved, effective current and future periods

The following standards, amendments and interpretation of approved accounting standards, are effective for accounting periods beginning from the dates specified below.

Particulars	Effective date
Revised IAS 1 - Presentation of financial statements. The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics. The changes affect the presentation of owner changes in equity and of comprehensive income. It introduces a requirement to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.	effective for annual accounting periods beginning on or after January 01, 2009
Revised IAS 23 - Borrowing costs. Revised IAS 23 removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on Group's financial statements.	effective from accounting period beginning on or after January 01, 2009
IFRIC 9 - Reassessment of embedded derivative	effective during the year but will be applied together with application of IAS 39.
IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions . IFRIC 11 requires that a share based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as equity settled share based payment regardless of how the equity instruments are obtained. IFRIC 11 is not expected to have any material impact on the Bank's financial statements.	effective for annual periods beginning on or after 1 March 2007
IFRIC 12 – Service Concession Arrangements. IFRIC 12 provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private concession arrangements. IFIRC 12 is not relevant to the Bank's operations.	effective from accounting period beginning on or after January 01, 2008
IFRIC 13- Customer Loyalty Programmes. IFRIC 13 addresses the accounting by entities that operates, or otherwise participate in, customer loyalty programmes for their customers.	effective from accounting period beginning on or after July 01, 2008
IFRIC 14 IAS 19- The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction. IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on minimum funding requirements (MFR) for such asset.	effective from accounting period beginning on or after January 01, 2008.

49.4 Comparatives

49.4.1 Previous year's figures have been rearranged and reclassified wherever necessary for the purposes of comparison. Major changes made in the comparative figures which are not disclosed in the relevant notes are as follows:

Reclassification from		Reclassification to		Reason for reclassification	Rupees in '000s
Note	Component	Note	Component		
25.1 (ii)	Direct Credit Substitutes - Contingent liability - guarantees favouring banking companies and other financial institutions	25.2	Transaction related contingent liabilities - Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:	Based on clarification in Prudential Regulations for Corporate / Commercial banking received from the State Bank regarding differentiation of Standby Letter of Credit (SBLC) and Letter of Credit (LC) vide BPRD Circular Letter No. 33 of 2007.	
		(i)	Government		25,982
		(ii)	Banking companies and other financial institutions		196,671
		(iii)	Others		124,691
25.3	Trade-related contingent liabilities - Letters of credit	25.1	Direct Credit Substitutes - Contingent liability - guarantees favouring others		4,115,050

In addition to the above, the bank has reclassified the prior year balance pertaining to Faysal Income Growth Fund from associate to available for sale, based on the re-evaluation of its influence on the mutual fund. The change had no impact on the profit and loss account of the bank for the year. Furthermore, there is no investment of the bank in the said fund as at the current year end.

49.5 Figure have been rounded off to the nearest thousand rupees unless other wise stated.

49.6 Captions as prescribed in BSD circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan in respect of which no amounts are outstanding have not been reproduced in these financial statements except for in the balance sheet and the profit and loss account.

49.7 As per the instructions issued by the State Bank of Pakistan banks are advised not to offer Islamic products without obtaining Islamic Banking licenses. In the light of these instructions, the terminology for morabahas and ijaras previously being used by the bank has been changed to conventional terms.

Acting President & CEO

Director

Director

Director