



Notes to the Financial Statements

For the year ended December 31, 2007

1. STATUS AND NATURE OF BUSINESS

- 1.1** National Bank of Pakistan (the bank) was incorporated in Pakistan under the National Bank of Pakistan Ordinance, 1949 and is listed on all the stock exchanges in Pakistan. Its registered and head office is situated at I.I. Chundrigar Road, Karachi. The bank is engaged in providing commercial banking and related services in Pakistan and overseas. The bank also handles treasury transactions for the Government of Pakistan (GoP) as an agent to the State Bank of Pakistan (SBP). The bank operates 1,243 (2006: 1,232) branches in Pakistan and 18 (2006: 18) overseas branches (including the Export Processing Zone branch, Karachi). Under a Trust Deed, the bank also provides services as trustee to National Investment Trust (NIT) including safe custody of securities on behalf of NIT.
- 1.2** During the year, the Bank has increased its authorised share capital from Rs.7,500 million (750,000,000 ordinary shares of Rs.10/- each) to Rs.10,000 million (1,000,000,000 ordinary shares of Rs.10/- each) as approved by shareholders in their general meeting held on April 02, 2007.

2. BASIS OF PRESENTATION

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

The financial results of the Islamic banking branches of the Bank have been consolidated in these financial statements for reporting purposes, after eliminating intra branch transactions / balances. Key financial figures of the Islamic banking branches are disclosed in note 42 to these financial statements.

Separate financial statements

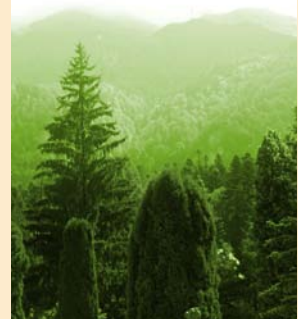
These financial statements are separate financial statements of the bank in which the investments in subsidiaries, associates and joint ventures are accounted for at cost and hence not on the basis of reported results and net assets of the investees.

US Dollar equivalent

The US Dollar amounts shown on the balance sheet, profit and loss account and cash flow statement are stated as additional information solely for the convenience of readers. For the purpose of conversion to US Dollars, the rate of Rs.62.00 to one US Dollar has been used for both 2007 and 2006 as it was the prevalent rate as on December 31, 2007.

3. STATEMENT OF COMPLIANCE

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



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- 3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement' and International Accounting Standard (IAS) 40, 'Investment Property' for Banking Companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

4. BASIS OF MEASUREMENT

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

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

5.2 Investments

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

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

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

- Held-for-trading – These are securities which are acquired with the intention to trade by taking advantage of short-term market/interest rate movements and are to be sold within 90 days. These are carried at market value, with the related surplus/(deficit) on revaluation being taken to profit and loss account.
- Held-to-maturity – These are securities with fixed or determinable payments and fixed maturity that are held with the intention and ability to hold to maturity. These are carried at amortised cost.
- Available-for-sale – These are investments that do not fall under the held-for-trading or held-to-maturity categories. These are carried at market value with the surplus/(deficit) on revaluation taken to 'Surplus/(Deficit) on Revaluation of Assets' Account below equity, except that available-for-sale investments in unquoted shares, debentures, bonds, participation term certificates, term finance certificates, federal, provincial and foreign government securities (other than Treasury Bills, Federal Investment Bonds and Pakistan Investment Bonds) are stated at cost less provision for diminution in value of investments, if any. Provision for diminution in value of investments in respect of unquoted shares is calculated with reference to book value of the same. Provision for diminution in value of investments for unquoted debt securities is calculated with reference to the time-based criteria as per the SBP's Prudential Regulations.

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



Notes to the Financial Statements

For the year ended December 31, 2007

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

On derecognition or impairment in quoted available-for-sale investments the cumulative gain or loss previously reported as "Surplus/(Deficit) on Revaluation of Assets" below equity is included in the profit and loss account for the period.

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

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

The carrying values of investments are reviewed for impairment at each balance sheet date. Where any such indications exist that the carrying values exceed the estimated recoverable amounts, provision for impairment is made through the profit and loss account.

5.3 Repurchase and resale agreements

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

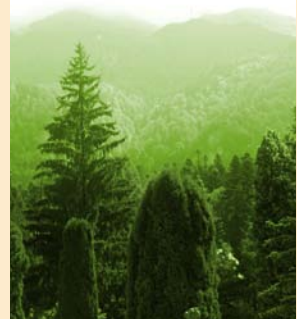
Securities purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet, as the bank does not obtain control over the securities. Amounts paid under these agreements are included in lendings to financial institutions. The difference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

5.4 Derivative financial instruments

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

5.5 Financial instruments

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



Notes to the Financial Statements

For the year ended December 31, 2007

5.6 Advances

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

5.7 Operating fixed assets and depreciation

Property and equipment

Owned assets

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

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

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

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

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

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

- depreciation on assets which are revalued is determined with reference to the value assigned to such assets on revaluation and depreciation charge for the year is taken to the Profit and Loss Account; and
- an amount equal to incremental depreciation for the year net of deferred taxation is transferred from "Surplus on Revaluation of Fixed Assets Account" to accumulated profit through Statement of Changes in Equity to record realization of surplus to the extent of the incremental depreciation charge for the year.



Notes to the Financial Statements

For the year ended December 31, 2007

Leased assets

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

Ijarah

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

Ijarah income is recognised on accrual basis as and when the rental becomes due and relevant profit is recorded on time proportion basis by reference to the relevant profit rate.

Intangible assets

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

Capital work-in-progress

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

Impairment

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

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

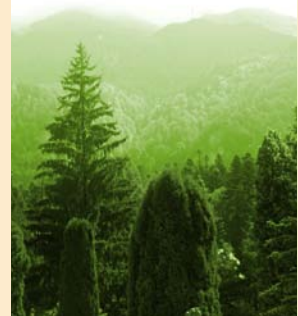
5.8 Taxation

Current

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

Deferred

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



Notes to the Financial Statements

For the year ended December 31, 2007

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

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

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

Deferred tax relating to the items recognized directly in equity are recognized in equity and not in the profit and loss account.

5.9 Employee benefits

5.9.1 Defined benefit plans

Pension scheme

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

Post retirement medical benefits

The bank operates an un-funded defined post retirement medical benefits scheme for all of its employees. Provision is made in the financial statements for the benefit based on actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gains/losses are accounted for in a manner similar to the pension scheme.

Benevolent scheme

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

Gratuity scheme

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

5.9.2 Other employee benefits

Employees' compensated absences

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



Notes to the Financial Statements

For the year ended December 31, 2007

5.10 Revenue recognition

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

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

Fee, commission and brokerage income and remuneration for trustee services are recognized at the time of performance of services.

Dividend income on equity investments is recognized when right to receive is established. Dividend received on equity investments acquired after the announcement of dividend till the book closure date are not taken to income but reflected as reduction in the cost of investment.

5.11 Foreign currencies translation

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

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

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

5.12 Provision for off balance sheet obligations

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

5.13 Off setting

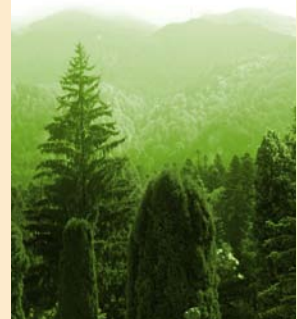
Financial assets and financial liabilities are only set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the bank intends either to settle on a net basis, or to realize the assets and to settle the liabilities simultaneously.

5.14 Fiduciary assets

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

5.15 Dividend and other appropriations

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



Notes to the Financial Statements

For the year ended December 31, 2007

5.16 Segment Reporting

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

5.16.1 Business segments

Corporate finance

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

Trading and sales

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

Retail banking

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

Commercial banking

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

Payment and settlement

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

Agency services

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

5.16.2 Geographical segments

The Bank operates in following geographical regions:

Pakistan

Asia Pacific (including South Asia and Karachi Export Processing Zone)

Europe

United States of America and Canada

Middle East



Notes to the Financial Statements

For the year ended December 31, 2007

5.17 Earnings per share

The bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any. There were no convertible dilutive potential ordinary shares in issue at December 31, 2007.

5.18 Accounting estimates and judgments

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

a Provision against non-performing loans and advances

The bank reviews its loan portfolio to assess amount of non-performing loans and advances and provision required there against on a quarterly basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower and requirements of prudential regulations are considered.

The amount of general provision against consumer advances is determined in accordance with the relevant prudential regulations and SBP directives. During the year, the management has changed the method of computing provision against non-performing loans consequent upon the revision in prudential regulations as disclosed in note 10.4.1 and 10.4.2.

b Fair value of derivatives

The fair value of derivatives which are not quoted in active markets are determined by using valuation techniques. The valuation techniques take into account the relevant interest rates in effect at the balance sheet date and the rates contracted.

c Impairment of available-for-sale investments

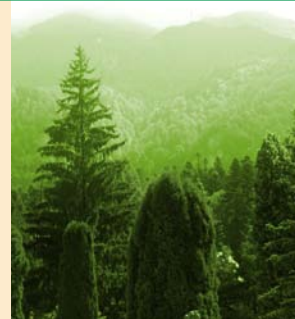
The bank determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

d Held-to-maturity investments

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

e Income taxes

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



Notes to the Financial Statements

For the year ended December 31, 2007

f Employees retirement benefit plans

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

5.19 Accounting standards, interpretations and amendments to published approved accounting standards

5.19.1 Not-yet effective

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

Standards and Interpretations		Effective date (accounting periods beginning on or after)
IAS 1	Presentation of Financial Statements	January 01, 2009
IAS 23	Borrowings Costs	January 01, 2009
IAS 27	Consolidated and Separate Financial Statements	January 01, 2009
IFRS 3	Business Combinations	January 01, 2009
IFRIC 11	Group and Treasury Share Transactions	March 01, 2007
IFRIC 12	Service Concession Arrangements	January 01, 2008
IFRIC 13	Customer Loyalty Programs	July 01, 2008
IFRIC 14	The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interactions	January 01, 2008
IAS 41	Agriculture	May 22, 2007

The bank expects that the adoption of the above standards and interpretations will have no material impact on the bank's financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by the IASB but have not yet been adopted by the Institute of Chartered Accountants of Pakistan or notified by the SECP and hence presently do not form part of the local financial reporting framework:

IFRS 4	Insurance Contracts
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments

5.19.2 Early adoption of a standard

During the year the Securities and Exchange Commission of Pakistan notified that Islamic Financial Accounting Standard (IFAS 2) "Ijarah" issued by the Institute of Chartered Accountants of Pakistan shall be followed while accounting for ijarah transactions as defined by IFAS 2 for financial statements covering periods beginning on or after July 1, 2007. The bank has early adopted IFAS 2 and has applied the accounting principles stated therein in the preparation of these financial statements. The disclosures required under IFAS 2 are set out in note 11.5 of these financial statements. The related accounting policy is disclosed in note 5.7.

Notes to the Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
Local currency		5,965,309	4,997,687
Foreign currency		1,713,518	1,316,993
		<u>7,678,827</u>	<u>6,314,680</u>
With State Bank of Pakistan in			
Local currency current account	6.1	56,864,729	34,314,011
Local currency deposit account		29	29
		<u>56,864,758</u>	<u>34,314,040</u>
Foreign currency current account	6.2	1,492,188	1,192,907
Foreign currency deposit account	6.2	1,182,316	3,578,722
Foreign currency collection account		488,669	193,307
Foreign currency placement account	6.3	24,571,600	30,442,750
		<u>27,734,773</u>	<u>35,407,686</u>
With other central banks in			
Foreign currency current accounts	6.4	1,416,986	1,438,942
Foreign currency deposit accounts	6.5	1,177,905	1,149,879
		<u>2,594,891</u>	<u>2,588,821</u>
		<u>94,873,249</u>	<u>78,625,227</u>

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

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

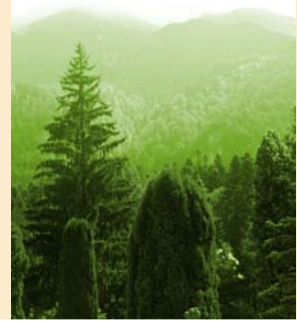
6.3 This represents US Dollar placements and carry interest at the rate of 6.5% per annum (2006: 6.71% to 7.46%) with maturities within six months.

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

6.5 These balances pertain to the foreign branches and are held with central banks of respective countries. These include balances to meet the statutory and central bank regulatory requirements. These carry mark-up at the rate of 3.5% per annum (2006: 4.5% to 5.05%).

7. BALANCES WITH OTHER BANKS

In Pakistan			
On current accounts		669,458	-
On deposit account		1,600	100,600
		<u>671,058</u>	<u>100,600</u>
Outside Pakistan			
On current accounts		6,447,178	979,068
On deposit accounts	7.1	30,354,596	39,562,011
		<u>36,801,774</u>	<u>40,541,079</u>
		<u>37,472,832</u>	<u>40,641,679</u>



Notes to the Financial Statements

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- 7.1 These include various deposits with correspondent banks and carry mark-up rates ranging from 0.07% to 10% per annum (2006: 0.015% to 8% per annum).

	Note	2007 Rupees in '000	2006
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	8.2	2,306,676	8,014,000
Repurchase agreement lendings (Reverse Repo)	8.3	19,157,924	14,998,732
	8.1	21,464,600	23,012,732

8.1 Particulars of lendings

In local currency	21,464,600	23,012,732
In foreign currencies	-	-
	21,464,600	23,012,732

- 8.2 These carry mark-up at rates ranging from 9.9% to 10.5% per annum (2006: 10.05% to 11.25% per annum).

- 8.3 These carry mark-up at rates ranging from 9.3% to 9.9% per annum (2006: 8.5% to 9.4% per annum).

8.3.1 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 in '000 -----			----- Rupees in '000 -----		
Market Treasury Bills	18,567,924	-	18,567,924	11,363,732	-	11,363,732
Pakistan Investment Bonds	590,000	-	590,000	3,635,000	-	3,635,000
	19,157,924	-	19,157,924	14,998,732	-	14,998,732

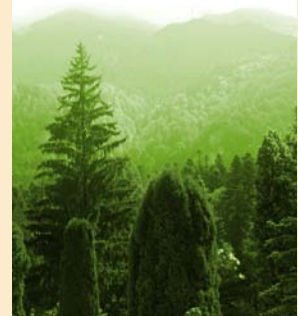
- 8.3.2 Market value of the securities under repurchase agreement lendings amount to Rs.19,235 million (2006: Rs.14,868 million).

Notes to the Financial Statements

For the year ended December 31, 2007

9. INVESTMENTS

	Note	2007			2006		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
		----- Rupees in '000 -----			----- Rupees in '000 -----		
9.1 Investments by type:	9.14						
Held-for-trading securities							
Ordinary shares of listed companies		785,593	-	785,593	332,573	-	332,573
Available- for- sale securities							
Ordinary shares of listed companies		1,947,051	-	1,947,051	1,426,566	-	1,426,566
Ordinary shares of unlisted companies		304,119	-	304,119	331,641	-	331,641
		2,251,170	-	2,251,170	1,758,207	-	1,758,207
Investment outside Pakistan	9.8	463,295	-	463,295	463,295	-	463,295
Market Treasury Bills		117,851,357	416,578	118,267,935	50,524,649	381,964	50,906,613
Preference shares		275,000	-	275,000	368,184	-	368,184
Pakistan Investment Bonds		3,734,905	-	3,734,905	2,982,973	-	2,982,973
Federal Investment Bonds		940,000	-	940,000	940,000	-	940,000
GoP Foreign Currency Bonds		850,853	-	850,853	-	-	-
Term Finance Certificates		6,096,189	-	6,096,189	7,959,446	-	7,959,446
Investments in mutual funds		1,312,083	-	1,312,083	1,027,881	-	1,027,881
National Investment Trust Units	9.6	5,764,258	-	5,764,258	5,667,018	-	5,667,018
Total Available- for- sale securities		139,539,110	416,578	139,955,688	71,691,653	381,964	72,073,617
Held-to-maturity securities							
Government Compensation Bonds		2,331,182	-	2,331,182	2,331,182	-	2,331,182
Provincial Government Securities		36,513	-	36,513	36,513	-	36,513
Pakistan Investment Bonds		11,679,736	-	11,679,736	11,843,279	-	11,843,279
GoP Foreign Currency Bonds		10,933,794	-	10,933,794	10,445,224	-	10,445,224
Foreign Government Securities		5,418,086	-	5,418,086	5,618,324	-	5,618,324
Debentures, Bonds, Participation							
Term Certificates, Term Finance							
Certificates and Sukuk Bonds	9.7	4,508,548	-	4,508,548	4,595,982	-	4,595,982
Certificates of investment		800,000	-	800,000	3,172,000	-	3,172,000
Total Held-to-maturity securities	9.3	35,707,859	-	35,707,859	38,042,504	-	38,042,504
Investments in associates	9.9	959,669	-	959,669	979,864	-	979,864
Investments in joint ventures	9.10	1,312,335	-	1,312,335	1,312,335	-	1,312,335
Investments in subsidiaries	9.11	1,352,458	-	1,352,458	1,352,458	-	1,352,458
Investments at cost		179,657,024	416,578	180,073,602	113,711,387	381,964	114,093,351
Less: Provision for diminution in value of Investments	9.12	(1,173,593)	-	(1,173,593)	(1,253,429)	-	(1,253,429)
Investments (net of provisions)		178,483,431	416,578	178,900,009	112,457,958	381,964	112,839,922
Deficit on revaluation of							
Held-for-trading securities	9.13	(31,964)	-	(31,964)	(4,464)	-	(4,464)
Surplus on revaluation of							
Available-for-sale securities	20.2	31,921,226	(1,403)	31,919,823	27,111,716	(179)	27,111,537
Total investments at market value		210,372,693	415,175	210,787,868	139,565,210	381,785	139,946,995



Notes to the Financial Statements

For the year ended December 31, 2007

		2007	2006
	Note	Rupees in '000	
9.2 Investments by segment	9.14		
Federal Government Securities			
Market Treasury Bills		118,267,935	50,906,613
Pakistan Investment Bonds	9.4	15,414,641	14,826,252
Federal Investment Bonds	9.5	940,000	940,000
Government Compensation Bonds		2,331,182	2,331,182
GoP Foreign Currency Bonds		11,784,647	10,445,224
		<u>148,738,405</u>	<u>79,449,271</u>
Provincial Government Securities		36,513	36,513
Foreign Government Securities		5,418,086	5,618,324
Fully Paid up Ordinary Shares			
- Listed Companies		2,732,644	1,759,139
- Unlisted Companies		304,119	331,641
		<u>3,036,763</u>	<u>2,090,780</u>
Debentures, Bonds, Participation Term Certificates, Term Finance Certificates and Sukuk Bonds			
- Listed		852,898	953,729
- Unlisted	9.7	9,751,839	11,601,699
		<u>10,604,737</u>	<u>12,555,428</u>
Other Investments			
- National Investment Trust Units	9.6	5,764,258	5,667,018
- Investments in mutual funds		1,312,083	1,027,881
- Preference Shares		275,000	368,184
- Certificates of Investment		800,000	3,172,000
- Investment outside Pakistan	9.8	463,295	463,295
Investments in Associates	9.9	959,669	979,864
Investments in Joint Ventures	9.10	1,312,335	1,312,335
Investments in Subsidiaries	9.11	1,352,458	1,352,458
Total investments at cost		<u>180,073,602</u>	<u>114,093,351</u>
Less :Provision for diminution in value of investments	9.12	(1,173,593)	(1,253,429)
Investments (Net of Provisions)		<u>178,900,009</u>	<u>112,839,922</u>
Deficit on revaluation of Held-for-trading securities	9.13	(31,964)	(4,464)
Surplus on revaluation of Available-for-sale securities	20.2	31,919,823	27,111,537
Total investments at market value		<u><u>210,787,868</u></u>	<u><u>139,946,995</u></u>



Notes to the Financial Statements

For the year ended December 31, 2007

- 9.3** Market value of held-to-maturity investments is Rs.34,283 million (2006: Rs.36,032 million).
- 9.4** These include Pakistan Investment Bonds amounting to Rs.75 million (2006: Rs.75 million) held by SBP as pledge against demand loans and TT / DD discounting facilities.
- 9.5** These represents Federal Investment Bonds amounting to Rs.940 million (2006: Rs.940 million) provided to payoff liabilities relating to former Mehran Bank Limited.

9.6 NIT Units

- 9.6.1** The bank's investment in NIT consists of 361,545,322 units (2006: 387,699,844 units), which includes 333,746,836 units (2006: 370,826,836 units) covered under Letter of Comfort (LoC) and 27,798,486 (2006: 16,873,008 units) as Non-LoC units.

The LoC holding represents those units in respect of which the GoP had issued a Letter of Comfort dated June 20, 2006 stating that on bank's willingness to continue holding the units upto June 30, 2007 from the date of LoC, NIT will be facilitated to redeem the units at Rs.13.70 per unit.

During the year, the bank received letter from GoP, letter no. F.4(2)INV.III/2000 dated December 13, 2007 stating that NIT will be facilitated to redeem 10% of total units under LoC outstanding in their books on or before December 31, 2007, subject to the extension of LoC upto December 31, 2008, at the redemption price prevailing on the date of such redemption.

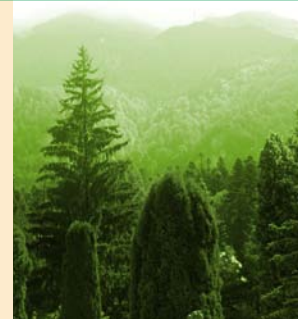
Accordingly the bank has redeemed 10% of its LoC holdings at the prevalent redemption price which resulted in realization of capital gain amounting to Rs.1,775 million.

- 9.6.2** Rating of NIT mutual fund is 4 star (2006: 4 star) by PACRA.

- 9.7** Term Finance Certificates, Debentures, Bonds and Participation Term Certificates include Rs.653 million (2006: Rs.705 million) which are considered non-performing.

9.8 Bank Al-Jazira

The bank holds 13,125,000 (2006: 6,562,500) shares in Bank Al-Jazira (BAJ) incorporated in the Kingdom of Saudi Arabia, representing 5.83% (2006: 5.83%) holding in total equity of BAJ, including 6,562,500 ordinary shares issued as bonus shares during the year. The investment has been marked to market using closing price as quoted on the Saudi Stock Exchange in accordance with SBP concurrence vide letter No. BSD/SU-13/331/685/2006 dated February 17, 2006. (Rating: BBB+ by Fitch Rating)



Notes to the Financial Statements

For the year ended December 31, 2007

	Number of shares	Percentage holding	Note	2007 Rupees in '000	2006
9.9 Investments in associates					
Un-quoted					
Pakistan Emerging Venture Limited	12,500,000	33.33		51,415	64,415
First Credit and Investment Bank Limited	5,979,085	50.00		157,429	157,429
Information System Associates Limited	2,300,000	21.89		1,719	1,719
National Fructose Company Limited	1,300,000	39.50		6,500	6,500
Pakistan Insulation Limited	494,500	24.79		695	695
Ali Textile (Jhang) Limited	719,500	25.21		-	7,195
Venture Capital Fund Management	33,333	33.33		-	-
Ashraf Sugar Mills Limited	2,059,271	20.44		-	-
Kamal Enterprises Limited	11,000	20.37		-	-
Mehran Industries Limited	37,500	32.05		-	-
Qurell Cassettes Limited	46,250	30.83		-	-
Tharparkar Sugar Mills Limited	2,500,000	21.50		-	-
Youth Investment Promotion Society	644,508	25.00		-	-
Khushhali Bank	400	23.45	9.9.4	400,000	400,000
Dadabhoy Energy Supply Company Limited	9,900,000	23.11		32,105	32,105
K-Agricole Limited	5,000	20.00		-	-
New Pak Limited	200,000	20.00		-	-
Prudential Fund Management	150,000	20.00		-	-
				649,863	670,058
Quoted					
National Fibres Limited	17,119,476	20.19		-	-
Taha Spinning Mills Limited	833,800	20.59		2,501	2,501
Land Mark Spinning Mills Limited	3,970,960	32.75		39,710	39,710
S.G. Fibres Limited	3,754,900	25.03		218,535	218,535
Nina Industries Limited	4,906,000	20.27		49,060	49,060
			9.9.1	309,806	309,806
				959,669	979,864
Less: Provision for diminution in value of investments			9.12.1	(402,240)	(422,435)
				557,429	557,429

9.9.1 Aggregate value of investments in associates (quoted) on the basis of latest available quoted prices amounts to Rs.275.359 million (2006: Rs.245.702 million). Management considers that there is no active market for these quoted investments and therefore provision for impairment has been made against the same.

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



Notes to the Financial Statements

For the year ended December 31, 2007

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

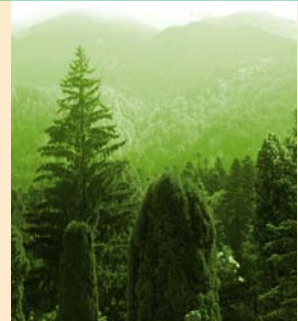
	Year ended	Break-up value of bank's share Rupees in '000
Pakistan Emerging Venture Limited	June 30, 2007	1,962
First Credit and Investment Bank Limited	June 30, 2007	273,755
Information System Associates Limited	June 30, 2007	17,036
Pakistan Insulation Limited	June 30, 2001	2,630
Ali Textile (Jhang) Limited	September 30, 2001	10,049
Ashraf Sugar Mills Limited	September 30, 2004	(17,199)
Mehran Industries Limited	June 30, 2001	5,681
Tharparkar Sugar Mills Limited	September 30, 2001	(83,140)
Khushhali Bank	December 31, 2006	439,343
Prudential Fund Management	June 30, 2007	(2,482)
Dadabhoy Energy Supply Company Limited	June 30, 2007	85,232

9.9.4 During the year, the Government of Pakistan, Finance Division (Investment Wing) vide their letter no. 4(3) Inv-I/2006 dated June 5, 2007 has advised the bank to divest its shareholding in Khushhali Bank through public announcement. Accordingly, the bank has initiated the process for such sale.

	Note	2007 Rupees in '000	2006 Rupees in '000
9.10 Investments in joint ventures			
United National Bank Limited	9.10.1	1,244,835	1,244,835
National Fullerton Asset Management (NAFA)	9.10.2	67,500	67,500
		1,312,335	1,312,335

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

9.10.2 The company has been set up for the purpose of providing asset management services with a paid-up capital of Rs.250 million (2006: Rs.250 million) as a joint venture between the bank, NIB Bank Limited (Formerly NDLC-IFIC Bank Limited) and Alexandra Fund Management PTE Limited. The bank has 27% (2006: 27%) holding as at December 31, 2007.



Notes to the Financial Statements

For the year ended December 31, 2007

	Percentage holding	2007 Rupees in '000	2006 Rupees in '000
9.11 Investments in subsidiaries			
NBP Capital Limited	100.00	500,000	500,000
JSC Subsidiary Bank of NBP in Kazakhstan	100.00	419,488	419,488
NBP Exchange Company Limited	100.00	300,000	300,000
NBP Modaraba Management Company Limited	100.00	105,000	105,000
Taurus Securities Limited	58.32	24,725	24,725
National Agriculture & Storage Company Limited	100.00	2,000	2,000
Cast-N-Link Products Limited	76.51	1,245	1,245
		<u>1,352,458</u>	<u>1,352,458</u>
Less: Provision for diminution in value of investments		<u>(3,245)</u>	<u>(3,245)</u>
		<u>1,349,213</u>	<u>1,349,213</u>

	2007 Rupees in '000	2006 Rupees in '000
9.12 Particulars of provision for diminution in value of investments		
Opening balance	1,253,429	1,965,003
Charge for the year	-	-
Reversals	(40,248)	(709,461)
	<u>(40,248)</u>	<u>(709,461)</u>
Amount written off	(39,588)	(2,113)
Closing balance	<u>1,173,593</u>	<u>1,253,429</u>

9.12.1 Particulars of provision in respect of type and segment

Available-for-sale securities

Ordinary shares of unlisted companies	115,514	123,036
---------------------------------------	---------	---------

Held-to-maturity securities

Debentures, Bonds, Participation Term		
Certificates, Term Finance Certificates and Sukuk Bonds	652,594	704,713

Associates

	402,240	422,435
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Subsidiaries

	3,245	3,245
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	<u>1,173,593</u>	<u>1,253,429</u>
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9.13 Unrealized loss on revaluation of investments classified as held-for-trading

Ordinary shares of listed companies	(31,964)	(4,464)
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Notes to the Financial Statements

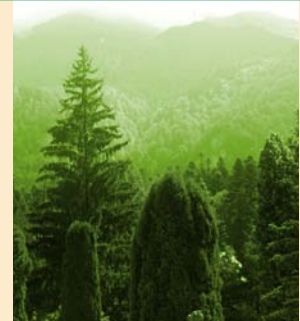
For the year ended December 31, 2007

9.14 Detailed information relating to investments in shares of listed and unlisted companies, Preference Shares, Mutual Funds, Government Securities, Bonds, Debentures, Term Finance Certificates, Certificates of investments etc. including quality of available-for-sale securities is given in Annexure-I to the financial statements.

	Note	2007 Rupees in '000	2006
10. ADVANCES			
Loans, cash credits, running finances, etc.			
In Pakistan		325,226,242	304,569,560
Outside Pakistan		29,737,559	26,376,167
		354,963,801	330,945,727
Bills discounted and purchased (excluding Government treasury bills)			
Payable in Pakistan		2,673,256	2,502,819
Payable outside Pakistan		16,144,430	14,881,699
		18,817,686	17,384,518
Margin Financing / Continuous Funding System	10.9	1,308,715	40,213
Advances - gross	10.1	375,090,202	348,370,458
Less: Provision against non-performing advances	10.3	(34,413,102)	(32,260,052)
Advances - net of provision		340,677,100	316,110,406
10.1 Particulars of advances - gross			
10.1.1 In local currency		329,208,213	304,788,413
In foreign currencies		45,881,989	43,582,045
		375,090,202	348,370,458
10.1.2 Short-term (for upto one year)		248,623,476	233,817,770
Long-term (for over one year)		126,466,726	114,552,688
		375,090,202	348,370,458

10.2 Advances include Rs.38,318 million (2006: Rs.36,260 million) 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 in '000								
Category of Classification										
Other Assets Especially										
Mentioned		565,889	-	565,889	-	-	-	-	-	-
Substandard		4,483,776	37,641	4,521,417	1,097,813	9,410	1,107,223	1,097,813	9,410	1,107,223
Doubtful		2,916,347	1,656	2,918,003	1,453,829	828	1,454,657	1,453,829	828	1,454,657
Loss		29,745,438	566,805	30,312,243	29,718,461	71,474	29,789,935	29,718,461	71,474	29,789,935
		37,711,450	606,102	38,317,552	32,270,103	81,712	32,351,815	32,270,103	81,712	32,351,815



Notes to the Financial Statements

For the year ended December 31, 2007

10.3 Particulars of provision against non-performing advances

Note	2007			2006		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
Opening balance	29,528,672	2,731,380	32,260,052	28,388,730	2,195,302	30,584,032
Exchange adjustments	809	13,387	14,196	2,851	19,282	22,133
Charge for the year	9,437,007	286,210	9,723,217	5,225,418	622,648	5,848,066
Reversals during the year	(4,030,443)	(969,690)	(5,000,133)	(2,772,343)	-	(2,772,343)
	5,406,564	(683,480)	4,723,084	2,453,075	622,648	3,075,723
Amounts written off	10.6	(1,525,294)	-	(705,125)	-	(705,125)
Other adjustments	10.5	(1,058,936)	-	(610,859)	(105,852)	(716,711)
Closing balance	32,351,815	2,061,287	34,413,102	29,528,672	2,731,380	32,260,052

10.4 Particulars of provisions against non-performing advances

In local currency	32,270,103	1,818,856	34,088,959	29,469,042	2,493,782	31,962,824
In foreign currencies	81,712	242,431	324,143	59,630	237,598	297,228
	32,351,815	2,061,287	34,413,102	29,528,672	2,731,380	32,260,052

10.4.1 During the year, the SBP vide its BSD Circular No. 7 dated October 12, 2007, has amended Prudential Regulation in respect of provisioning against non-performing advances. The revised regulations that are effective from December 31, 2007, prohibit consideration of forced sale value of collateral held by the bank in determining the amount of provision against non-performing advances except in case of housing finance. Accordingly, the above change in regulation has resulted in additional provisioning of Rs.3,052 million against non-performing advances and a consequent decrease in profit before tax for the same amount.

Further, the time period for classifying personal loans under consumer financing as "loss" has been reduced from 1 year to 180 days. This change has no material effect on these financial statements.

10.4.2 In accordance with the directives of the SBP, the bank is required to maintain general provision against consumer portfolio equivalent to 1.5% in respect of secured advances and 5% in respect of unsecured advance. However, during the period, the SBP vide its letter No. BRD-04 (121-06)/2007/3707 dated April 19, 2007 has allowed the bank to maintain general provision for the Advance Salary Product at 3% instead of 5%. This has resulted in reversal of general provision against the said product amounting to Rs.824.839 million during the year. The effect on current year is to increase the net advances and profit before tax by Rs.824.839 million and to increase the deferred tax liability by Rs.288.694 million.

10.5 This represents amount charged off against loans and advances in respect of certain old schemes or where the bank holds no tangible security and principal amount disbursed was upto Rs 500,000. However, the bank reserve the right to recover such amount in the normal course of business.

Note	2007	2006
	Rupees in '000	
10.6 Particulars of write offs		
10.6.1 Against Provisions	10.3	1,525,294
Directly charged to Profit & Loss account		39,899
		1,565,193
10.6.2 Write Offs of Rs. 500,000 and above	10.7	1,544,971
Write Offs of Below Rs. 500,000		20,222
		1,565,193



Notes to the Financial Statements

For the year ended December 31, 2007

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

In terms of sub-section 3 of section 33A of the Banking Companies Ordinance, 1962 the statement in respect of written-off loans or any other financial relief of Rs.500,000 or above allowed to a person(s) during the year ended December 31, 2007 is given in Annexure-II.

10.8 Particulars of loans and advances to directors, associated companies, etc.

Debts due by directors, executives, officers & staff of the bank or any of them either severally or jointly with any other person

	Note	2007	2006
		Rupees in '000	
Balance at beginning of year		13,316,110	11,340,452
Loans granted during the year		4,284,598	2,401,776
Repayments		(3,274,131)	(426,118)
Balance at end of year		<u>14,326,577</u>	<u>13,316,110</u>

Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members

Balance at beginning of year		222,759	119,319
Loans granted during the year		-	222,759
Repayments		(23,368)	(119,319)
Balance at end of year		<u>199,391</u>	<u>222,759</u>

Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties

Balance at beginning of year		2,319,290	2,293,426
Loans granted during the year		100,496	146,983
Repayments		(118,284)	(121,119)
Balance at end of year		<u>2,301,502</u>	<u>2,319,290</u>

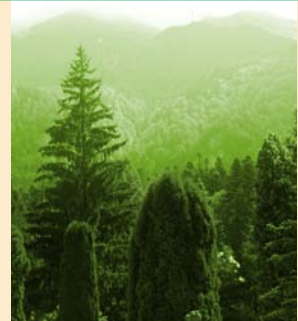
10.9 These are secured against shares of listed companies, market value of which amounted to Rs.1,309 million (2006: Rs.67 million) at the balance sheet date. These carry mark-up ranging from 10.7% to 18% (2006: 3 months KIBOR + 3%)

11. OPERATING FIXED ASSETS

Capital work-in-progress	11.1	459,487	378,617
Property and equipment	11.2	25,454,914	9,294,200
Intangible assets	11.3	8,578	9,157
		<u>25,922,979</u>	<u>9,681,974</u>

11.1 Capital work-in-progress

Civil works		374,511	326,066
Equipment		10,870	4,419
Advances to suppliers and contractors		74,106	48,132
		<u>459,487</u>	<u>378,617</u>



Notes to the Financial Statements

For the year ended December 31, 2007

11.2 Property and equipment

	Cost/revalued amount				Accumulated depreciation					Book	
	At	Revaluation		At	At	Charge for		At	Value at		
	January	surplus/	Additions/	December	January	the year/		December	December	Rate of	
	1, 2007	(deficit)	(deletions)	Adjustments	31, 2007	1, 2007	(deletions)	Adjustments	31, 2007	31, 2007	depreciation
	----- Rupees in '000 -----										
Owned											
Land											
- freehold	2,781,313	7,798,804	4,258	470,664 ☆	11,055,039	-	-	-	-	11,055,039	Nil
- leasehold	2,798,186	6,372,800	-	330,751 ☆	9,501,737	-	-	-	-	9,501,737	Nil
Buildings on land:											
- freehold	1,773,312	1,217,359	148,020	(35,000) (721,580) ☆	2,382,111	482,973	75,362	(7,000)	551,335	1,830,776	5% on book value
- leasehold	1,312,416	386,338	135,333	(79,835) ☆	1,754,252	357,434	51,702	-	409,136	1,345,116	5% on book value
Furniture and fixtures	1,217,551	-	84,225 (3,854)	-	1,297,922	804,635	53,254 (2,472)	-	855,417	442,505	10% to 30% on book value and 20% on straight-line on new furnishing limit to executives
Computer & peripheral equipments	1,267,416	-	174,081 (620)	-	1,440,877	938,599	155,190 (620)	-	1,093,169	347,708	33% on cost
Electrical & office equipments	1,442,105	-	195,707 (3,570)	-	1,634,242	968,661	136,199 (2,799)	-	1,102,061	532,181	20% on book value
Vehicles	488,836	-	101,520 (18,209)	-	572,147	253,658	69,790 (14,317)	-	309,131	263,016	20% on cost
	13,081,135	15,775,301 -	843,144 (26,253)	(35,000)	29,638,327	3,805,960	541,497 (20,208)	(7,000)	4,320,249	25,318,078	
Assets held under finance lease											
Vehicles	24,370	-	34,070	-	58,440	5,345	10,410	-	15,755	42,685	20% on cost
Assets held under Ijarah	-	-	95,358	-	95,358	-	1,207	-	1,207	94,151	33% on cost
2007	13,105,505	15,775,301	972,572 (26,253)	(35,000)	29,792,125	3,811,305	553,114 (20,208)	(7,000)	4,337,211	25,454,914	

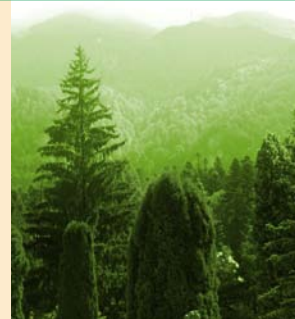
* Upto December 31, 2006 due to non availability of breakdown of cost components of land and buildings relating to certain properties, the entire amount was shown under the head of buildings. During the year, these assets have been bifurcated into land and buildings on the basis of revaluation.

Notes to the Financial Statements

For the year ended December 31, 2007

Property and equipment

	Cost/revalued amount			Accumulated depreciation				
	At January 1, 2006	Additions/ (deletions)/	At December 31, 2006	At January 1, 2006	Charge for the year/ (deletions)	At December 31, 2006	Book Value at December 31, 2006	Rate of depreciation
	----- Rupees in '000 -----							
Owned								
Land								
- freehold	2,781,313	-	2,781,313	-	-	-	2,781,313	Nil
- leasehold	2,766,782	31,404	2,798,186	-	-	-	2,798,186	Nil
Buildings on land:								
- freehold	1,746,793	26,519	1,773,312	449,538	33,435	482,973	1,290,339	5% on book value
- leasehold	1,241,553	70,863	1,312,416	266,505	90,929	357,434	954,982	5% on book value
Furniture and fixtures	1,125,472	94,741 (2,662)	1,217,551	758,165	48,037 (1,567)	804,635	412,916	10% to 30% on book value and 20% on straight-line on new furnishing limit to executives
Computer & peripheral equipments	1,047,260	220,264 (108)	1,267,416	811,600	127,053 (54)	938,599	328,817	33% on cost
Electrical & office equipments	1,308,327	138,718 (4,940)	1,442,105	854,721	117,954 (4,014)	968,661	473,444	20% on book value
Vehicles	442,437	65,946 (19,547)	488,836	207,291	62,997 (16,630)	253,658	235,178	20% on cost
	12,459,937	648,455 (27,257)	13,081,135	3,347,820	480,405 (22,265)	3,805,960	9,275,175	
Assets held under finance lease								
Vehicles	20,350	4,020	24,370	940	4,405	5,345	19,025	20% on cost
Assets held under Ijarah	-	-	-	-	-	-	-	
2006	12,480,287	652,475 (27,257)	13,105,505	3,348,760	484,810 (22,265)	3,811,305	9,294,200	



Notes to the Financial Statements

For the year ended December 31, 2007

11.3 Intangible assets

	Cost/revalued amount				Accumulated amortization				Rate of amortization
	At January 1, 2007	Revaluation surplus/ (deficit)	Additions/ (deletions)	At December 31, 2007	At January 1, 2007	Charge for the year/ (deletions)	At December 31, 2007	Book value at December 31, 2007	
	Rupees in '000								
Computer software	13,021	-	2,830	15,851	3,864	3,409	7,273	8,578	33.33% on cost
2007	13,021	-	2,830	15,851	3,864	3,409	7,273	8,578	
2006	6,127	-	6,894	13,021	2,040	1,824	3,864	9,157	

11.4 Revaluation of domestic properties

The bank as part of its policy to revalue land and building on cyclical basis has revalued properties during the year. However, few properties are in process of revaluation. These properties are revalued by independent professional valuers and the results of the revaluation exercise were incorporated in the financial statements as at December 31, 2007. The revaluation was carried out by M/s Younus Mirza & Co., M/s Dimen Associates (Private) Limited and M/s Arch-e-Decon (Private) Limited on the basis of professional assessment of present market values and resulted in surplus of Rs.15,775 million. Had there been no revaluation, the carrying amount of revalued assets at December 31, 2007 would have been as follows:

	Rupees in '000
Freehold land	284,179
Leasehold land	369,986
Buildings on freehold land	104,421
Buildings on leasehold land	102,329

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

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

	Rupees in '000
Not later than one year	34,210
Later than one year but not later than five years	68,420
Later than five years	-

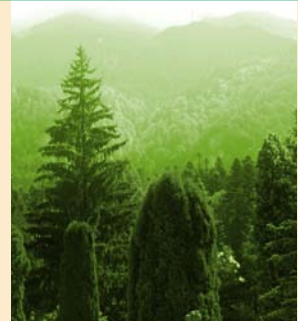
Notes to the Financial Statements

For the year ended December 31, 2007

11.6 Details of disposals of fixed assets

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

Particulars of assets	Original cost	Book value	Sale proceeds	Profit/(loss)	Mode of Disposal	Particulars of Purchaser
----- Rupees in '000 -----						
Motor Vehicle	969	598	598	-	As per service rules on retirement	Mr. Muhammad Naemuddin - EVP
Motor Vehicle	849	382	382	-	As per service rules on retirement	Mr. Muhammad Aslam Chisti - SVP
Motor Vehicle	849	325	325	-	As per service rules on retirement	Syed Israr Ali - SVP
Motor Vehicle	969	549	549	-	As per service rules on retirement	Mr. Abid Hussain Awan - EVP
Motor Vehicle	969	581	581	-	As per service rules on retirement	Mr. Fazl-ur-Rahman - EVP
Motor Vehicle	849	340	700	360	Insurance Claim	M/s National Insurance Company
Motor Vehicle	1,530	-	535	535	Auction	M/s Pakistan Auction Mart
Motor Vehicle	849	396	396	-	As per service rules on retirement	Syed Najmuddin - SVP
Motor Vehicle	1,285	-	129	129	As per service rules	Syed Ali Raza - President
Motor Vehicle	879	571	571	-	As per service rules on death	Mr. Aftab A. Mehakri (late) - SVP
Other assets (having book value of less than Rs.250,000 or cost of less than Rs.1,000,000)	16,256	2,303	3,981	1,678	As per service rules on retirement / Auction	Various
	<u>26,253</u>	<u>6,045</u>	<u>8,747</u>	<u>2,702</u>		



Notes to the Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
12. OTHER ASSETS			
Income/mark-up accrued in local currency		7,132,135	7,667,576
Income/mark-up accrued in foreign currencies		1,740,892	1,490,816
Advances, deposits, advance rent and other prepayments	12.1	2,501,465	785,294
Advance taxation (payments less provisions)		9,805,072	8,747,078
Receivable from GoP	12.2	278,501	278,501
Assets acquired from Corporate and Industrial Restructuring Corporation (CIRC)	12.3	786,453	817,667
Branch Adjustment Account		-	128,687
Un-realized gain on derivative financial instruments		71,813	-
Un-realized gain on forward foreign exchange contracts		431,763	126,371
Commission receivable		1,822,685	1,790,993
Stationery and stamps on hand		319,020	220,939
Barter trade balances		195,399	195,399
Receivable on account of Government transactions	12.4	323,172	323,172
Receivable from Government under VHS scheme	12.5	416,355	412,561
Less: amount charged/provision		(416,355)	(412,561)
		-	-
Receivable from pension fund	34.1.2	3,676,345	2,951,933
Prize bonds on hand		281,595	320,023
Receivable from brokers		33,686	-
Others		3,490,809	3,040,856
		32,890,805	28,885,305
Less: Provision held against other assets			
Income/mark-up accrued in local currency/foreign currencies		296,592	296,592
Stationery and stamps on hand		51,200	51,200
Barter trade balances		195,399	195,399
Receivable on account of Government transactions		323,172	323,172
Others		1,029,477	905,244
	12.6	1,895,840	1,771,607
		30,994,965	27,113,698

12.1 This includes Rs.1,155 million (2006: Rs. Nil) advance against Pre-IPO placement of Term Finance Certificates of United Bank Limited, NIB Bank Limited and Kunjah Textile Mills Limited.

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

12.3 During the year 2006, the bank has acquired non-performing assets from CIRC, consequent upon its dissolution with effect from September 22, 2006 vide Corporate and Industrial Restructuring Corporation (Dissolution) Order 2006 dated September 11, 2006. The book value of non-performing assets after adjustment of down payment of Rs.150 million shall be repayable in three annual installments of Rs.222.555 million each upto September 2009. Further the bank under fiduciary duty shall collect the sale proceeds of disposal of units, the sale proceed of which is approved between CIRC and obligors of non-performing assets, amounting to Rs.471.307 million and transfer them to GoP on expiry of each quarter subject to adjustments / reimbursements for reasonable expenses incurred in relation to steps and legal action taken.

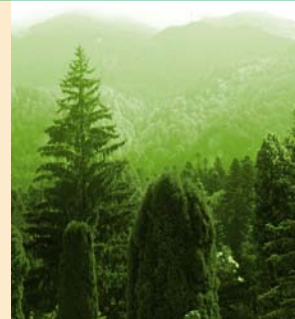
Notes to the Financial Statements

For the year ended December 31, 2007

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

12.5 This represents payments made under the Voluntary Handshake Scheme (VHS), recoverable from Government of Pakistan. Due to uncertainty about its recoverability, although despite a claim being lodged, full amount has been provided for.

	Note	2007	2006
		Rupees in '000	
12.6 Provisions against other assets			
Opening balance		1,771,607	1,792,875
Charge for the year		130,374	17,732
Reversals		(6,141)	(39,000)
Closing balance		<u>1,895,840</u>	<u>1,771,607</u>
13. BILLS PAYABLE			
In Pakistan		6,922,717	10,549,447
Outside Pakistan		<u>139,185</u>	<u>56,216</u>
		<u>7,061,902</u>	<u>10,605,663</u>
14. BORROWINGS			
In Pakistan		8,288,001	10,091,407
Outside Pakistan		<u>2,598,062</u>	<u>1,612,672</u>
	14.1 & 14.2	<u>10,886,063</u>	<u>11,704,079</u>
14.1 Particulars of borrowings with respect to currencies			
In local currency		8,288,001	10,091,407
In foreign currencies		<u>2,598,062</u>	<u>1,612,672</u>
	14.2	<u>10,886,063</u>	<u>11,704,079</u>
14.2 Details of borrowings secured/unsecured			
Secured			
Borrowings from State Bank of Pakistan:			
Under Export Refinance Scheme		3,213,430	2,470,235
Long Term Financing under Export Oriented Project (LTF-EOP)		4,143,885	5,109,810
Under Locally Manufactured Machinery (LMM) scheme		-	1,160
Finance to payoff liabilities relating to former MBL	14.2.1	376,000	564,000
Others		-	66,907
		<u>7,733,315</u>	<u>8,212,112</u>
Repurchase agreement borrowings		<u>383,886</u>	<u>354,710</u>
		<u>8,117,201</u>	<u>8,566,822</u>
Unsecured			
Call borrowings		1,808,970	2,612,672
Overdrawn nostro accounts		889,092	453,785
Others		70,800	70,800
		<u>2,768,862</u>	<u>3,137,257</u>
		<u>10,886,063</u>	<u>11,704,079</u>



Notes to the Financial Statements

For the year ended December 31, 2007

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

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

- The bank has entered into agreements with the SBP for extending export finance to customers. As per the terms of the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of finances by directly debiting the current account maintained by the bank with SBP. Export refinance loans from SBP are at the rate of 7.5% per annum (2006: 6.5% per annum).
- Call borrowings carry interest ranging from 8.0% to 10.25% per annum (2006: 7.75% to 10.2% per annum).
- Overdrawn Nostro accounts carry interest at the rate of 1% to 5% per annum (2006: 1% to 5% per annum).
- Repurchase agreement borrowings carry mark-up at the rate of 8.10% per annum (2006: 8.5% per annum).
- Unsecured borrowings "Others" carry interest at the rate of 10% per annum (2006: 10% per annum).

	Note	2007 Rupees in '000	2006 Rupees in '000
15. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		128,403,278	100,017,399
Savings deposits		188,687,111	170,256,433
Current accounts - remunerative		76,708,879	54,359,662
Current accounts - non-remunerative		139,868,016	119,468,864
		533,667,284	444,102,358
Financial Institutions			
Remunerative deposits		31,180,729	39,196,100
Non-remunerative deposits		27,059,422	18,573,785
		58,240,151	57,769,885
	15.1	591,907,435	501,872,243
15.1 Particulars of deposits			
In local currency		486,881,474	390,605,310
In foreign currencies [including deposits of foreign branches of Rs.81,489 million (2006: Rs.86,816 million)]		105,025,961	111,266,933
		591,907,435	501,872,243

Notes to the Financial Statements

For the year ended December 31, 2007

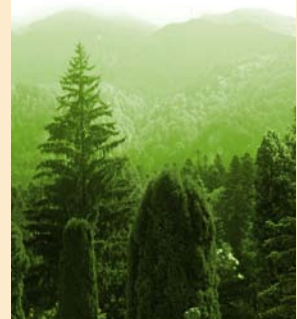
16. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2007			2006		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	----- Rupees in '000 -----			----- Rupees in '000 -----		
Not later than one year	18,869	3,451	15,418	8,890	1,260	7,630
Later than one year and not later than five years	20,225	2,089	18,136	6,488	883	5,605
	39,094	5,540	33,554	15,378	2,143	13,235

The bank has entered into lease agreements with various leasing companies for lease of vehicles. Lease rentals are payable in quarterly installments. Financial charges included in lease rentals are determined on the basis of discount factors applied at the rates ranging from 11.59% to 12.94% and KIBOR + 2.25% (2006: 12% to 16% and KIBOR + 2%). At the end of lease term, the bank has the option to acquire the assets subject to adjustment of security deposits.

	Note	2007 Rupees in '000	2006 Rupees in '000
17. DEFERRED TAX LIABILITIES - net			
Deferred tax (assets) arising in respect of			
Provision for diminution in the value of investments		(228,408)	(246,650)
Provision against advances - general provisions		(636,600)	(872,824)
Other provision		(103,806)	(103,806)
Charge against defined benefits plans		(289,333)	(281,028)
Difference between accounting book value of fixed assets and tax base		-	(12,145)
Provision against off-balance sheet obligation		(115,222)	(115,222)
		(1,373,369)	(1,631,675)
Deferred tax liabilities arising in respect of			
Excess of accounting book value of leased assets over lease liabilities		3,196	2,025
Difference between accounting book value of fixed assets and tax base		85,259	-
Revaluation of securities	20.2	5,395,899	3,570,167
Revaluation of fixed assets	20.3	986,846	446,556
		6,471,200	4,018,748
Net deferred tax liabilities		5,097,831	2,387,073

17.1 Through Finance Act 2007, a new section 100A read with the 7th schedule (the Schedule) was inserted in the Income Tax Ordinance, 2001 for the taxation of banking companies. The schedule seeks to simplify the taxation of banking companies and is applicable from the tax year 2009 (financial year ending on December 31, 2008).



Notes to the Financial Statements

For the year ended December 31, 2007

The 7th Schedule does not contain transitory provisions to deal with the disallowances made upto the year ended December 31, 2007. This issue has been taken up with the tax authorities through Pakistan Banks Association for formulation of transitory provisions to deal with the items which were previously treated differently under the then applicable provisions.

The deferred tax asset on the deductible temporary differences disallowed as a deduction in the past up to December 31, 2007 is being kept as an asset as the bank is confident that transitory provisions would be introduced to set out the mechanism of claiming where benefit of these allowances can be claimed.

	Note	2007 Rupees in '000	2006
18. OTHER LIABILITIES			
Mark-up/ return/ interest payable in local currency		4,248,516	3,364,337
Mark-up/ return/ interest payable in foreign currencies		1,108,424	1,063,453
Unearned commission and income on bills discounted		99,741	72,207
Accrued expenses		1,580,010	1,538,418
Advance payments		41,338	8,496
Unclaimed dividends		12,649	8,259
Un-realized loss on forward foreign exchange contracts		508,468	35,500
Un-realized loss on derivative financial instruments		77,954	240,525
Provision against off balance sheet obligations	18.1	425,824	425,824
Branch adjustment account - net		3,433,226	-
Employment benefits:			
Post retirement medical benefits	34.1.3	2,582,476	2,276,586
Compensated absences	34.2.1	1,662,930	1,639,708
Benevolent fund	34.1.4	759,957	802,937
Gratuity scheme	34.1.5	66,708	33,409
Staff welfare fund		659,336	686,401
Liabilities relating to:			
Bangladesh (former East Pakistan)		227,089	227,089
Barter trade agreements		8,775,910	8,660,061
Special separation package		78,422	78,422
Payable to GoP for acquisition of assets from CIRC	12.2	638,772	673,282
Payable on account of Government transactions		-	34,246
Payable to brokers		17,491	89,665
Others [(including provision of Rs.178 million (2006: Rs.178 million) for contingencies)]		3,863,913	4,637,475
		30,869,154	26,596,300
18.1 Provision against off balance sheet obligations			
Opening balance		425,824	425,824
Charge for the year		-	-
Closing balance	18.1.1	425,824	425,824

Notes to the Financial Statements

For the year ended December 31, 2007

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

19. SHARE CAPITAL

19.1 Authorized Capital

2006	2007		2007	2006
Number of shares			Rupees in '000	
750,000,000	1,000,000,000	Ordinary shares of Rs.10 each	10,000,000	7,500,000

19.2 Issued, subscribed and paid-up

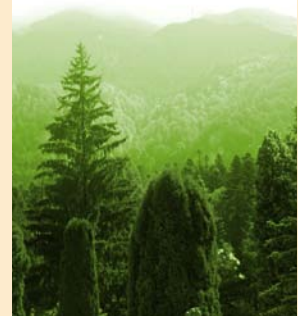
140,388,000	140,388,000	Ordinary shares of Rs.10 each	1,403,880	1,403,880
568,683,295	675,043,989	Fully paid in cash	6,750,439	5,686,832
		Issued as fully paid bonus shares		
709,071,295	815,431,989		8,154,319	7,090,712

The Federal Government and the SBP held about 75.60% shares of the bank as at the year ended December 31, 2007 (2006: 75.60%).

	Note	2007 Rupees in '000	2006
20. SURPLUS ON REVALUATION OF ASSETS - net			
20.1 Surplus on revaluation of fixed assets - net of tax	20.3	20,543,099	5,368,099

20.2 Surplus / (deficit) on revaluation of available- for-sale securities - net of tax

Federal Government securities	(37,626)	80,436
Term Finance Certificates	34,262	56,000
Quoted shares	2,574,809	1,760,160
GoP Foreign Currency Bonds	(73,531)	-
NIT Units	15,801,458	11,721,554
Investment outside Pakistan	13,620,451	13,493,387
	31,919,823	27,111,537
Deferred tax liability recognized	17 (5,395,899)	(3,570,167)
	47,067,023	28,909,469



Notes to the Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
20.3 Movement in surplus on revaluation of fixed assets - net of tax			
Surplus on revaluation on January 1,		5,814,655	5,877,824
Net surplus on revaluation of bank's properties during the year		15,775,301	-
Transferred to unappropriated profit in respect of incremental depreciation charged during the year -net of deferred tax		(39,007)	(41,060)
Related deferred tax liability		(21,004)	(22,109)
		(60,011)	(63,169)
		21,529,945	5,814,655
Less: Related deferred tax liability on:			
Revaluation as at January 1,		446,556	468,665
Revaluation of bank's properties during the year		561,294	-
Incremental depreciation charged during the year		(21,004)	(22,109)
Transferred to profit and loss account		986,846	446,556
	17	20,543,099	5,368,099
Surplus on revaluation of fixed assets on December 31,			

21. CONTINGENCIES AND COMMITMENTS

21.1 Direct credit substitutes

Includes general guarantee of indebtedness, bank acceptance guarantees and standby letters of credit serving as financial guarantees for loans and securities issued in favour of:

- Government	15,096,694	345,847
- Financial institutions	6,898,062	4,885,235
- Others	17,271,257	24,807,965
	39,266,013	30,039,047

21.2 Transaction-related contingent liabilities

Includes performance bonds, bid bonds, warranties, advance payment guarantees, shipping guarantees and standby letters of credits related to particular transactions issued in favour of:

- Government	17,235,612	18,138,591
- Financial institutions	6,034,302	30,735
- Others	7,502,582	5,484,271
	30,772,496	23,653,597

Notes to the Financial Statements

For the year ended December 31, 2007

2007 2006
Rupees in '000

21.3 Trade-related contingent liabilities

Letters of credit

Issued in favour of

- Government
- Financial institutions
- Others

139,367,158
187,561
59,601,103
199,155,822

128,295,046
522,542
31,725,396
160,542,984

21.4 Other contingencies

21.4.1 Claims against the bank not acknowledged as debts
[including SBP liabilities on Bangladesh borrowing and interest thereon amounting to Rs.170 million (2006: Rs.164 million) and claims relating to former MBL amounting to Rs.965 million (2006: Rs.1,053 million)].

9,263,526

11,544,592

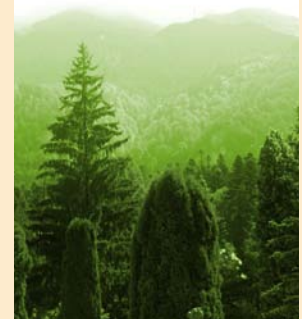
21.4.2 Taxation

The income tax assessments of the bank for global operations have been finalized upto and including the Tax year 2005 (accounting year ended December 31, 2004) and for Azad Kashmir have been finalized upto Tax year 2006. The income tax returns for the Tax year 2007 (accounting year ended December 31, 2006) have been filed for global operations and Azad Kashmir and the same are deemed assessed under the provisions of section 120 of the Income Tax Ordinance, 2001, unless amended otherwise. Appeals filed by the bank and tax department for certain assessment years are pending before various appellate forums/court of law. The major issues involved include taxability of interest credited to suspense account, disallowances of cost incurred in respect of employees' special separation scheme, disallowed/added provision against bad & doubtful debts, allocation of expenses relating to exempt income and revaluation loss of barter trade agreements.

During the year, the Taxation Officer has further amended assessments for the Tax Year 2003 and 2004 and has disallowed allocation of expenses relating to exempt income and reversal of charge against Benevolent Fund, the tax impact of which amounts to Rs.922 million.

In the event that the above matters are decided against the bank, a further tax liability of Rs.9,643 million (December 31, 2006: Rs. 8,721 million) may arise in addition to amount for which provision has already been made in these financial statements.

No further provision has been made in these financial statements for the above as the management, based on the opinion of tax lawyers and consultants, expects that it will get relief in the appeals.



Notes to the Financial Statements

For the year ended December 31, 2007

21.4.3 Provident Fund

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended December 31, 2007

	2007	2006
	Rupees in '000	
21.5 Commitments in respect of forward lending		
Forward call lending	-	1,000,000
21.6 Commitments in respect of forward exchange contracts		
Purchase	49,819,478	33,055,235
Sale	38,137,569	15,352,480
21.7 Commitments in respect of trading of government securities		
Sale	-	22,500
Purchase	-	10,000,000
21.8 Commitments for the acquisition of operating fixed assets	475,088	590,073
21.9 Other commitments		
- Equity futures sold	189,289	339,816
- Interest rates swaps	8,852,500	8,905,000
- Cross currency swaps	9,317,886	-
21.10 Commitments to inject capital in the following companies under share-holders agreement		
- Nishat Power Limited	300,000	-
- Nishat (Chunian) Limited	300,000	-

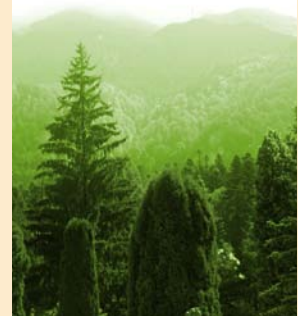
Provided that if the maximum limit of Rs.300 million referred above has been reached but the associated capital is less than 10% of the permitted equity, then the bank may increase its commitment subject to internal and regulatory approvals.

22. DERIVATIVE INSTRUMENTS

22.1 The bank is involved in derivative transactions including interest rate swaps, cross currency swaps and equity futures.

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

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



Notes to the Financial Statements

For the year ended December 31, 2007

22.2 Product Analysis

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

Counterparties	2006							
	Interest Rate Swaps		Cross Currency Swaps		Forward Rate Agreements		FX Options	
	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal	No. of Contracts	Notional Principal
	(Rupees in '000)		(Rupees in '000)		(Rupees in '000)		(Rupees in '000)	
With Banks for								
Hedging	-	-	-	-	-	-	-	-
Market Making	6	4,400,000	-	-	-	-	-	-
With FIs other than banks								
Hedging	-	-	-	-	-	-	-	-
Market Making	-	-	-	-	-	-	-	-
With other entities for								
Hedging	-	-	-	-	-	-	-	-
Market Making	7	4,505,000	-	-	-	-	-	-
Total								
Hedging	-	-	-	-	-	-	-	-
Market Making	13	8,905,000	-	-	-	-	-	-
	13	8,905,000	-	-	-	-	-	-

Notes to the Financial Statements

For the year ended December 31, 2007

22.3 Maturity Analysis

Interest Rate Swaps

2007

----- Rupees in '000 -----					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	8	6,642,772	56,574	8,281	(48,293)
6 month to 1 year	5	2,209,728	31,776	2,115	(29,661)
1 to 2 years	-	-	-	-	-
2 to 3 years	-	-	-	-	-
3 to 5 years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
Above 10 years	-	-	-	-	-

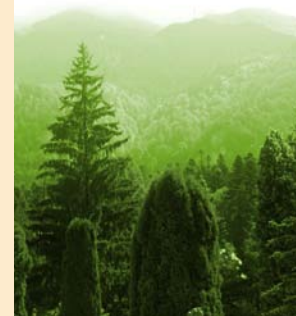
2006

----- Rupees in '000 -----					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 month to 1 year	-	-	-	-	-
1 to 2 years	13	8,905,000	249,498	8,973	(240,525)
2 to 3 years	-	-	-	-	-
3 to 5 years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
Above 10 years	-	-	-	-	-

Cross Currency Swaps

2007

----- Rupees in '000 -----					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 month to 1 year	-	-	-	-	-
1 to 2 years	-	-	-	-	-
2 to 3 years	-	-	-	-	-
3 to 5 years	-	-	-	-	-
5 to 10 years	9	9,317,886	334,095	405,908	71,813
Above 10 years	-	-	-	-	-



Notes to the Financial Statements

For the year ended December 31, 2007

Cross Currency Swaps

2006

----- Rupees in '000 -----					
Remaining Maturity	No. of Contracts	Notional Principal	Mark to Market		
			Negative	Positive	Net
Upto 1 month	-	-	-	-	-
1 to 3 months	-	-	-	-	-
3 to 6 months	-	-	-	-	-
6 month to 1 year	-	-	-	-	-
1 to 2 years	-	-	-	-	-
2 to 3 years	-	-	-	-	-
3 to 5 years	-	-	-	-	-
5 to 10 years	-	-	-	-	-
Above 10 years	-	-	-	-	-

	Note	2007 Rupees in '000	2006 Rupees in '000
23. MARK-UP/RETURN/INTEREST EARNED			
On loans and advances to:			
Customers and financial institutions		33,187,151	29,642,749
On Investments in:			
Available-for-sale securities		8,473,696	5,402,561
Held-to-maturity securities		2,390,246	3,806,635
		10,863,942	9,209,196
On deposits with financial institutions		4,777,132	4,006,289
On securities purchased under resale agreements		1,472,295	1,027,270
On interest rate SWAP		268,961	215,430
		<u>50,569,481</u>	<u>44,100,934</u>
24. MARK-UP/RETURN/INTEREST EXPENSED			
Deposits		15,928,071	13,072,306
Securities sold under repurchase agreements		207,355	306,033
Short-term borrowings		590,924	387,223
Long-term borrowings		-	37
Interest rate SWAP		213,661	181,619
		<u>16,940,011</u>	<u>13,947,218</u>
25. GAIN / (LOSS) ON SALE AND REDEMPTION OF SECURITIES			
Federal government securities			
Market Treasury Bills		(3,925)	(2,651)
Pakistan Investment Bonds		23,941	(2,307)
		20,016	(4,958)
NIT Units	25.1	1,775,003	-
Shares - listed		546,671	829,797
Shares - un-listed		-	344,676
		<u>2,341,690</u>	<u>1,169,515</u>

Notes to the Financial Statements

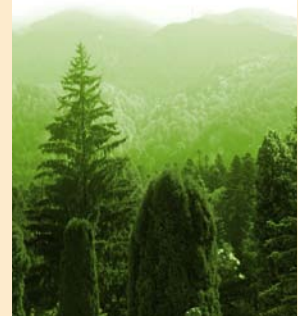
For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
25.1 This represents gain on redemption on 10% of bank's LoC holdings.			
26. OTHER INCOME			
Rent on property		30,483	24,974
Profit on sale of property and equipment	11.6	2,702	8,350
Others		114,178	594,294
		<u>147,363</u>	<u>627,618</u>
27. ADMINISTRATIVE EXPENSES			
Salaries and allowances	27.3	8,993,228	8,560,920
Charge for defined benefit plans		330,161	712,948
One time special award to staff		-	259,180
Non-executive directors' fee, allowances and other expenses	35	2,993	1,116
Rent, taxes, insurance, electricity, etc.		839,072	680,705
Legal and professional charges		261,629	125,429
Communications		315,464	281,567
Repairs and maintenance		235,113	232,935
Financial charges on leased assets		9,183	1,830
Stationery and printing		384,262	297,433
Advertisement and publicity		294,493	209,694
Donations	27.1	295	1,850
Auditors' remuneration	27.2	54,493	53,104
Depreciation	11.2	553,114	484,810
Amortization	11.3	3,409	1,824
Conveyance		91,924	81,452
Entertainment		31,583	29,008
Travelling		241,173	233,938
Security services		588,835	508,124
Outsourcing		266,102	156,361
Others		709,385	529,213
		<u>14,205,911</u>	<u>13,443,441</u>

27.1 Donations include following amounts exceeding Rs.0.1 million.

Q.M. Fareed Memorial Library, Department of Economics - University of Karachi	200	-
Friends of Layton Rehmatullah Benevolent Trust	-	1,000
Auj International Karachi	-	200
Institute of Technology Pakistan Aeronautical Complex Kamra	-	500
	<u>200</u>	<u>1,700</u>

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



Notes to the Financial Statements

For the year ended December 31, 2007

27.2 Auditors' remuneration

	M.Yousuf Adil Saleem & Co.	Ford Rhodes Sidat Hyder & Co.	2007 Total	2006 Total
	Rupees in '000			
Audit fee	2,854	2,854	5,708	4,756
Review of interim financial statements	1,584	1,584	3,168	2,640
Fee for audit of domestic branches	2,990	2,990	5,980	4,984
Fee for special certifications and sundry advisory services	211	43	254	2,591
Fee for audit of overseas branches including advisory services and out-of-pocket expenses	150	-	36,867	34,173
Fee for audit of pension and other funds	-	-	-	1,185
Out-of-pocket expenses	1,316	1,200	2,516	2,775
	9,105	8,671	54,493	53,104

27.3 Salaries and allowance includes charge for staff welfare fund which is based on estimated payments to be made out of current year's profits.

	Note	2007 Rupees in '000	2006
28. OTHER CHARGES			
Penalties imposed by SBP		17,141	208,327
29. TAXATION			
For the year			
Current		8,311,500	8,695,598
Deferred		323,731	61,981
	29.1	8,635,231	8,757,579
For prior year			
Current		391,497	530,652
Deferred		-	-
		391,497	530,652
		9,026,728	9,288,231

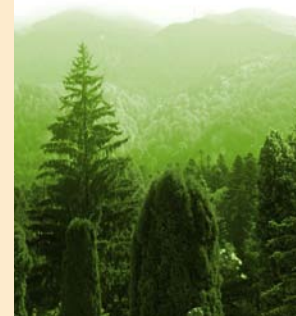
Current taxation includes Rs.543 million (2006: Rs.504 million) of overseas branches.

The tax provision for 2007 has been made on estimated taxable income after charging provision against non-performing advances for which certificates from SBP, as required by the taxation authorities, are yet to be received.

Notes to the Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
29.1 Relationship between tax expense and accounting profit			
Accounting profit before tax		<u>28,060,501</u>	<u>26,310,577</u>
Income tax at statutory rate @ 35% (2006: 35%)		<u>9,821,175</u>	<u>9,208,702</u>
Increase/(decrease) in taxes resulting from:			
Inadmissible differences		255,408	264,982
Income taxed at reduced rate		(889,953)	(218,044)
Income exempt from tax		(801,399)	(1,048,159)
Overseas taxation		250,000	550,098
Tax charge for current year		<u>8,635,231</u>	<u>8,757,579</u>
30. BASIC EARNINGS PER SHARE			
Profit after tax for the year	Rupees '000	<u>19,033,773</u>	<u>17,022,346</u>
Weighted average number of ordinary shares	Numbers '000	<u>815,432</u>	<u>815,432</u>
Basic earnings per share	Rupees	<u>23.34</u>	<u>20.88</u>
30.1 Earnings per share for the year 2006 has been restated for the effect of bonus shares issued during the year.			
31. DILUTED EARNINGS PER SHARE			
Basic and diluted earnings per share are same.			
32. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks		<u>94,873,249</u>	<u>78,625,227</u>
Balances with other banks		<u>37,472,832</u>	<u>40,641,679</u>
Overdrawn nostros		(889,092)	(453,785)
		<u>131,456,989</u>	<u>118,813,121</u>
33. STAFF STRENGTH			
Permanent		13,237	13,326
Temporary/on contractual basis		842	693
Bank's own staff strength at the end of the year		14,079	14,019
Outsourced		2,350	1,337
Total Staff Strength		<u>16,429</u>	<u>15,356</u>
33.1 In addition to the above, the bank is utilizing the services of security guard companies. The number of security guards deployed by such companies as at year end are 5,192 (2006: 5,192).			



Notes to the Financial Statements

For the year ended December 31, 2007

34. EMPLOYEE BENEFITS

34.1 Defined benefit plans

34.1.1 General description

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

Principal actuarial assumption

The financial assumptions used in actuarial valuation at December 31, 2007 of pension fund, post retirement medical benefits, benevolent fund and gratuity schemes are as follows:

	2007	2006
Salary increase	10% per annum	9% per annum
Discount rate	10% per annum	9% per annum
Expected rate of return on plan assets	10% per annum	9% per annum
Pension indexation rate	6% per annum	5% per annum
Rate of inflation in the cost of medical benefits	7% per annum	7% per annum
Number of employees covered under retirement benefit plan	12,999	13,084

	Note	2007 Rupees in '000	2006
34.1.2 Reconciliation of (recoverable from) pension fund			
Present value of defined benefit obligations		12,704,049	12,069,249
Fair value of plan assets		(19,503,391)	(17,333,982)
Net actuarial gains not recognized		3,122,997	2,312,800
	12	<u>(3,676,345)</u>	<u>(2,951,933)</u>

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

Movement in (recoverable from) pension fund

Opening net asset	(2,951,933)	(2,523,668)
Charge for the year	(197,568)	1,866
Contribution to the fund made during the year	(526,844)	(430,131)
	<u>(3,676,345)</u>	<u>(2,951,933)</u>

Charge for pension fund

Current service cost	324,541	319,588
Interest cost	1,086,232	907,656
Expected return on plan assets	(1,560,058)	(1,225,378)
Actuarial (gains)/losses recognized	(48,283)	-
	<u>(197,568)</u>	<u>1,866</u>

Actual return on plan assets	2,060,092	1,454,739
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Notes to the Financial Statements

For the year ended December 31, 2007

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

	2007	2006
	%	%
Bonds	59.89	64.38
Equities	29.40	17.86
Cash and net current assets	10.71	17.75

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

	2007	2006	2005	2004	2003
	Rupees in '000				
Present value of defined benefit obligations	12,704,049	12,069,249	10,085,072	8,889,166	7,721,627
Fair value of plan assets	(19,503,391)	(17,333,982)	(13,615,308)	(10,953,151)	(10,900,651)
Net actuarial gains not recognized	3,122,997	2,312,800	1,006,568	16,126	1,506,095
	(3,676,345)	(2,951,933)	(2,523,668)	(2,047,859)	(1,672,929)

34.1.3 Reconciliation of payable to medical benefit plan

	Note	2007 Rupees in '000	2006 Rupees in '000
Present value of defined benefit obligations		2,726,617	2,595,291
Fair value of plan assets		-	-
Net actuarial losses not recognized	18	(144,141)	(318,705)
		2,582,476	2,276,586

Movement in net liability recognized

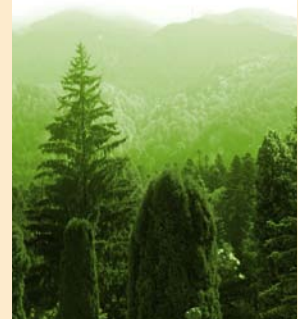
Opening net liability	2,276,586	2,001,749
Charge for the year	323,543	289,469
Benefits paid	(17,653)	(14,632)
	2,582,476	2,276,586

Charge for medical benefit plan

Current service cost	85,036	73,187
Interest cost	233,576	207,334
Expected return on plan assets	-	-
Actuarial (gains)/losses recognized	4,931	8,948
	323,543	289,469

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

	2007	2006	2005	2004	2003
	Rupees in '000				
Present value of defined benefit obligations	2,726,617	2,595,291	2,303,706	2,212,279	1,937,958
Fair value of plan assets	-	-	-	-	-
Net actuarial losses not recognized	(144,141)	(318,705)	(301,957)	(440,381)	(358,054)
	2,582,476	2,276,586	2,001,749	1,771,898	1,579,904



Notes to the Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
34.1.4 Movement in net liability recognized for benevolent fund			
Opening net liability		802,937	729,725
Charge for the year		22,756	129,185
Benefits paid	18	(65,736)	(55,973)
		<u>759,957</u>	<u>802,937</u>
Charge for benevolent fund			
Current service cost		19,567	19,407
Interest cost		72,264	65,675
Actuarial (gains)/losses recognized		(69,075)	44,103
		<u>22,756</u>	<u>129,185</u>

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

	2007	2006	2005	2004	2003
	----- Rupees in '000 -----				
Opening net liability	802,937	729,725	733,572	638,103	832,015
Net charge for the year	22,756	129,185	56,242	162,032	(122,722)
Benefits paid	(65,736)	(55,973)	(60,089)	(66,563)	(71,190)
	<u>759,957</u>	<u>802,937</u>	<u>729,725</u>	<u>733,572</u>	<u>638,103</u>

	Note	2007 Rupees in '000	2006
34.1.5 Reconciliation of payable to gratuity benefit plan			
Present value of defined benefit obligations		82,098	58,205
Net actuarial losses not recognized		(4,309)	(2,635)
Unrecognized Past Service Cost	18	(11,081)	(22,161)
		<u>66,708</u>	<u>33,409</u>
Movement in net liability recognized			
Opening liability		33,409	-
Charge for the year		33,299	33,409
Benefits paid		-	-
		<u>66,708</u>	<u>33,409</u>
Charge for gratuity benefit plan			
Current service cost		16,980	7,272
Interest cost		5,238	2,080
Past service cost to be recognized		11,081	24,057
		<u>33,299</u>	<u>33,409</u>

34.2 Other employee benefits

34.2.1 Movement in net liability recognized for compensated absences

Opening net liability		1,639,708	1,521,326
Charge for the year	18	23,222	118,382
		<u>1,662,930</u>	<u>1,639,708</u>

Notes to the Financial Statements

For the year ended December 31, 2007

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

	2007	2006	2005	2004	2003
	----- Rupees in '000 -----				
Opening net liability	1,639,708	1,521,326	1,219,566	1,281,741	1,196,698
Net charge for the year	23,222	118,382	301,760	(62,175)	85,043
	<u>1,662,930</u>	<u>1,639,708</u>	<u>1,521,326</u>	<u>1,219,566</u>	<u>1,281,741</u>

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

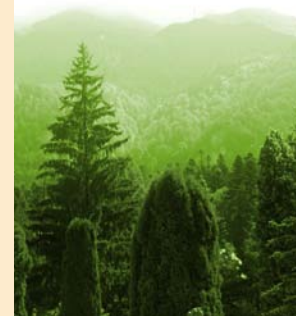
	2008			
	Pension funds	Benevolent Scheme	Medical Scheme	Gratuity Scheme
	----- Rupees in '000 -----			
Contribution to be paid	(230,680)	94,588	380,083	42,423

34.4 Effect of 1% movement in assumed medical cost trend rate

	2007		2006	
	Increase	Decrease	Increase	Decrease
	----- Rupees in '000 -----			
Impact on obligations	145,588	(111,073)	191,642	(143,547)
Impact on cost	23,191	(17,363)	29,773	(21,797)

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

	President		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	----- Rupees in '000 -----					
Fees	-	-	2,993	1,116	-	-
Managerial remuneration	7,800	6,600	-	-	196,553	122,997
Charge for defined benefit plan	-	-	-	-	38,825	48,467
Rent and house maintenance	5,265	3,192	-	-	93,303	58,424
Utilities	1,029	598	-	-	19,719	12,227
Medical	1,061	1,631	-	-	28,200	8,131
Conveyance	-	-	-	-	46,450	24,709
Leave fare assistance	3,000	3,000	-	-	-	-
Bonus & others	25,812	17,369	-	-	84,388	53,474
	<u>43,967</u>	<u>32,390</u>	<u>2,993</u>	<u>1,116</u>	<u>507,438</u>	<u>328,429</u>
Number of persons	<u>1</u>	<u>1</u>	<u>8</u>	<u>7</u>	<u>239</u>	<u>135</u>



Notes to the Financial Statements

For the year ended December 31, 2007

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

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

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

36.1 On-balance sheet financial instruments

	2007		2006	
	Book Value	Fair Value	Book Value	Fair Value
	----- Rupees in '000 -----			
Assets				
Cash and balances with treasury banks	94,873,249	94,873,249	78,625,227	78,625,227
Balances with other banks	37,472,832	37,472,832	40,641,679	40,641,679
Lendings to financial institutions	21,464,600	21,464,600	23,012,732	23,012,732
Investments	210,787,868	209,413,807	139,946,995	138,228,620
Advances	340,677,100	340,677,100	316,110,406	316,110,406
Other assets	15,200,716	15,200,716	14,306,189	14,306,189
	720,476,365	719,102,304	612,643,228	610,924,853
Liabilities				
Bills payable	7,061,902	7,061,902	10,605,663	10,605,663
Borrowings	10,886,063	10,886,063	11,704,079	11,704,079
Deposits and other accounts	591,907,435	591,907,435	501,872,243	501,872,243
Liabilities against assets subject to finance lease	33,554	33,554	13,235	13,235
Other liabilities	21,658,733	21,658,733	20,339,091	20,339,091
	631,547,687	631,547,687	544,534,311	544,534,311

36.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	49,819,478	49,454,538	33,055,235	33,147,690
Forward sale of foreign exchange	38,137,569	38,601,982	15,352,480	15,354,064
Cross currency swaps and interest rate swaps	18,170,386	18,092,432	8,905,000	4,264,475
Equity futures sold	189,289	179,260	339,816	339,017
Forward call lending	-	-	1,000,000	1,000,000
Forward Purchases of trading				
government securities	-	-	10,000,000	10,000,000
Forward Sales of trading government securities	-	-	22,500	22,500

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

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

Fair value of all other assets and liabilities including long-term deposits cannot be calculated with sufficient accuracy as active market does not exist for these instruments. In the opinion of the management, fair value of these assets and liabilities are not significantly different from their carrying values since assets and liabilities are either short term in nature or in the case of deposits are frequently repriced.

Notes to the Financial Statements

(for the year ended December 31, 2007)

37. Segment Details with respect to Business Activities

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

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement	Agency Services	Assets Management	Retail Brokerage	Others
2007	Rupees in '000								
Total income	311,422	9,626,193	11,376,128	21,967,311	1,052,772	2,840,489	-	-	-
Total expenses	1,455	323,949	6,549,071	9,389,224	610,926	2,239,189	-	-	-
Net income	309,967	9,302,244	4,827,057	12,578,087	441,846	601,300	-	-	-
Segment Assets (Gross)	-	317,550,303	123,134,052	321,509,238	-	-	-	-	-
Segment Non Performing Loans	-	-	2,594,898	35,722,654	-	-	-	-	-
Segment Provision Required	-	-	1,238,286	31,113,529	-	-	-	-	-
Segment Liabilities	-	9,218,145	121,426,879	515,210,915	-	-	-	-	-
Segment Return on net Assets (ROA) (%)	0.00%	3.35%	4.54%	3.19%	0.00%	0.00%	-	-	-
Segment Cost of funds (%)	0.00%	4.90%	1.81%	3.02%	0.00%	0.00%	-	-	-

2006

Total income	168,813	9,929,281	11,899,362	17,022,142	742,940	2,554,070	-	-	-
Total expenses	1,439	(473,327)	7,401,922	6,248,086	504,351	2,323,560	-	-	-
Net income	167,374	10,402,608	4,497,440	10,774,056	238,589	230,510	-	-	-
Segment Assets (Gross)	-	269,919,000	93,292,013	307,206,786	-	-	-	-	-
Segment Non Performing Loans	-	-	1,458,278	34,801,608	-	-	-	-	-
Segment Provision Required	-	-	473,902	29,054,770	-	-	-	-	-
Segment Liabilities	-	6,713,045	128,818,479	417,646,618	-	-	-	-	-
Segment Return on net Assets (ROA) (%)	0.00%	4.30%	3.49%	2.58%	0.00%	0.00%	-	-	-
Segment Cost of funds (%)	0.00%	0.00%	1.07%	3.19%	0.00%	0.00%	-	-	-

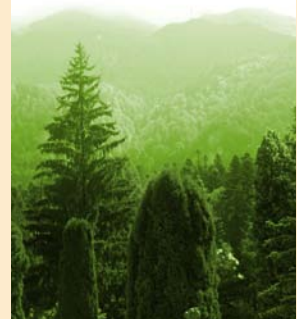
38. TRUST ACTIVITIES

38.1 National Investment Trust (NIT)

Under a trust deed, the bank provides services, as a trustee to NIT and is performing functions of sale/purchase of NIT units, safe custody and maintaining unit holders accounts. The bank is keeping approximately 1.4 billion (2006: 1.3 billion) shares with market value of Rs.95,687 million (2006: Rs.72,832 million) in safe custody/Central Depository Company on behalf of NIT.

38.2 Long-term Credit Fund (LTCF)

Consequent upon the NDFC amalgamation, the bank manages on behalf of the GoP, LTCF established from the proceeds of loans disbursed by various international funding agencies for financing private sector energy development projects. Fund assets are accounted for separately from those of the bank and amounted to Rs.36 billion on December 31, 2007 (2006: Rs.38 billion). However, the bank is in process of negotiating the charge of fee in consideration of administrative services to the LTCF.



Notes to the Financial Statements

For the year ended December 31, 2007

38.3 Qarz-e-Hasna Fund

The work relating to Qarz-e-Hasna Scheme was attended by Pakistan Banking Council (PBC) since inception. PBC was dissolved in January 1997. In order to fill the void created by the dissolution of PBC and in order to continue the scheme, SBP decided to entrust all funds and transfer all record relating to Qarz-e-Hasna scheme for education to the bank with the instructions to perform all work relating to the Fund.

Till December 31, 2007 SBP had transferred Rs.244 million (2006: Rs.244 million) to the bank. Assets and liabilities relating to the Fund have been treated as off-balance sheet item in the financial statements.

39. RELATED PARTY TRANSACTIONS

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

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

Detail of loans and advances to the companies or firms, in which the directors of the bank are interested as directors, partners or in case of private companies as members, are given in note 10.8 to these financial statements. There are no transactions with key management personnel other than under their terms of employment. Contributions to an approval in respect of staff retirement and other benefit plans as disclosed in note 34 to these financial statements. Remuneration to the executive and disposal of vehicles are disclosed in notes 35 and 11.6 to the financial statements.

	2007	2006
	Rupees in '000	
Balance outstanding at year end		
Advances to:		
Subsidiaries	786,382	719,220
Associates	1,515,120	1,600,070
Key management executives *	89,102	65,225
Debts due by company in which a director of the bank is interested as director	199,391	222,759
Placements with:		
Joint venture	759,343	349,550
Associates / subsidiaries	27,331	27,331
Deposits from:		
Subsidiaries		
Opening balance	14,167	317,593
Received during the year	241,785	-
Repaid during the year	-	(303,426)
Closing Balance	255,952	14,167
Pension fund		
Opening balance	3,077,536	2,598,358
Received during the year	1,990,643	1,701,545
Repaid during the year	(2,979,203)	(1,222,367)
Closing Balance	2,088,976	3,077,536
Provident fund		
Opening balance	7,397,487	6,665,252
Received during the year	1,325,349	1,212,644
Repaid during the year	(644,441)	(480,409)
Closing Balance	8,078,395	7,397,487

* This includes loans extended to certain key management executives in accordance with the terms of employment.

Notes to the Financial Statements

For the year ended December 31, 2007

	2007	2006
	Rupees in '000	
Obligation under finance lease		
Subsidiary	31,694	9,260
Income for the year		
On advances/placements with:		
Subsidiaries	832	10,323
Associates	37,726	46,105
Joint venture	23,160	9,619
Debts due by company in which a director of the bank is interested as director	5,965	9,102
Expenses for the year		
Remuneration to key management executives	77,208	66,157
Charge for defined benefit plan	5,605	14,577
On deposits of:		
Subsidiaries	584	344
Provident fund **	943,205	976,870
Commission paid to subsidiaries	2,473	4,921
Other receivables	30,259	23,284
Other payables	11,154	144

** Had the interest on deposits from provident fund paid at the average rate of twenty years Government paper, interest would have been lower by Rs.201 million (2006: Rs.306 million).

39.1 Although the Federal Government and the SBP held about 75.60% shares of the bank (2006: 75.60%), the transactions with these entities have not been treated as related party transactions for the purpose of this disclosure.

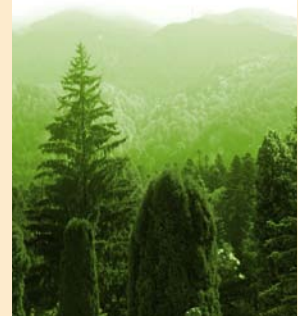
40. CAPITAL ADEQUACY

40.1 Capital Management

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

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

Through BSD Circular No. 6 dated 28 October 2005 the State Bank of Pakistan has raised the minimum paid-up capital requirement for locally incorporated banks to Rs. 6 billion (net of losses) to be achieved in a phased manner by 31 December 2009. The minimum paid-up capital requirement to be achieved by 31 December 2007 was Rs. 4 billion. Further, the amount of capital required to be maintained by all banks/DFIs carrying on business in Pakistan should atleast be equivalent to 8 percent of the risk weighted assets.



Notes to the Financial Statements

For the year ended December 31, 2007

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

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

Various limits are applied to elements of the capital base. Qualifying tier II and tier III capital cannot exceed the tier I capital. Revaluations reserves are eligible upto 50 percent for treatment as tier II capital. There is also restriction on the amount of general reserve for loan losses upto 1.25 percent of total risk weighted assets. Undisclosed reserves, despite being unpublished, are eligible if they appear in the internal account of the bank. Subordinated debts cannot exceed 50 percent of tier I capital. Further tier III capital cannot exceed 250 percent of tier I capital.

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

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

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

40.2 Capital Adequacy Ratio

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

	2007	2006
	Rupees in '000	
Regulatory Capital Base		
Tier I Capital		
Shareholders Capital	8,154,319	7,090,712
Reserves	12,407,812	10,504,435
Unappropriated profits	45,344,188	32,074,677
Less: Adjustments	(1,349,213)	(1,349,213)
Total Tier I Capital	64,557,106	48,320,611
Tier II Capital		
Subordinated Debt (upto 50% of total Tier I Capital)	-	-
General Provisions (subject to 1.25% of Total Risk Weighted Assets)	1,656,163	2,162,008
Exchange equalization reserve	3,364,312	3,374,825
Revaluation Reserve (upto 50%)	23,327,423	14,400,593
Total Tier II Capital	28,347,898	19,937,426
Eligible Tier III Capital	-	-
Total Regulatory Capital	(a) 92,905,004	68,258,037

Notes to the Financial Statements

For the year ended December 31, 2007

Risk-Weighted Exposures

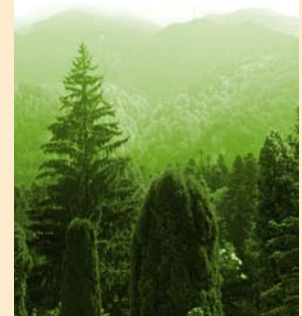
	2007		2006	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
	----- Rupees in '000 -----			
Credit Risk				
Balance Sheet Items:-				
Cash and other liquid Assets	132,346,081	7,495,846	119,266,906	8,128,336
Money at call	21,464,600	624,535	23,012,732	1,766,000
Investments	210,787,867	49,239,899	139,946,995	47,948,660
Loans and Advances	338,877,957	260,466,754	312,073,126	244,182,290
Fixed Assets	25,922,979	25,922,979	9,681,974	9,681,974
Other Assets	30,994,965	20,183,551	27,113,698	17,672,740
	760,394,449	363,933,564	631,095,431	329,380,000
Off Balance Sheet items				
Loan Repayment Guarantees	39,266,013	18,650,869	30,039,047	15,510,825
Purchase and Resale Agreements	-	-	-	-
Performance Bonds etc	30,772,496	4,354,721	23,653,597	8,340,146
Revolving underwriting Commitments	-	-	-	-
Stand By Letters of Credit	199,155,822	29,819,308	160,542,984	16,745,802
Outstanding Foreign Exchange Contracts				
- Purchase	49,819,478	287,072	33,055,235	232,166
- Sale	38,137,569	155,255	15,352,480	131,394
Cross currency SWAP	9,317,886	37,272		
Single currency Interest Rate SWAP	4,452,500	35,620	4,505,000	36,040
	370,921,764	53,340,117	267,148,343	40,996,373
Credit risk-weighted exposures		417,273,681		370,376,373
Market Risk				
General market risk		44,301,305		42,925,385
Specific market Risk		785,594		332,573
Market risk-weighted exposures		45,086,899		43,257,958
Total Risk-Weighted exposures	(b)	462,360,580		413,634,331
Capital Adequacy Ratio [(a) / (b) x 100]		20.09%		16.50%

41. RISK MANAGEMENT

41.1 Credit risk

Credit risk exposure in respect of earning assets and off-balance sheet financial instruments represents carrying values of assets and contingencies which could be impacted as a result of failure by the bank's counter-parties to discharge their obligations under financial instruments and cause the bank to incur financial loss.

Concentration of credit risk arises from exposures to customers having similar characteristics in terms of industry in which they are engaged, geographical location in which they operate such that their ability to discharge contractual obligations may be similarly affected by change in political, economical and other conditions. Significant concentrations of bank's risk assets by industrial and geographical sectors are set out below.



Notes to the Financial Statements

For the year ended December 31, 2007

Credit risk is managed in terms of lending policy, approved by the board of directors and other laid down procedures outlined in the Standard Procedures Manual and related circulars. Credit limits are established for all counter-parties after a careful assessment of their credit worthiness. An effective credit granting procedure, which requires pre-sanction evaluation of credit proposal, adequacy of security and pre-disbursement examination of charge documents has been established and managed by Credit Management Group (CMG) at Head Office. Where possible, all loans and advances are secured by acceptable form of collateral to mitigate credit risk. The CMG is also responsible for continuing review and monitoring of borrowers' accounts and effective compliance of Prudential Regulations.

The bank maintains advances portfolio diversified in nature to counter the risk of credit concentration and further limits risk through diversification of its assets by geographical and industrial sector.

Cross border exposures are controlled by the bank by considering country/sovereign risk and these are updated on regular basis.

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

41.1.1 SEGMENTAL INFORMATION

41.1.1.1 Segment by class of business

	2007					
	Advances (Gross)		Deposits		Contingencies & Commitments	
	Rupees in '000	Percentage %	Rupees in '000	Percentage %	Rupees in '000	Percentage %
Chemical and pharmaceuticals	2,657,289	0.71	1,066,632	0.18	13,451,526	5.00
Agribusiness	22,039,921	5.88	11,753,867	1.99	184,218	0.07
Textile	57,239,248	15.26	1,647,032	0.28	8,611,672	3.20
Cement	9,700,961	2.59	1,164,714	0.20	3,348,457	1.24
Sugar	7,891,294	2.10	249,386	0.04	566,551	0.21
Flour	826,041	0.22	75,142	0.01	41,909	0.02
Rice processing	10,786,315	2.88	205,833	0.03	-	-
Shoes & leather garments	656,006	0.17	146,301	0.02	72,859	0.03
Automobile and transportation equipment	5,655,043	1.51	501,837	0.08	989,499	0.37
Financial	13,530,582	3.61	58,240,151	9.84	8,520,218	3.17
Insurance	-	-	1,620,777	0.27	-	-
Transportation	15,091,830	4.02	3,171,234	0.54	369,148	0.14
Real Estate Construction	7,363,131	1.96	4,627,290	0.78	732,341	0.27
Electronics and electrical appliances	13,627,351	3.63	2,013,074	0.34	19,878,950	7.38
Production and transmission of energy	13,880,606	3.70	3,143,770	0.53	16,234,959	6.03
Food and tobacco	1,813,831	0.48	304,016	0.05	130,477	0.05
Fertilizer	3,238,541	0.86	250,168	0.04	1,454,092	0.54
Metal products	2,823,582	0.75	209,905	0.04	1,164,511	0.43
Oil, gas, petroleum and energy	22,813,472	6.08	12,292,966	2.08	19,749,290	7.34
Telecommunication	7,789,703	2.08	15,010,063	2.54	2,985,474	1.11
Hotel and services	6,300,379	1.68	13,474,475	2.28	1,111,400	0.41
Public sector commodity operations	15,882,415	4.23	7,189,309	1.21	1,195,782	0.44
Individuals	83,971,629	22.39	264,674,653	44.72	5,245,993	1.95
General traders	15,475,908	4.13	12,594,240	2.13	3,407,025	1.27
Others	34,035,124	9.08	176,280,600	29.78	159,747,980	59.33
	375,090,202	100.00	591,907,435	100.00	269,194,331	100.00

Notes to the Financial Statements

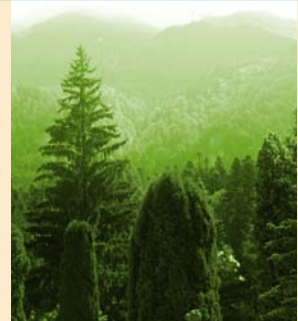
For the year ended December 31, 2007

41.1.1.2 Segment by sector

	2007					
	Advances (Gross)		Deposits		Contingencies & Commitments	
	Rupees in '000	Percentage %	Rupees in '000	Percentage %	Rupees in '000	Percentage %
Public / Government	67,502,893	18.00	249,531,928	42.16	171,699,464	63.78
Private	307,587,309	82.00	342,375,507	57.84	97,494,867	36.22
	375,090,202	100.00	591,907,435	100.00	269,194,331	100.00

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

	2007		2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	----- Rupees in '000 -----			
Chemical and pharmaceuticals	1,528,242	1,496,988	1,553,889	1,484,888
Agribusiness	1,698,478	709,774	1,102,793	263,248
Textile	14,555,983	12,571,994	11,883,548	10,067,133
Cement	1,192,930	1,192,930	2,182,965	1,479,413
Sugar	1,340,425	1,340,425	1,523,504	1,256,677
Flour	169,787	144,113	102,895	80,434
Rice processing	818,768	600,694	321,257	180,805
Shoes & leather garments	107,908	106,609	178,190	154,602
Automobile and transportation equipment	361,852	328,000	317,633	273,066
Financial	60,235	60,235	66,404	39,019
Transportation	69,818	68,836	223,215	223,215
Real Estate Construction	334,860	254,511	138,071	105,164
Electronics and electrical appliances	168,013	148,225	146,289	142,543
Food and tobacco	968,742	867,133	1,073,901	1,020,411
Fertilizer	210,856	206,091	190,795	160,680
Metal products	1,993,805	1,989,868	1,922,181	1,578,470
Oil, gas, petroleum and energy	1,215,650	1,067,101	978,385	626,507
Hotel and services	56,624	34,057	9,306	9,306
Individuals	896,420	528,512	355,485	210,654
General traders	1,661,610	1,484,882	3,880,361	3,429,779
Others	8,906,546	7,150,837	8,108,819	6,742,658
	38,317,552	32,351,815	36,259,886	29,528,672



Notes to the Financial Statements

For the year ended December 31, 2007

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

	2007		2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	----- Rupees in '000 -----			
Public / Government	908,750	908,750	1,137,579	926,431
Private	37,408,802	31,443,065	35,122,307	28,602,241
	38,317,552	32,351,815	36,259,886	29,528,672

41.1.1.5 Geographical segment analysis

	2007			
	Profit Before Taxation	Total Assets Employed	Net Assets Employed	Contingencies & Commitments
	----- Rupees in '000 -----			
Pakistan	26,508,701	645,155,276	106,977,382	251,265,796
Asia Pacific (including South Asia)	658,093	19,269,969	5,407,122	5,216,137
Europe	1,663	8,667,946	1,853,556	6,450,977
United States of America and Canada	290,741	12,843,044	1,430,281	6,261,421
Middle East	601,303	76,257,358	669,313	-
	28,060,501	762,193,593	116,337,654	269,194,331

41.2 Market risk

Market risk refers to the risk to an institution resulting from movements in market variables, in particular, changes in interest rates, foreign exchange rates, and equity and commodity prices.

Market risk management strategy states the risk tolerance level, which the institution is prepared to assume, and the business goals it plans to achieve. NBP market risk office makes sure that Bank's Market risk exposure, i.e. exposure in Money Market, Foreign Exchange Market and Equity Market, adheres with the risk tolerance level and matches with overall business goals set by Board of Directors (BOD), Risk Management Committee (RMC) and Assets & Liability Committee (ALCO). Various risk management reports are generated e.g. 'Exception reports', 'Limit reports', 'Stress Testing reports', 'Money market and FX Gap reports', 'Counterparty limit report', 'CRR', and 'SLR' etc for the purpose of market risk measurement and monitoring.

Notes to the Financial Statements

For the year ended December 31, 2007

41.2.1 Foreign exchange risk

	2007			
	Assets	Liabilities	Off-balance sheet Items	Net Foreign Currency Exposure
	----- Rupees in '000 -----			
Pakistan Rupee	617,154,139	524,456,652	(15,047,124)	77,650,363
United States Dollar	102,400,042	88,602,314	10,550,695	24,348,423
Great Britain Pound	7,347,879	8,001,400	2,802,727	2,149,206
Euro	6,973,738	6,531,677	2,374,939	2,817,000
Japanese Yen	3,295,294	4,380,632	(653,834)	(1,739,172)
Other currencies	25,022,501	13,883,264	(27,403)	11,111,834
	145,039,454	121,399,287	15,047,124	38,687,291
	762,193,593	645,855,939	-	116,337,654

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

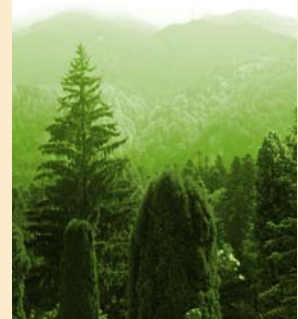
The bank's foreign exchange exposure comprises of forward contracts, purchases of foreign bills, foreign currencies cash in hand, balances with banks abroad, foreign placements with SBP and foreign currencies assets and liabilities. The net open position is managed within the statutory limits, as fixed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

The liabilities in foreign currencies include a sum of Rs.658 million (2006: Rs.787 million) being deposits in foreign currencies of local branches against which the bank has obtained forward cover through SBP.

41.2.2 Equity position risk

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

- Changes in business cycle affecting the business of the company in which the investment is made. Change in business circumstances (i.e. fundamentals) of the company, its business sector, industry and/ or economy in general.
- Mismanagement of the investee company, third party liability whether through class action or otherwise or occurrence of other events such as strikes, fraud, etc. in the company in which investment is made.



Notes to the Financial Statements

For the year ended December 31, 2007

- Fluctuation in the shares' prices resulting from their dependence on market sentiment, speculative activity, supply and demand of shares and liquidity in the market.
- The possibility of defaults by participant or failure of the stock exchanges, the depositories, the settlement or the clearing system is discharging their fiduciary responsibilities.
- Any government or court order restraining payment of dividend by a company to its shareholders.

The bank mitigates the aforesaid risk as follows:

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

Notes to the Financial Statements

(for the year ended December 31, 2007)

41.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

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

	Effective Yield / Interest rate	2 0 0 7								Non-interest bearing financial instruments
		Exposed to Yield / Interest risk								
		Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	
Rupees in '000										
On-balance sheet financial instruments										
Assets										
Cash and balances with treasury banks	2.20%	94,873,249	3,205,059	14,742,960	10,889,486	-	-	-	-	66,035,744
Balances with other banks	7.30%	37,472,832	16,529,278	12,725,102	762,098	1,600	-	-	-	7,116,636
Lending to financial institutions	7.80%	21,464,600	15,672,337	1,443,081	4,349,162	-	-	-	-	-
Investments	10.00%	210,787,868	25,051,729	29,446,778	35,350,436	47,494,926	14,689,731	2,013,422	4,834,818	8,576,579
Advances	10.30%	340,677,100	95,414,186	78,517,308	65,012,528	82,344,884	5,739,686	10,884,531	1,383,180	1,380,787
Other assets	0.00%	15,200,716	-	-	-	-	-	-	-	-
		720,476,365	155,872,589	136,875,229	116,363,730	130,177,928	20,431,027	12,897,953	6,217,998	9,957,366
										756,332
										130,926,213
Liabilities										
Bills payable	0.00%	7,061,902	-	-	-	-	-	-	-	7,061,902
Borrowings	4.00%	10,886,063	2,192,856	7,357,315	-	-	-	-	-	1,265,092
Deposits and other accounts	3.00%	591,907,435	395,046,259	9,291,403	20,511,104	129,231	-	-	-	166,927,438
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	12.50%	33,554	-	4,297	4,297	8,113	12,735	4,112	-	21,658,733
Other liabilities	0.00%	21,658,733	-	-	-	-	-	-	-	-
		631,597,687	397,241,115	16,653,015	20,515,401	137,344	12,735	4,112	70,800	196,913,165
		88,928,678	(241,368,526)	120,222,214	95,848,329	130,040,584	20,418,292	12,893,841	6,147,198	9,957,366
										756,332
										(65,986,962)
Off-balance sheet financial instruments										
Interest rate swaps and cross currency swap	-	18,170,386	-	-	6,669,022	2,183,478	-	-	-	9,317,886
Equity futures	-	189,289	-	189,289	-	-	-	-	-	-
Forward call lending	-	-	-	-	-	-	-	-	-	-
Forward purchase of foreign exchange	-	49,819,478	15,459,204	11,073,536	12,940,963	10,345,775	-	-	-	-
Forward sale of foreign exchange	-	38,137,569	17,018,360	7,820,977	12,891,619	406,613	-	-	-	-
Forward Purchases of trading government securities	-	-	-	-	-	-	-	-	-	-
Forward Sales of trading government securities	-	-	-	-	-	-	-	-	-	-
		32,477,564	19,083,802	32,501,604	12,935,866	-	-	-	9,317,886	-
										-
										756,332
										(65,986,962)
Cumulative Yield / Interest Risk Sensitivity Gap										
		195,245,400	(208,890,962)	139,306,016	128,349,933	142,976,450	20,418,292	12,893,841	6,147,198	19,275,252
		(208,890,962)	(69,584,946)	58,764,987	201,741,437	222,159,729	235,053,570	241,200,768	260,476,020	261,232,352
										195,245,400

Notes to the Financial Statements

(for the year ended December 31, 2007)

2006												
Effective Yield / Interest rate	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Exposed to Yield / Interest risk				Over 5 to 10 Years	Above 10 Years	Non-interest bearing financial instruments
						Over 1 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years			
						Rupees in '000						
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	78,625,227	5,328,059	18,265,650	13,209,920	-	-	-	-	-	-	-	41,821,598
Balances with other banks	40,641,679	31,455,316	5,515,292	2,391,174	300,710	119	-	-	-	-	-	979,068
Lending to financial institutions	23,012,732	-	3,646,179	16,747,792	2,618,761	-	-	-	-	-	-	-
Investments	139,946,995	5,722,060	35,634,259	16,391,110	13,133,085	6,166,539	15,132,315	2,013,336	8,959,974	574,707	-	36,219,610
Advances	316,110,406	62,590,106	52,350,176	97,332,079	48,312,632	48,882,213	158,300	1,597,900	1,541,900	5,345,100	-	-
Other assets	14,306,189	-	-	-	-	-	-	-	-	-	-	14,306,189
	612,643,228	105,095,541	115,411,556	146,072,075	64,365,188	53,048,871	15,290,615	3,611,236	10,501,874	5,919,807	-	93,326,465
Liabilities												
Bills payable	10,605,663	-	-	-	-	-	-	-	-	-	-	10,605,663
Borrowings	11,704,079	1,610,623	8,828,364	109,600	-	-	-	70,800	-	-	-	1,084,692
Deposits and other accounts	501,872,243	277,663,751	57,430,401	26,417,526	2,317,916	-	-	-	-	-	-	138,042,649
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	13,235	-	-	-	-	-	13,235	-	-	-	-	-
Other liabilities	20,339,091	-	-	-	-	-	-	-	-	-	-	20,339,091
	544,534,311	279,274,374	66,258,765	26,527,126	2,317,916	-	13,235	70,800	-	-	-	170,072,095
On-balance sheet gap	68,108,917	(174,178,833)	49,152,791	119,544,949	62,047,272	53,048,871	15,277,380	3,540,436	10,501,874	5,919,807	-	(76,745,630)
Off-balance sheet financial instruments												
Interest rate swaps	4,505,000	-	-	-	-	4,505,000	-	-	-	-	-	-
Equity futures	339,816	-	339,816	-	-	-	-	-	-	-	-	-
Forward call lending	1,000,000	1,000,000	-	-	-	-	-	-	-	-	-	-
Forward purchase of foreign exchange	33,055,235	5,210,218	6,954,697	10,168,736	10,721,584	-	-	-	-	-	-	-
Forward sale of foreign exchange	15,352,480	4,011,439	2,532,404	3,510,552	5,298,085	-	-	-	-	-	-	-
Forward Purchases of trading government securities	10,000,000	10,000,000	-	-	-	-	-	-	-	-	-	-
Forward Sales of trading government securities	22,500	22,500	-	-	-	-	-	-	-	-	-	-
Cross currency swap	-	-	-	-	-	-	-	-	-	-	-	-
	64,275,031	20,244,157	9,826,917	13,679,288	16,019,669	4,505,000	-	-	-	-	-	-
Off-balance sheet gap												
Total Yield / Interest Risk Sensitivity Gap	132,383,948	(153,934,676)	58,979,708	133,224,237	78,066,941	57,553,871	15,277,380	3,540,436	10,501,874	5,919,807	-	(76,745,630)
Cumulative Yield / Interest Risk Sensitivity Gap		(153,934,676)	(94,954,968)	38,269,269	116,336,210	173,890,081	189,167,461	192,707,897	203,209,771	209,129,578	-	132,383,948

Notes to the Financial Statements

(for the year ended December 31, 2007)

41.3 Liquidity Risk

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

41.3.1 Maturities of Assets and Liabilities

	2007									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Rupees in '000										
Assets										
Cash and balances with treasury banks	94,873,249	69,240,803	14,742,960	10,889,486	-	-	-	-	-	-
Balances with other banks	37,472,832	23,645,914	12,725,102	762,098	338,118	1,600	-	-	-	-
Lending to financial institutions	21,464,600	15,672,337	1,443,081	4,349,182	-	-	-	-	-	-
Investments	210,787,868	26,225,322	22,378,225	34,216,220	69,514,554	29,711,008	2,880,074	13,530,157	8,911,184	3,421,124
Advances	340,677,100	45,521,163	65,490,236	32,138,648	71,060,327	24,660,187	27,781,383	38,312,610	18,933,410	16,779,136
Operating fixed assets	25,922,979	-	-	-	-	-	-	-	-	25,922,979
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	30,994,965	5,749,637	6,832,640	4,015,798	116,124	3,767,886	9,962,363	550,517	-	-
	762,193,593	186,055,176	123,612,244	86,371,432	141,029,123	58,140,681	40,623,820	52,393,284	27,844,594	46,123,239
Liabilities										
Bills payable	7,061,902	7,061,902	-	-	-	-	-	-	-	-
Borrowings	10,886,063	2,795,232	6,525,464	290,939	662,226	183,715	140,011	288,476	-	-
Deposits and other accounts	591,907,435	467,752,411	30,029,348	67,477,692	10,438,842	7,435,245	1,837,228	6,491,030	390,226	55,413
Sub-ordinated loans	-	-	-	-	-	12,735	-	-	-	-
Liabilities against assets subject to finance lease	33,554	-	4,297	4,297	8,113	-	4,112	-	1,537,169	-
Deferred tax liabilities	5,097,831	-	-	-	-	-	-	3,575,368	-	-
Other liabilities	30,869,154	11,700,267	1,225,194	3,487,529	-	10,201,606	-	2,502,662	-	(14,706)
	645,855,939	489,309,812	37,794,303	71,260,457	11,109,181	17,833,301	1,981,351	12,857,566	1,927,395	1,792,583
Net assets	116,337,654	(303,254,636)	85,827,941	15,110,975	129,919,942	40,307,380	38,642,469	39,535,728	25,917,199	44,330,656
Share capital	8,154,319									
Reserves	15,772,124									
Unappropriated profit	45,344,188									
Surplus on revaluation of assets	47,067,023									
	116,337,654									

Notes to the Financial Statements

(for the year ended December 31, 2007)

2006

	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
Assets										
Cash and balances with treasury banks	78,625,227	47,149,657	18,265,650	13,209,920	-	-	-	-	-	-
Balances with other banks	40,641,679	32,434,384	5,515,292	2,391,174	300,710	119	-	-	-	-
Lending to financial institutions	23,012,732	-	3,648,179	16,747,792	2,618,761	-	-	-	-	-
Investments	139,946,995	3,854,699	31,149,258	9,280,763	30,254,514	21,737,459	20,723,117	8,337,711	11,369,974	3,239,500
Advances	316,110,406	42,973,488	38,507,774	46,047,045	74,029,411	29,867,599	30,681,841	38,739,435	14,744,980	518,833
Operating fixed assets	9,681,974	-	-	-	-	-	-	-	9,681,974	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	27,113,698	5,125,324	6,172,019	3,500,790	44,188	3,033,699	8,910,611	327,067	-	-
	635,132,711	131,537,552	103,256,172	91,177,484	107,247,584	54,638,876	60,315,569	47,404,213	35,796,928	3,758,333
Liabilities										
Bills payable	10,605,663	10,605,663	-	-	-	-	-	-	-	-
Borrowings	11,704,079	2,064,408	9,016,364	109,600	188,000	254,907	-	70,800	-	-
Deposits and other accounts	501,872,243	391,728,528	69,631,553	14,454,044	7,621,612	4,055,681	2,386,141	2,954,218	4,081,889	4,958,577
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	13,235	-	-	-	-	-	13,235	-	-	-
Deferred tax liabilities	2,387,073	-	-	-	-	-	-	2,833,628	(446,555)	-
Other liabilities	26,596,300	8,492,615	708,782	3,714,835	-	10,322,820	-	1,974,852	-	1,382,396
	553,178,593	412,891,214	79,356,699	18,278,479	7,809,612	14,633,408	2,399,376	7,833,498	3,635,334	6,340,973
Net assets	81,954,118	(281,353,662)	23,899,473	72,899,005	99,437,972	40,005,468	57,916,193	39,570,715	32,161,594	(2,582,640)
Share capital	7,090,712									
Reserves	13,879,260									
Unappropriated profit	32,074,677									
Surplus on revaluation of assets	28,909,469									
	81,954,118									

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

41.4 Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events

"In terms of Road map set forth by the National Regulators all banks in Pakistan are mandated to implement Basel - II Basic Indicator approach for Operational Risk for calculation of Minimum Capital Requirement (MCR) from January 1 2008. Parallel run for which has started from July 1, 2006. However Advanced Measurement Approach (AMA) approach is not being offered by SBP for the time being. With the strengthening of Operational Risk Management Department the bank plans to move towards standardized approach for Operational Risk Management. Time lines for adopting this approach shall be determined once the bank's road map of Basel - II is finalized. The bank has thus embarked upon Basic Indicator Approach for the time being."

Notes to the Financial Statements

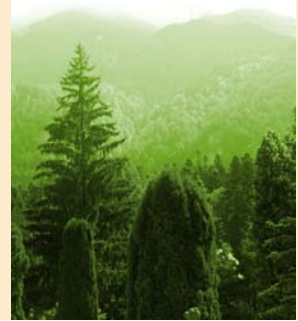
For the year ended December 31, 2007

The bank is in the process of setting up separate Operational Risk Management Unit that will analyze the existing data for developing key risk indicators, assess additional data required for testing and strengthening controls. The bank is also working on Business continuity and disaster recovery plan under the supervision of Operations Group.

42. ISLAMIC BANKING BUSINESS

The bank is operating 3 Islamic banking branches at the end of current year as compared to 1 Islamic banking branch at the end of prior year.

	2007	2006
	Rupees in '000	
ASSETS		
Cash and Balances with Treasury Banks	22,536	4,724
Balances with and due from Financial Institutions	-	99,000
Investments	355,000	-
Financing and Receivables		
- Murahaba	-	-
- Ijarah	94,151	-
- Musharaka	-	-
- Diminishing Musharaka	-	-
- Salam	-	-
- Other Islamic Modes	-	-
Fixed Assets	76	-
Other Assets	10,626	-
Total Assets	482,389	103,724
LIABILITIES		
Bills payable	268	800
Due to Financial Institutions	-	-
Deposits and other accounts		
- Current Accounts	26,895	2,911
- Saving Accounts	-	-
- Term Deposits	-	-
- Others	-	-
- Deposits from Financial Institutions - Remunerative	-	-
- Deposits from Financial Institutions - Non-Remunerative	-	-
Due to Head Office	338,141	-
Other Liabilities	9,536	11
Total Liabilities	374,840	3,722
NET ASSETS	107,549	100,002
REPRESENTED BY		
Islamic Banking Fund	100,000	100,000
Reserves	-	-
Unappropriated / Unremitted profit	7,549	2
	107,549	100,002
Surplus on Revaluation of Assets	-	-
	107,549	100,002



Notes to the Financial Statements

For the year ended December 31, 2007

43. SUBSEQUENT EVENT

The Board of Directors has proposed a cash dividend of Rs. 7.5 per share (2006: Rs.4 per share) amounting to Rs. 6,116 million (2006: Rs.2,836 million) and bonus shares in the proportion of 10 ordinary shares per 100 ordinary shares held (2006: 15) amounting to Rs. 815 million (2006: Rs. 1,064 million) at its meeting held on February 29, 2008 for approval of the members at the annual general meeting to be held on March 31, 2008. These financial statements do not reflect this appropriation as explained in note 5.15.

44. GENERAL

Figures have been rounded off to the nearest thousand rupees.

45. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 29, 2008 by the Board of Directors of the Bank.

Syed Ali Raza
Chairman & President

Muhammad Ayub Khan Tarin
Director

Tariq Kirmani
Director

Ibrar A. Mumtaz
Director



NBP Advance Salary

*(Take up to 20 Times of Your
Take Home Salary)*

NBP Advance Salary

Personal Loan

- Easy installments of 1 to 60 months at your choice
- No minimum income collateral & insurance charges required
- Quick processing and fastest disbursement
- The product is for permanent employees of Government, Semi Government and Autonomous bodies receiving salaries through NBP accounts

NBP-Vision you can Trust



NBP

National Bank of Pakistan

