

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

1. THE GROUP AND ITS OPERATIONS

1.1 The "Group" consists of:

Holding Company

- National Bank of Pakistan (the bank)

	Percentage Holding	
	2007 %	2006 %
Subsidiary Companies		
- NBP Capital Limited	100.00	100.00
- JSC Subsidiary Bank of NBP in Kazakhstan	100.00	100.00
- NBP Exchange Company Limited	100.00	100.00
- NBP Modaraba Management Company Limited	100.00	100.00
- Taurus Securities Limited	58.32	58.32
- National Agriculture & Storage Company Limited (Note 9.11)	100.00	100.00
- Cast-N-Link Products Limited (Note 9.11)	76.51	76.51

The Group is principally engaged in commercial banking, modaraba management, brokerage, leasing and discounting services. Brief profile of the holding company and subsidiaries is as follows:

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.

In the years 1995 and 2001, the assets, liabilities and operations of former NDFC and Mehran Bank Limited, respectively are amalgamated into the bank in accordance with the decision of the Government of Pakistan.

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.

NBP Capital Limited, Pakistan

NBP Capital Limited is a public unlisted company, incorporated in Pakistan on November 7, 1995 under the Companies Ordinance, 1984. The registered office of the company is at 4th Floor, P.I.C. Towers, M.T. Khan Road, Karachi. The principal activity of the company is to invest, discount, trade in negotiable instruments and undertaking leasing operations.

JSC Subsidiary Bank of NBP in Kazakhstan

JSC Subsidiary Bank of NBP in Kazakhstan is a joint-stock bank, which was incorporated in the Republic of Kazakhstan in 2001. The bank conducts its business under license number 25 dated October 29, 2005 (initial license was dated December 14, 2001) and is engaged in providing commercial banking services. The registered office of the bank is located at 105, Dostyk Ave, 050051, Almaty.



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NBP Exchange Company Limited, Pakistan

NBP Exchange Company Limited is a public unlisted company, incorporated in Pakistan on September 24, 2002 under the Companies Ordinance, 1984. The company obtained license for commencement of operations from State Bank of Pakistan (SBP) on November 25, 2002 and commencement of business certificate on December 26, 2003 from the Securities and Exchange Commission of Pakistan (SECP). The registered office of the company is situated at Shaheen Complex, M.R. Kiyani Road, Karachi. The company is engaged in Foreign currency remittances and exchange transactions.

The company has four branches, in Karachi, Islamabad, Rawalpindi and Mirpur, Azad Jammu Kashmir.

NBP Modaraba Management Company Limited, Pakistan

NBP Modaraba Management Company Limited is a public unlisted company, incorporated in Pakistan on August 6, 1992. Its registered office is 26 - Mclagon Road, Lahore. The principal purpose of the company is to float and manage modarabas. The company at present is managing First National Bank Modaraba.

Taurus Securities Limited, Pakistan

Taurus Securities Limited is a public unlisted company, incorporated in Pakistan on June 27, 1993 under the Companies Ordinance, 1984. The registered office of the company is situated at 6th Floor, Progressive Plaza, Beaumont Road, Civil Lines, Karachi. It is engaged in the business of stock brokerage, investment counselling, and fund placements. It is a corporate member of the Karachi Stock Exchange (Guarantee) Limited.

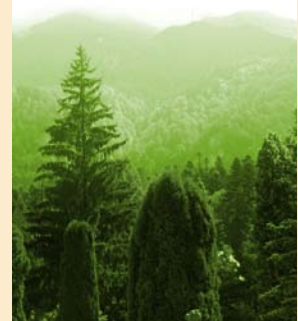
1.2 BASIS OF CONSOLIDATION

- The consolidated financial statements include the financial statements of the bank (holding company) and its subsidiary companies together - "the Group".
- The financial statements of the subsidiaries are prepared for the same reporting year as the holding company for the purpose of consolidation, using consistent accounting policies.
- The assets, liabilities, income and expenses of subsidiary companies have been consolidated on a line by line basis.
- Minority interest represents the portion of the net results of operations and of net assets of subsidiary companies attributable to interests which are not owned by the holding company.
- Material intra-group balances and transactions have been eliminated.

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.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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.

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 consolidated financial statements have been prepared under the historical cost convention except for revaluation of land and buildings, 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 Group 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 Group has classified its investment portfolio, except for investments in associates and joint ventures, into 'held-for-trading', 'held-to-maturity' and 'available-for-sale' portfolios as follows:



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

- 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) 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 amortized 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.

Premium or discount on debt securities classified as available-for-sale and held-to-maturity securities is amortized 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.

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

Associates – Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method of accounting. However, in case where associates are considered as fully impaired and financial statements are not available these investments are stated at cost less provision.

Under the equity method, the Group's share of its associates' post-acquisition profits or losses is recognized in the income statement; its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Joint ventures - The Group has interests in joint ventures which are jointly controlled entities. A joint venture is contractual arrangement whereby two or more parties undertake in economic activity that is subject to a joint control and includes a jointly controlled entity that involves the establishment of separate entity in which each venturer has an interest. The group accounts for its interest in joint venture using the equity method of accounting.

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.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

5.3 Discounting of negotiable instruments

These are stated at cost less provision for doubtful debts, if any. The provision is made in accordance with the SECP Prudential Regulations for Non-Banking Finance Companies.

5.4 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 Group 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.

5.5 Net investment in lease finance

Leases where the Group transfers substantially all the risk and rewards incidental to ownership of the assets to the lessee are classified as finance leases. Net investment in lease finance is recognised at an amount equal to the aggregate of minimum lease payment including any guaranteed residual value and excluding unearned finance income, write-offs and provision for doubtful lease finances, if any. The provision is made in accordance with the SECP Prudential Regulations for Non-Banking Finance Companies.

5.6 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.

5.7 Financial instruments

All the financial assets and financial liabilities are recognized at the time when the Group becomes a party to the contractual provisions of the instrument. A financial asset is derecognized where (a) the right to receive cash flows from the asset have expired; or (b) the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group 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 derecognized 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.

5.8 Advances

Advances are stated net off specific and general provisions. Provisions are made in accordance with the requirements of Prudential Regulations issued by the 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. Further, the SBP also requires the bank to maintain general provision / allowance against consumer advance at specified percentage of such portfolio. Provision in respect of overseas branches and subsidiaries are made in accordance with the respective central bank's requirements. Advances are written off where there are no realistic prospects of recovery.



Notes to the Consolidated Financial Statements

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5.9 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 Group 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 profit and loss account 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 / (Deficit) on Revaluation of Assets Account" shown below equity. The group has adopted the following accounting treatment of depreciation on revalued assets, keeping in view the requirements of 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.

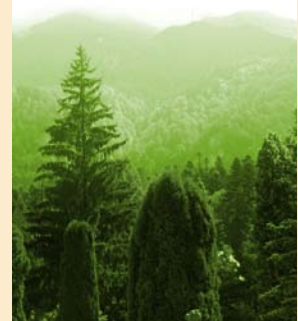
Assets subject to finance lease

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.



Notes to the Consolidated Financial Statements

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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.

Room and membership card are considered to have an indefinite useful life and are stated at acquisition cost.

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.

5.10 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 or on one-half percent of the mark-up/return/interest earned, whichever is higher. 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.

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.



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5.11 Employee benefits

5.11.1 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 Group 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 consolidated 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 consolidated 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 operates an un-funded defined benefit gratuity scheme for all eligible contractual employees. The contributions to the scheme are made in accordance with actuarial valuation using Projected Unit Credit method.

Cumulative net unrecognized actuarial gains and losses which exceeds 10% of the greater of present value of the bank's gratuity and 10% of the fair value of any plan assets is amortized over the average expected remaining working lives of the employees.

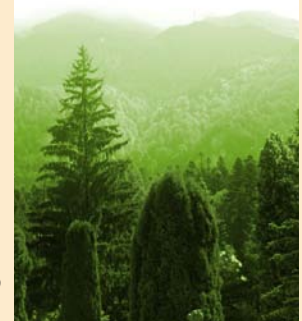
Transitional cost is recognised over a period of five years.

5.11.2 Defined contribution plan

The bank operates an approved funded provident fund scheme covering all its employees. Equal monthly contributions are made by the Company and employees to the fund in accordance with the fund rules.

Retirement and other benefit obligations - In respect of JSC Subsidiary Bank of NBP in Kazakhstan (JSC)

The JSC withholds amounts of pension contributions from employee salaries and pays them to state pension fund. The requirements of the Kazakhstan's legislation state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

5.11.3 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.

5.12 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, advisory fee income and remuneration for trustee services is recognized at the time of performance of services.

Management fee is recognized when accrued by managed Modaraba.

Dividend income on equity investments is recognized when right to receive the same 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.

Income on discounting of banker's acceptances, bills of exchange, invoices, lease receivable and promissory notes are recognized on time proportionate basis.

The Group follows the "Financing Method" in accounting for recognition of finance income on leases. Under this method the unearned finance income - that is, excess of aggregate lease rentals and the residual value over the cost of leased assets is deferred and then amortized to income over the term of the lease, applying the annuity method to produce a constant rate on the net investment in the lease finance.

5.13 Foreign currencies translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in the Pak Rupees 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 the assets / liabilities of foreign branches, and subsidiaries, net assets of associates and joint ventures are translated into Rupees at the rates of exchange prevailing at the balance sheet date.

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



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5.14 Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets acquired, the discount on acquisition is recognised directly in the income statement in the year of acquisition.

5.15 Provision for off balance sheet obligations

Provision for guarantees, claims and other off balance sheet obligations is made when the Group 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.

5.16 Off setting

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

5.17 Fiduciary assets

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

5.18 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.

5.19 Segment Reporting

A segment is a distinguishable component of the Group 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.

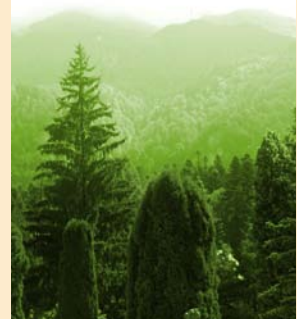
5.19.1 Business segments

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.



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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.

5.19.2 Geographical segments

The Group 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

5.20 Earnings per share

The Group 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 Group by the weighted average number of ordinary shares outstanding during the period / 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.

5.21 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 Group'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 Group 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.



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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 provisioning against Non Performing Loans consequent upon the revision in prudential regulations as disclosed in note 10.4.2 and 10.4.3.

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 Group 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 Group 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 Group 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 Group 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 Group's view differs with the view taken by the income tax department and such amounts are shown as contingent liability.

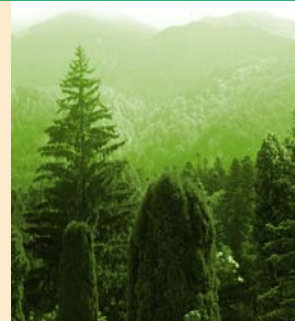
f Employees retirement benefit plans

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.

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

5.22.1 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.



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For the year ended December 31, 2007

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 Group expects that the adoption of the above standards and interpretations will have no material impact on the Group's financial statements in the period of initial application except to the extent of presentation and disclosure.

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

5.22.2 Early adoption of a standard

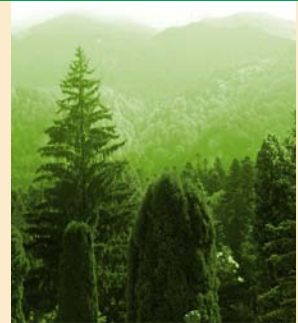
During the year the Securities and Exchange Commission of Pakistan notified that Islamic Financial Accounting Standard (IFAS 2) "Ijarah" issued by the Institute of Chartered Accountants of Pakistan shall be followed while accounting for ijarah transactions as defined by IFAS 2 for financial statements covering periods beginning on or after July 1, 2007. The Group 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 Consolidated 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		6,058,641	5,001,665
Foreign currency		1,738,623	1,540,702
		7,797,264	6,542,367
With State Bank of Pakistan in			
Local currency current account	6.1	56,865,314	34,314,554
Local currency deposit account		572	29
		56,865,886	34,314,583
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
		27,734,773	35,407,686
With other central banks in			
Foreign currency current accounts	6.4	1,434,686	1,448,110
Foreign currency deposit accounts	6.5	1,177,905	1,149,879
		2,612,591	2,597,989
		95,010,514	78,862,625

- 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 rate at 6.5% per annum (2006: 6.71% to 7.46%) and 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 banks' 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% per annum).



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
7. BALANCES WITH OTHER BANKS			
In Pakistan :			
On current accounts		715,771	194,771
On deposit accounts		698,718	165,208
		1,414,489	359,979
Outside Pakistan :			
On current accounts		6,447,178	1,029,343
On deposit accounts	7.1	30,354,596	40,023,224
		36,801,774	41,052,567
		38,216,263	41,412,546

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)

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	8.2	2,308,026	8,165,350
Repurchase agreement lendings (Reverse Repo)	8.3	19,348,166	14,998,732
	8.1	21,656,192	23,164,082

8.1 Particulars of lending

In local currency	21,656,192	23,164,082
In foreign currencies	-	-
	21,656,192	23,164,082

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 8% to 19.79% 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					
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
Others	190,242	-	190,242	-	-	-
	19,348,166	-	19,348,166	14,998,732	-	14,998,732

8.3.2 Market value of the securities under repurchase agreement lendings amount to Rs.19,413 million (2006: Rs.14,868 million).

Notes to the Consolidated Financial Statements

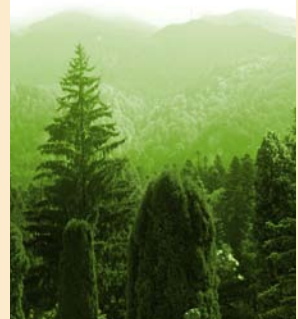
For the year ended December 31, 2007

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 types:	9.14						
Held-for-trading securities							
Ordinary shares of listed companies		785,594	-	785,594	405,201	-	405,201
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		305,000	-	305,000	398,184	-	398,184
Pakistan Investment Bonds		3,950,207	-	3,950,207	3,154,718	-	3,154,718
Federal Investment Bonds		940,000	-	940,000	940,000	-	940,000
GoP Foreign Currency Bonds		850,853	-	850,853	-	-	-
Debentures, Bonds, Participation Term							
Certificates and Term Finance Certificates		6,456,472	-	6,456,472	8,373,727	-	8,373,727
Investments in mutual funds		1,425,886	-	1,425,886	1,145,369	-	1,145,369
Foreign Government Securities		33,704	-	33,704	-	-	-
National Investment Trust Units	9.6	5,764,258	-	5,764,258	5,667,018	-	5,667,018
Total Available- for- sale securities		140,292,202	416,578	140,708,780	72,425,167	381,964	72,807,131
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		11,773,316	-	11,773,316	11,974,039	-	11,974,039
Market Treasury Bills		413,745	-	413,745	381,473	-	381,473
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	5,693,075	-	5,693,075
Debentures, Bonds, Participation Term							
Certificates, Term Finance Certificates and Sukuk Bonds	9.7	4,508,548	-	4,508,548	4,595,963	-	4,595,963
Certificates of investment		800,000	-	800,000	3,172,000	-	3,172,000
Total Held to maturity securities	9.3	36,215,184	-	36,215,184	38,629,469	-	38,629,469
Investments in associates	9.9	1,143,581	-	1,143,581	1,132,790	-	1,132,790
Investments in joint ventures	9.10	2,200,668	-	2,200,668	1,950,628	-	1,950,628
Investments in subsidiaries	9.11	3,245	-	3,245	3,245	-	3,245
Investments at cost		180,640,474	416,578	181,057,052	114,546,500	381,964	114,928,464
Less: Provision for diminution in value of Investments	9.12	(1,173,593)	-	(1,173,593)	(1,255,785)	-	(1,255,785)
Investments (net of provisions)		179,466,881	416,578	179,883,459	113,290,715	381,964	113,672,679
Deficit on revaluation of							
Held-for-trading securities	9.13	(31,964)	-	(31,964)	(4,463)	-	(4,463)
Surplus/(deficit) on revaluation of							
Available-for-sale securities	20.2	31,879,205	(1,403)	31,877,802	27,072,030	(179)	27,071,851
Total investments at market value		211,314,122	415,175	211,729,297	140,358,282	381,785	140,740,067

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007



	Note	2007 Rupees in '000	2006
9.2 Investments by segment	9.14		
Federal Government Securities			
Market Treasury Bills		118,681,680	51,288,086
Pakistan Investment Bonds	9.4	15,723,523	15,128,757
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>149,461,032</u>	<u>80,133,249</u>
Provincial Government Securities		36,513	36,513
Foreign Government Securities		5,451,790	5,693,075
Fully Paid up Ordinary Shares			
- Listed Companies		2,732,645	1,831,767
- Unlisted Companies		304,119	331,641
		<u>3,036,764</u>	<u>2,163,408</u>
Debentures, Bonds, Participation Term Certificates, Term Finance Certificates and Sukuk Bonds			
- Listed		992,479	1,062,972
- Unlisted		9,972,541	11,906,718
		<u>10,965,020</u>	<u>12,969,690</u>
Other Investments			
- Investment outside Pakistan	9.8	463,295	463,295
- Investments in mutual funds		1,425,886	1,145,369
- National Investment Trust Units	9.6	5,764,258	5,667,018
- Preference Shares		305,000	398,184
- Certificates of Investment		800,000	3,172,000
Investments in Associates	9.9	1,143,581	1,132,790
Investments in Joint Ventures	9.10	2,200,668	1,950,628
Investments in Subsidiaries	9.11	3,245	3,245
Total Investments at cost		<u>181,057,052</u>	<u>114,928,464</u>
Less: Provision for Diminution in value of Investments	9.12	(1,173,593)	(1,255,785)
Investments (Net of Provisions)		<u>179,883,459</u>	<u>113,672,679</u>
Deficit on revaluation of Held-for-trading securities	9.13	(31,964)	(4,463)
Surplus on revaluation of Available-for-sale securities	20.2	31,877,802	27,071,851
Total investments at market value		<u>211,729,297</u>	<u>140,740,067</u>



Notes to the Consolidated 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.36,558 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.

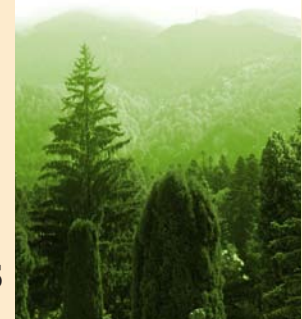
Accordingly the bank has redeemed 10% of its LoC holdings at the prevalent redemption price which resulted in realization of capital gain amounting to Rs.1,775 million.

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 Consolidated 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			9.10.3		
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	9.10.4	250,964	224,777
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		-	-
				743,398	737,406
Quoted					
National Fibres Limited	17,119,476	20.19		-	-
Taha Spining Mills Limited	833,800	20.59		2,501	2,501
Land Mark Spining 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
First National Bank Modaraba	7,500,000	30.00	9.10.4	90,377	85,578
			9.9.1	400,183	395,384
				1,143,581	1,132,790
Less: Provision for diminution in value of investments			9.12.1	(402,240)	(422,435)
				741,341	710,355

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 investment acquired from former NDFC which have negative equity or whose operations are closed at the time of amalgamation.

Notes to the Consolidated 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 investment in associates are as follows:

	Year ended	Break-up value of bank's share Rs. in '000
Pakistan Emerging Venture Limited	June 30, 2007	1,962
First Credit and Investment Bank Limited (FCIBL)	June 30, 2007	258,247
Information System Associates Limited	June 30, 2007	3,788
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	79,318

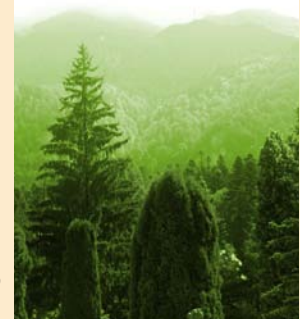
- 9.9.4** During the year, the Government of Pakistan, Finance Division (Investment Wing) vide their letter no. 4(3) Inv-I/2006 dated June 5, 2007 has advised the bank to divest its shareholding in Khushhali Bank through public announcement. Accordingly, the bank has initiated the process for such sale.

	Note	2007 Rupees in '000	2006
9.10 Investment in joint ventures			
United National Bank Limited (UNBL)	9.10.1 & 9.10.3	2,120,341	1,892,148
National Fullerton Asset Management (NAFA)	9.10.2 & 9.10.3	80,327	58,480
		2,200,668	1,950,628

- 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.

- 9.10.3** Investments of the Group in associated companies, First Credit & Investment Bank Limited (FCIBL), First National Bank Modaraba (FNBM) and Joint Venture companies, United National Bank Limited and National Fullerton Asset Management have been accounted for under equity method of accounting as at December 31, 2007 in accordance with the treatment specified in International Accounting Standard 28 "Investments in Associates" and International Accounting Standard 31 "Interests in Joint Ventures".



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

9.10.4 Movement Schedule for Associate and Joint Ventures

	2007				2006			
	Associate		Joint Venture		Associate		Joint Venture	
	FCIBL	FNBM	NAFA	UNBL	FCIBL	FNBM	NAFA	UNBL
	----- Rupees in '000 -----				----- Rupees in '000 -----			
Opening Balance	224,776	85,577	58,480	1,892,148	214,508	85,827	30,000	1,548,961
Addition	-	-	-	-	-	-	37,500	-
Share of profit/ (loss) for the year	26,188	4,800	21,847	188,598	10,268	(250)	(9,020)	138,316
Exchange	-	-	-	39,595	-	-	-	204,871
Closing Balance	250,964	90,377	80,327	2,120,341	224,776	85,577	58,480	1,892,148

9.11 Investments in subsidiaries

	Percentage holding	Note	2007 Rupees in '000	2006 Rupees in '000
National Agriculture & Storage Company Limited	100.00		2,000	2,000
Cast-N-Link Products Limited	76.51		1,245	1,245
			3,245	3,245
Less: Provision for diminution in value of investments			(3,245)	(3,245)
			-	-

9.11.1 The above subsidiaries have not been consolidated as the investments are considered as fully impaired.

9.12 Particulars of provision for diminution in value of investments

Opening balance	1,253,429	1,965,003
Charge for the year	-	2,356
Reversals	(40,248)	(709,461)
	(40,248)	(707,105)
Amount written off	(39,588)	(2,113)
Closing Balance	1,173,593	1,255,785

9.12.1 Particulars of provision in respect of type and segment

Available-for-sale securities

Ordinary shares of unlisted companies	115,514	125,390
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Held-to-maturity securities

Debentures, Bonds, Participation Term Certificates, Term Finance Certificates and Sukuk Bonds	652,594	704,715
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Associates	9.9	402,240	422,435
Subsidiaries	9.11	3,245	3,245
		1,173,593	1,255,785

9.13 Unrealized loss on revaluation of investments classified as held for trading

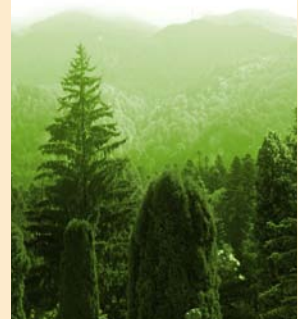
Ordinary shares of listed companies	(31,964)	(4,463)
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Notes to the Consolidated Financial Statements

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	10.10	324,749,094	304,164,016
Outside Pakistan		29,737,559	26,421,169
		354,486,653	330,585,185
Net investment in finance lease			
In Pakistan	10.2	527,867	558,883
Outside Pakistan		-	-
		527,867	558,883
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	187,266
Advances - gross	10.1	375,140,921	348,715,852
Less: Provision against non-performing advances	10.4	(34,413,102)	(32,260,052)
Advances - net of provision		340,727,819	316,455,800
10.1 Particulars of advances - gross			
10.1.1 In local currency		329,258,932	307,412,984
In foreign currencies		45,881,989	41,302,868
		375,140,921	348,715,852
10.1.2 Short term (for upto one year)		249,493,001	202,063,151
Long term (for over one year)		125,647,920	146,652,701
		375,140,921	348,715,852



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

10.2 Net investment in finance lease

	2007				2006			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	Rupees in '000							
Lease rentals receivable	365,705	122,671	-	488,376	218,927	350,936	-	569,863
Residual value	-	115,451	-	115,451	-	95,212	-	95,212
Minimum lease payments	365,705	238,122	-	603,827	218,927	446,148	-	665,075
Financial charges for future periods	30,215	45,745	-	75,960	57,154	49,038	-	106,192
Present value of minimum lease payments	335,490	192,377	-	527,867	161,773	397,110	-	558,883

These leases are executed for a term of 3 to 5 years. Security deposit is generally obtained upto 10% of the cost of leased assets at the time of disbursement. The Group requires the lessees to insure the leased assets in favour of the Group and maintained financial ratios, as required under the SECP Prudential Regulations for Non-Banking Finance Companies. Additional surcharge is charged on delayed rentals. The fixed return implicit in these leases ranges from 10.75% to 18% and KIBOR + 2% (2006: 10.75% to 18% and KIBOR + 2%) per annum.

10.3 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

10.4 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)	-	(1,525,294)	(705,125)	-	(705,125)
Other adjustments	10.5	(1,058,936)	-	(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

10.4.1 Particulars of provisions against non-performing advances

	2007			2006		
	Specific	General	Total	Specific	General	Total
	Rupees in '000					
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

Notes to the Consolidated Financial Statements

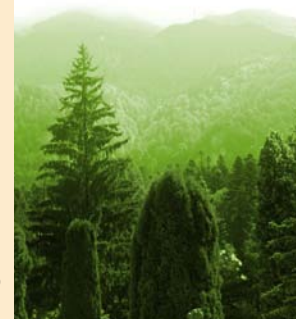
For the year ended December 31, 2007

- 10.4.2** 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.
- 10.4.3** 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 advances. 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 Rupees in '000	2006
10.6 Particulars of write offs:			
10.6.1 Against Provisions	10.4	1,525,294	705,125
Directly charged to Profit & Loss account		39,899	5,284
		1,565,193	710,409
10.6.2 Write Offs of Rs. 500,000 and above		1,544,971	687,167
Write Offs of Below Rs. 500,000	10.7	20,222	23,242
		1,565,193	710,409

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.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
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 persons			
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 member			
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 controlled firms, managed modarabas and other related parties			
Balance at beginning of year		1,600,070	1,970,002
Loans granted during the year		-	38,755
Repayments		(84,950)	(408,687)
Balance at end of year		<u>1,515,120</u>	<u>1,600,070</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 at the rate of 10.7% to 18% (2006: 3 months KIBOR + 3%).			

10.10 This includes Rs.67.722 million (2006: Rs.138.187 million) on account of discounting of negotiable instruments.

11. OPERATING FIXED ASSETS

Capital work-in-progress	11.1	463,146	378,917
Property and equipment	11.2	25,492,561	9,330,976
Intangible assets	11.3	23,595	30,045
		<u>25,979,302</u>	<u>9,739,938</u>

11.1 Capital work-in-progress

Civil works	374,511	326,066
Equipments	11,820	4,419
Advances to suppliers and contractors	76,815	48,432
	<u>463,146</u>	<u>378,917</u>

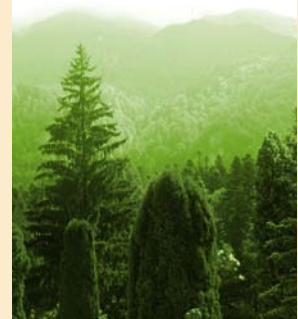
Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

11.2 Property and equipment

	Cost/revalued amount					Accumulated depreciation				Book Value at December 31, 2007	Rate of depreciation
	At January 1, 2007	Revaluation surplus/ (deficit)	Additions/ (deletions)	Adjustment	At December 31, 2007	At January 1, 2007	Charge for the year/ (deletions)	Adjustment	At December 31, 2007		
	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	148,018	(35,000) (721,580) *	2,382,109	482,973	75,362	(7,000)*	551,335	1,830,774	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	1,229,608	-	84,871 (3,854)	-	1,310,625	808,080	57,691 (2,472)	-	863,299	447,326	10% to 30% on book value and 20% on straight-line on new furnishing limit to executives
Computer & peripheral equipments	1,285,023	-	177,240 (790)	-	1,461,473	953,953	156,759 (774)	-	1,109,938	351,535	33% on cost
Electrical & office equipments	1,460,644	-	198,034 (3,975)	-	1,654,703	981,052	137,302 (2,993)	-	1,115,361	539,342	20% on book value
Vehicles	411,988	-	105,906 (23,391)	2,687	497,190	186,560 -	73,274 (16,838)	(3,369)	239,627	257,563	20% on cost
	13,052,490	15,775,301	853,660 (32,010)	(32,313)	29,617,128	3,770,052	552,090 (23,077)	(10,369)	4,288,696	25,328,432	
Assets held under finance lease											
Vehicles	131,090	-	34,070 (1,244)	(785)	163,131	83,818	10,899 (719)	(680)	93,318	69,813	20% on cost
Office equipment	2,249	-	(1,429)	-	820	983	272 (600)	-	655	165	
Assets held under Ijarah	-	-	95,358 -	-	95,358	-	1,207	-	1,207	94,151	
2007	13,185,829 -	15,775,301 -	983,088 (34,683)	(33,098)	29,876,437 -	3,854,853 -	564,470 (24,396)	(11,049) -	4,383,876 -	25,492,561 -	

* 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 Consolidated 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	1,137,620	94,707 (2,719)	1,229,608	760,639	49,048 (1,607)	808,080	421,528	10% to 30% on book value and 20% on straight- line on new furnishing limit to executives.
Computer & peripheral equipments	1,063,803	221,328 (108)	1,285,023	825,203	128,804 (54)	953,953	331,070	33% on cost
Electrical & office equipments	1,324,807	141,391 (5,554)	1,460,644	863,416	121,912 (4,276)	981,052	479,592	20% on book value
Vehicles	370,902	71,448 (30,362) -	411,988	158,147	47,708 (19,295)	186,560	225,428	20% on cost
	12,433,573	657,660 (38,743) -	13,052,490	3,323,448	471,836 (25,232) -	3,770,052	9,282,438	
Assets held under finance lease								
Vehicles	128,921	2,169 -	131,090	59,289	24,529 -	83,818	47,272	20% on cost
Office equipment	2,249	-	2,249	585	398	983	1,266	
Assets held under Ijarah	-	-	-	-	-	-	-	
2006	12,564,743	659,829 (38,743)	13,185,829	3,383,322	496,763 (25,232)	3,854,853	9,330,976	

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

11.3 Intangible assets

	Cost/revalued amount			Accumulated amortisation			Book Value at December 31, 2007	Rate of amortisation
	At January 1, 2007	Additions/ (deletions)/ (adjustments)	At December 31, 2007	At January 1, 2007	Charge for the year/ (deletions)	At December 31, 2007		
----- Rupees in '000 -----								
Computer Software	27,760	5,299 (6,973)	26,086	10,918	4,231	15,149	10,937	33.33% on cost
Website	1,041	-	1,041	1,041	-	1,041	-	33.33% on cost
Room & Membership Card	12,591	-	12,591	-	-	-	12,591	
Others	2,601	-	2,601	1,989	545	2,534	67	20% on cost
2007	43,993	5,299 (6,973)	42,319	13,948	4,776	18,724	23,595	

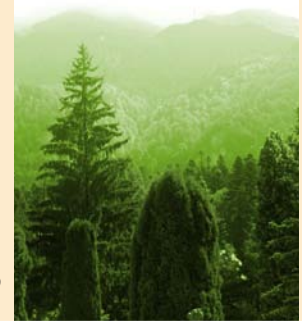
	Cost			Accumulated amortisation				
	At January 1, 2006	Additions/ (deletions)	At December 31, 2006	At January 1, 2006	Charge for the year/ (deletions)	At December 31, 2006	Book Value at December 31, 2006	Rate of amortisation
	----- Rupees in '000 -----							
Computer Software	15,023	12,737	27,760	7,309	3,609	10,918	16,842	33.33% on cost
Website	1,041	-	1,041	1,041		1,041	-	33.33% on cost
Room & Membership Card	12,591	-	12,591	-	-	-	12,591	
Others	2,601	-	2,601	1,524	465	1,989	612	20% on cost
2006	31,256	12,737	43,993	9,874	4,074	13,948	30,045	

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



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

- 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	-

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 Naeemuddin - 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 - SVP (late)
Other assets (having book value of less than Rs.250,000 or cost of less than Rs.1,000,000)	24,686	6,544	8,495	1,951	As per service rules on retirement / auction	Various
	<u>34,683</u>	<u>10,286</u>	<u>13,261</u>	<u>2,975</u>		

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

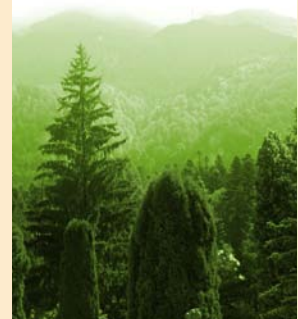
12. OTHER ASSETS

	Note	2007 Rupees in '000	2006
Income/mark-up accrued in local currency		7,159,932	7,685,121
Income/mark-up accrued in foreign currencies		1,740,892	1,490,816
Advances, deposits, advance rent and other prepayments	12.1	2,545,597	804,086
Advance taxation (payments less provisions)		9,854,942	8,802,180
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		-	128,552
Un-realized gain on forward foreign exchange contracts		431,763	126,371
Un-realized gain on derivative financial instruments		71,813	-
Commission receivable		1,822,685	1,791,556
Stationery and stamps on hand		319,053	220,939
Barter trade balances		195,399	182,503
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		3,663,415	3,421,833
		33,185,243	29,345,253
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	182,503
Receivable on account of Government transactions		323,172	323,172
Others		1,029,477	918,140
	12.6	1,895,840	1,771,607
		31,289,403	27,573,646

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 Consolidated 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 a claim being lodged, full amount has been provided for.

	Note	2007 Rupees in '000	2006
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		1,895,840	1,771,607
13. BILLS PAYABLE			
In Pakistan		6,922,716	10,549,446
Outside Pakistan		139,185	56,216
		7,061,901	10,605,662
14. BORROWINGS			
In Pakistan		8,804,668	11,069,740
Outside Pakistan		2,598,061	1,612,672
	14.1 & 14.2	11,402,729	12,682,412
14.1 Particulars of borrowings with respect to currencies			
In local currency		8,804,668	11,069,740
In foreign currencies		2,598,061	1,612,672
	14.2	11,402,729	12,682,412
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
		7,733,315	8,212,112
Repurchase agreement borrowings		383,886	504,710
		8,117,201	8,716,822
Unsecured			
Call borrowings		2,258,970	3,441,005
Overdrawn nostro accounts		889,092	453,785
Others	14.2.3	137,466	70,800
		3,285,528	3,965,590
		11,402,729	12,682,412

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

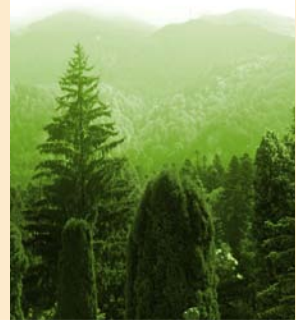
14.2.1 This comprises of balance of loan of Rs.940 million obtained in 1999. The loan is interest free and is repayable in five equal annual installments after an initial grace period of five years.

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).
- Locally Manufactured Machinery Loans from SBP are at the rate of 11% per annum (2006: 11% per annum).
- Secured borrowings "Others" from SBP are interest free.
- 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% and six month average KIBOR plus 1% per annum (2006: 10% per annum).

14.2.3 The group has obtained facilities under long-term loan from other banks amounting to Rs.133.333 million. Against these borrowings carrying amounts of assets kept as collateral are as follows:

	Note	2007 Rupees in '000	2006
Charge on lease receivables		129,016	155,102
Promissory note		276,970	276,970
Term finance certificates		73,951	101,987



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
15. DEPOSITS AND OTHER ACCOUNTS			
Customers			
Fixed deposits		128,417,463	100,054,476
Savings deposits		188,655,146	170,234,938
Current accounts - remunerative		76,708,609	54,352,618
Current accounts - non-remunerative		139,795,683	119,604,794
		533,576,901	444,246,826
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	591,817,052	502,016,711
15.1 Particulars of deposits			
In local currency		486,653,011	390,575,413
In foreign currencies [including deposits of foreign branches of Rs.81,489 million (2006: Rs.86,816 million)]		105,164,041	111,441,298
		591,817,052	502,016,711

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					
Not later than one year	18,869	3,451	15,418	9,314	1,260	8,054
Later than one year and not later than five years	20,410	2,089	18,321	7,187	905	6,282
Over five years	-	-	-	-	-	-
	39,279	5,540	33,739	16,501	2,165	14,336

The Group 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 Group has the option to acquire the assets subject to adjustment of security deposits.

Notes to the Consolidated Financial Statements

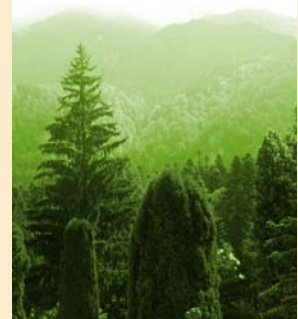
For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
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)	(291,768)
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)	(1,642,415)
Deferred tax liabilities arising in respect of			
Excess of accounting book value of leased assets over lease liabilities		3,196	2,026
Difference between accounting book value of fixed assets and tax base		85,259	-
Revaluation of securities	20.2	5,382,510	3,570,166
Revaluation of fixed assets	20.3	986,846	446,556
Others		14,618	273
		6,472,429	4,019,021
Net deferred tax liabilities		5,099,060	2,376,606

17.1 Through Finance Act 2007, a new section 100A read with the Seventh 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).

The 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.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
18. OTHER LIABILITIES			
Mark-up/ return/ interest payable in local currency		4,305,639	3,372,024
Mark-up/ return/ interest payable in foreign currencies		1,108,424	1,064,216
Unearned commission and income on bills discounted		106,817	72,207
Accrued expenses		1,587,408	1,543,832
Advance payments		149,853	105,062
Unclaimed dividends		12,649	8,259
Un-realized loss on forward foreign exchange contracts		514,452	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	2,276,587
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 packages		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)]		4,089,326	5,117,034
		31,280,663	27,186,290
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

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

19. SHARE CAPITAL

19.1 Authorized Capital

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

19.2 Issued, subscribed and paid-up

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

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%).

20. SURPLUS ON REVALUATION OF ASSETS - net

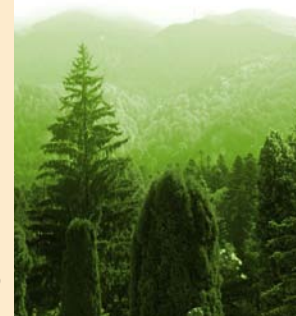
20.1 Surplus on revaluation of fixed assets - net of tax	20.3	20,543,099	5,368,099
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20.2 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax

Federal Government Securities		(70,186)	47,663
Term Finance Certificates		33,612	60,310
Quoted Shares		2,565,998	1,748,937
Overseas GoP Bonds		(73,531)	-
NIT Units		15,801,458	11,721,554
Investment outside Pakistan		13,620,451	13,493,387
		31,877,802	27,071,851
Deferred tax liability recognized	17	(5,382,510)	(3,570,166)
		<u>47,038,391</u>	<u>28,869,784</u>

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)
		<u>21,529,945</u>	<u>5,814,655</u>
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 transferred to profit and loss account		(21,004)	(22,109)
	17	<u>986,846</u>	<u>446,556</u>
Surplus on revaluation of fixed assets on December 31,		<u>20,543,099</u>	<u>5,368,099</u>



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

	2007	2006
	Rupees in '000	
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 favor 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	6,041,812	30,735
- Others	7,502,582	5,484,271
	30,780,006	23,653,597
21.3 Trade-related contingent liabilities		
Letters of credit Issued in favour of:		
- Government	139,367,158	128,295,046
- Financial institutions	187,561	522,542
- Others	59,601,103	31,725,396
	199,155,822	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.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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.

Contingencies in respect of tax amounting to Rs.28.676 million (2006: Rs.28.67 million) relates to subsidiaries. These mainly pertains to disallowed expenses and additional tax.

No 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.

21.4.3 Provident Fund

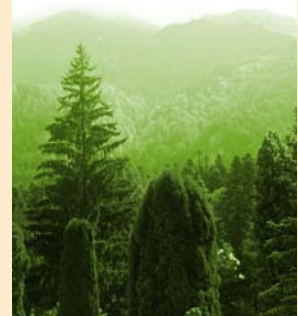
In 1977, in accordance with the GoP policy, the bank's employees benefits were changed from the Provident Fund to an enhanced Pension Scheme and an option was given to the employees either to opt for the new scheme or retain the existing benefits. Almost all employees opted for the new scheme. The bank 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 high 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.



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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.

	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	289,299	602,497
- 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 5.6.

Notes to the Consolidated 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	Notional	No. of	Notional	No. of	Notional	No. of	Notional
	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)	Contracts	Principal (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	Notional	No. of	Notional	No. of	Notional	No. of	Notional
	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)	Contracts	Principal (Rupees in '000)	Contracts	Principal (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 Consolidated Financial Statements

For the year ended December 31, 2007

22.2 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	-	-	-	-	-

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

Cross Currency Swaps

2007

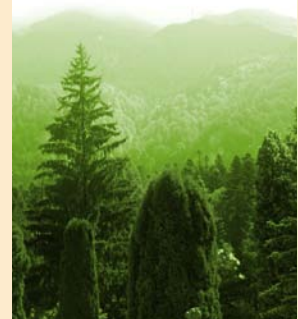
----- Rupees in '000 -----

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	-	-	-	-	-

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	-	-	-	-	-



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
23. MARK-UP/RETURN/INTEREST EARNED			
On loans and advances to: Customers and financial institutions		33,279,319	29,726,818
On Investments in:			
Available-for-sale securities		8,543,874	5,471,554
Held-to-maturity securities		2,428,035	3,840,682
		10,971,909	9,312,236
On deposits with financial institutions		4,825,324	4,042,198
On securities purchased under resale agreements		1,496,717	1,029,828
On interest rate SWAP		268,961	215,430
		<u>50,842,230</u>	<u>44,326,510</u>
24. MARK-UP/RETURN/INTEREST EXPENSED			
Deposits		15,927,487	13,038,151
Securities sold under repurchase agreements		207,355	299,551
Short term borrowings		655,240	463,039
Long-term borrowings		23,192	19,791
Interest rates SWAP		213,661	215,430
		<u>17,026,935</u>	<u>14,035,962</u>
25. GAIN / (LOSS) ON SALE AND REDEMPTION OF SECURITIES			
Federal Government Securities			
Market Treasury Bills		(3,925)	(2,341)
Pakistan Investment Bonds		23,941	(2,307)
		20,016	(4,648)
NIT Units	25.1	1,775,003	-
Shares - listed		559,206	855,221
- un-listed		-	344,676
		559,206	1,199,897
Term Finance Certificates - Unlisted		165	-
		<u>2,354,390</u>	<u>1,195,249</u>
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	2,975	9,010
Others		119,652	595,561
		<u>153,110</u>	<u>629,545</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

	Note	2007 Rupees in '000	2006
27. ADMINISTRATIVE EXPENSES			
Salaries and allowances		9,073,198	8,641,775
Charge for defined benefit plans		335,925	717,016
One time special award to staff		-	259,180
Non-executive directors' fee, allowances and other expenses	35	2,993	1,795
Rent, taxes, insurance, electricity, etc.		861,383	703,690
Legal and professional charges		264,653	127,968
Communications		321,629	289,006
Repairs and maintenance		239,194	237,001
Financial charges on leased assets		9,214	1,994
Stationery and printing		387,484	302,746
Advertisement and publicity		294,967	210,716
Donations	27.1	395	1,850
Auditors' remuneration	27.2	58,945	55,368
Depreciation	11.2	564,470	496,763
Amortization	11.3	4,776	4,074
Conveyance		93,022	83,312
Entertainment		33,571	30,807
Travelling		245,550	239,385
Security services		593,239	515,958
Outsourcing		266,102	156,361
Others		737,901	568,934
		<u>14,388,611</u>	<u>13,645,699</u>

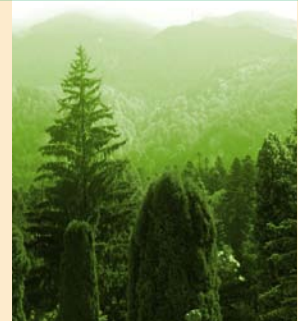
27.1 Donations include following amounts exceeding Rs. 0.1 million.

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	-	650
	<u>200</u>	<u>1,850</u>

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

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 subsidiaries	-	-	4,452	2,264
Fee for audit of pension and other funds	1,316	1,200	-	1,185
Out-of-pocket expenses	-	-	2,516	2,775
	<u>9,105</u>	<u>8,671</u>	<u>58,945</u>	<u>55,368</u>



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

27.3 The 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		<u>17,141</u>	<u>208,327</u>
29. TAXATION			
For the year			
Current		<u>8,333,955</u>	<u>8,721,386</u>
Deferred		<u>322,986</u>	<u>61,981</u>
	29.1	<u>8,656,941</u>	<u>8,783,367</u>
For prior years			
Current		<u>389,684</u>	<u>530,652</u>
Deferred		<u>-</u>	<u>-</u>
		<u>389,684</u>	<u>530,652</u>
		<u>9,046,625</u>	<u>9,314,019</u>

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.

29.1 Relationship between tax expense and accounting profit

Accounting profit before tax	<u>28,451,790</u>	<u>26,568,736</u>
Income tax at statutory rate @ 35% (2006: 35%)	<u>9,892,050</u>	<u>9,299,058</u>
Increase / (decrease) in taxes resulting from:		
Inadmissible differences	<u>255,408</u>	<u>222,751</u>
Income taxed at reduced rate	<u>(939,118)</u>	<u>(219,312)</u>
Income exempt from tax	<u>(801,399)</u>	<u>(1,069,228)</u>
Overseas taxation	<u>250,000</u>	<u>550,098</u>
Tax charge for current year	<u>8,656,941</u>	<u>8,783,367</u>

30. BASIC EARNINGS PER SHARE

Profit attributable to shareholders of the holding company	Rupees '000	<u>19,393,263</u>	<u>17,242,767</u>
Weighted average number of ordinary shares	Numbers '000	<u>815,432</u>	<u>815,432</u>
Basic earnings per share	Rupees	<u>23.78</u>	<u>21.15</u>

30.1 Earnings per share for the year 2006 has been restated for the effect of bonus shares issued during the year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

	2007	2006
	Rupees in '000	
31. DILUTED EARNINGS PER SHARE		
Basic and diluted earnings per share are same.		
32. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	95,010,514	78,862,625
Balances with other banks	38,216,263	41,412,546
Overdrawn nostros	(889,092)	(453,785)
	<u>132,337,685</u>	<u>119,821,386</u>

	2007	2006
	Number	
33. STAFF STRENGTH		
Permanent	13,335	13,431
Temporary/on contractual basis	877	736
Bank's own staff strength at the end of the year	<u>14,212</u>	<u>14,167</u>
Outsourced	2,360	1,359
Total Staff Strength	<u>16,572</u>	<u>15,526</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).

34. EMPLOYEE BENEFITS

34.1 Defined benefit plans - National Bank of Pakistan

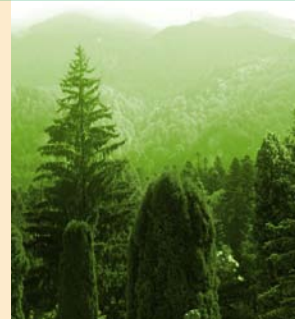
34.1.1 General description

General description of the type of defined benefit plan and accounting policy for recognising actuarial gains and losses is disclosed in note 5.11 to the financial statements.

Principal actuarial assumptions

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
	Rupees in '000	
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



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

	2007	2006
	Rupees in '000	
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
	<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 assets	(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

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
	<u>(3,676,345)</u>	<u>(2,951,933)</u>	<u>(2,523,668)</u>	<u>(2,047,859)</u>	<u>(1,672,929)</u>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

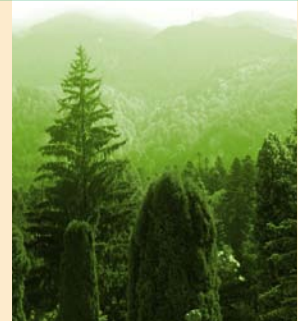
	Note	2007 Rupees in '000	2006
34.1.3 Reconciliation of payable to medical benefit plan			
Present value of defined benefit obligations		2,726,617	2,595,291
Fair value of plan assets		-	-
Net actuarial losses not recognized	18	(144,141)	(318,705)
		<u>2,582,476</u>	<u>2,276,586</u>
Movement in net liability recognized			
Opening net liability		2,276,586	2,001,749
Charge for the year		323,543	289,469
Benefits paid		(17,653)	(14,632)
		<u>2,582,476</u>	<u>2,276,586</u>
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
		<u>323,543</u>	<u>289,469</u>

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)
	<u>2,582,476</u>	<u>2,276,586</u>	<u>2,001,749</u>	<u>1,771,898</u>	<u>1,579,904</u>

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>



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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 Rupees in '000
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		(11,081)	(22,161)
	18	<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		23,222	118,382
	18	<u>1,662,930</u>	<u>1,639,708</u>

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>

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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

	2 0 0 8			
	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

	2 0 0 7		2 0 0 6	
	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
	43,967	32,390	2,993	1,116	507,438	328,429
Number of persons	1	1	8	7	239	135

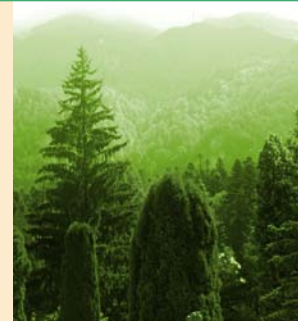
The president and certain executives are also provided with free use of bank's cars, household equipments and fee membership of clubs.

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

This note does not include particulars of directors, chief executive, and executives of subsidiaries.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007



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	95,010,515	95,010,515	78,862,625	78,862,625
Balances with other banks	38,216,263	38,216,263	41,412,546	41,412,546
Lending to financial institutions	21,656,192	21,656,192	23,164,082	23,164,082
Investments	211,729,297	210,355,236	140,740,067	138,758,810
Advances	340,727,819	340,727,819	316,455,800	316,455,800
Other assets	15,455,687	15,455,687	14,712,257	14,712,257
	<u>722,795,773</u>	<u>721,421,712</u>	<u>615,347,377</u>	<u>613,366,120</u>
Liabilities				
Bills payable	7,061,901	7,061,901	10,605,662	10,605,662
Borrowings	11,402,729	11,402,729	12,682,412	12,682,412
Deposits and other accounts	591,817,053	591,817,053	502,016,711	502,016,711
Liabilities against assets subject to finance lease	33,739	33,739	14,336	14,336
Other liabilities	20,284,270	20,284,270	20,919,030	20,919,030
	<u>630,599,692</u>	<u>630,599,692</u>	<u>546,238,151</u>	<u>546,238,151</u>

36.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	49,819,478	52,819,753	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	289,299	279,270	602,497	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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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.

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
	Rupees in '000								
2007									
Total income	311,422	10,073,097	11,376,127	21,979,092	1,052,772	2,840,489	19,862	103,430	-
Total expenses	1,455	432,233	6,549,071	9,399,696	610,926	2,239,189	7,614	64,317	-
Net income	309,967	9,640,864	4,827,056	12,579,396	441,846	601,300	12,248	39,113	-
Segment Assets (Gross)	-	319,173,618	123,134,052	321,602,707	-	-	153,798	544,617	-
Segment Non Performing Loans	-	-	2,351,296	35,966,256	-	-	-	-	-
Segment Provision Required	-	-	994,931	31,356,884	-	-	-	-	-
Segment Liabilities	-	9,708,553	121,426,879	515,364,382	-	-	0.152	195,180	-
Segment Return on net Assets (ROA) (%)	0.00%	3.43%	4.07%	4.17%	0.00%	0.00%	7.96%	7.18%	0.00%
Segment Cost of funds (%)	0.00%	5.90%	1.81%	3.02%	0.00%	0.00%	0.00%	0.65%	0.00%
2006									
Total income	168,813	11,521,284	11,707,918	16,138,851	592,940	2,554,070	-	95,503	-
Total expenses	1,439	(359,089)	7,221,922	6,277,953	504,351	2,503,560	-	60,503	-
Net income	167,374	11,880,373	4,485,996	9,860,898	88,589	50,510	-	35,000	-
Segment Assets (Gross)	-	272,897,093	93,292,013	305,717,946	-	-	-	623,379	-
Segment Non Performing Loans	-	-	1,458,278	34,801,608	-	-	-	-	-
Segment Provision Required	-	-	473,902	29,054,770	-	-	-	-	-
Segment Liabilities	-	8,518,257	128,818,479	417,138,461	-	-	-	406,369	-
Segment Return on net Assets (ROA) (%)	0.00%	4.49%	3.48%	2.36%	0.00%	0.00%	0.00%	16.13%	0.00%
Segment Cost of funds (%)	0.00%	0.00%	1.07%	3.19%	0.00%	0.00%	0.00%	0.00%	0.00%



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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.

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

Transactions between the group 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.

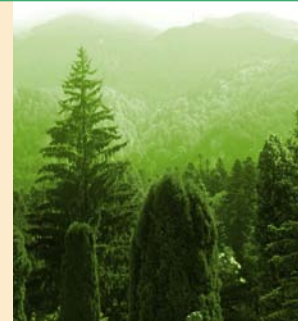
Detail of loan and advances to the companies or firms, in which the directors of the bank are interested as directors, partners or in case of private companies as members, are given in note 10.8 to these financial statements. There are no transactions with key management personnel other than under their 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

	2007	2006
	Rupees in '000	
Balance outstanding at year end		
Advances to:		
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	27,331	27,331
* This includes loans extended to certain key management executives in accordance with the terms of employment.		
Deposits from:		
Pension fund		
Opening balance	3,077,536	2,598,358
Received during the year	1,990,643	479,178
Repaid during the year	(2,979,203)	-
Closing Balance	<u>2,088,976</u>	<u>3,077,536</u>
Provident fund		
Opening balance	7,397,487	6,665,252
Received during the year	1,325,349	732,235
Repaid during the year	(644,441)	-
Closing Balance	<u>8,078,395</u>	<u>7,397,487</u>
Income for the year		
On advances/placements with:		
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
Interest on money market transactions from associates	-	16,520
Expenses for the year		
Remuneration to key management executives	77,208	66,157
Charge for defined benefit plan	5,605	14,577
Finance cost paid to associates	-	1,867
On deposits of:		
Provident fund **	943,205	976,870
Gratuity fund	-	981
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).



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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 others 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.

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 a 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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.

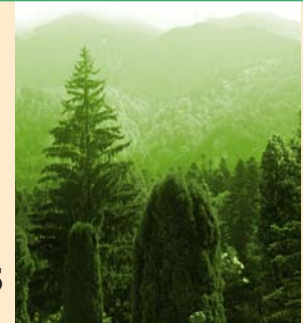
There have been no material changes in the Bank's management of capital during the year.

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	12,498,859	10,575,787
Unappropriated profits	46,232,813	32,623,507
Minority interest	109,729	97,827
Total Tier I Capital	66,995,720	50,387,833
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	3,879,535	3,809,070
Revaluation Reserve (upto 50%)	23,327,423	14,395,186
Total Tier II Capital	28,863,121	20,366,264
Eligible Tier III Capital	-	-
Total Regulatory Capital	95,858,841	70,754,097

(a)



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

Risk-Weighted Exposures	2 0 0 7		2 0 0 6	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
	----- Rupees in '000 -----			
Credit Risk				
Balance Sheet Items:-				
Cash and other liquid Assets	133,226,777	7,644,533	120,275,171	8,282,509
Money at call	21,656,192	624,805	23,164,082	1,796,270
Investments	211,729,297	50,806,772	140,740,067	49,364,989
Loans and Advances	338,928,676	260,517,473	312,418,520	244,527,684
Fixed Assets	25,979,302	25,979,302	9,739,938	9,739,938
Other Assets	31,289,403	20,428,120	27,573,646	18,077,586
	762,809,647	366,001,005	633,911,424	331,788,976
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		419,341,122		372,785,349
Market Risk				
General market risk		44,301,305		43,220,066
Specific market Risk		785,594		405,201
Market risk-weighted exposures		45,086,899		43,625,267
Total Risk-Weighted exposures	(b)	464,428,021		416,410,616
Capital Adequacy Ratio [(a) / (b) x 100]		20.64%		16.99%

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 Group's counter-parties to discharge their obligations under financial instruments and cause the Group 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.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

The Group 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 Group 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.

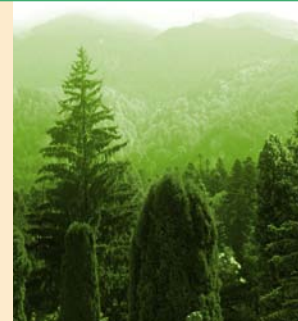
41.1.1 SEGMENTAL INFORMATION

41.1.1.1 Segments 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	3.16
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	22.38	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	34,085,843	9.09	176,190,217	29.77	159,755,490	59.34
	375,140,921	100.00	591,817,052	100.00	269,201,841	100.00

41.1.1.2 Segment by sector

	2007					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percentage %	Rupees in '000	Percentage %	Rupees in '000	Percentage %
Public / Government	67,502,893	17.99	249,531,928	42.16	171,699,464	63.78
Private	307,638,028	82.01	342,285,124	57.84	97,502,377	36.22
	375,140,921	100.00	591,817,052	100.00	269,201,841	100.00



Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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

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

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	26,891,039	646,761,878	108,022,688	251,273,306
Asia Pacific (including South Asia)	667,044	20,078,564	5,937,808	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	-
	28,451,790	764,608,790	117,913,646	269,201,841

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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.

41.2.1 Foreign exchange risk

	2007			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	Rupees in '000			
Pakistan Rupee	631,066,092	511,614,213	(15,047,124)	104,404,754
United States Dollar	104,316,906	102,828,844	10,550,695	12,038,757
Great Britain Pound	5,541,137	5,539,994	2,802,727	2,803,870
Euro	8,423,899	10,054,724	2,374,939	744,114
Japanese Yen	3,598,198	5,124,545	(653,834)	(2,180,181)
Other currencies	11,662,558	11,532,824	(27,403)	102,331
	133,542,698	135,080,931	15,047,124	13,508,891
	764,608,790	646,695,144	-	117,913,645

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.



Notes to the Consolidated Financial Statements

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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.
- 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.
- Compliance with 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 Group 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 Group manages this risk by matching/re-pricing of assets and liabilities. The Group 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 Group monitors and manages the interest rate risk with the objective of limiting the potential adverse effects on the profitability of the Group.

	Effective Yield/ Interest rate	Total	2007									Non-interest bearing financial instruments
			Exposed to Yield / Interest risk							Above 10 Years		
			Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 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	3.05%	95,010,515	3,305,551	14,744,115	10,889,486	-	-	-	-	-	66,071,363	
Balances with other banks	5.43%	38,216,263	16,690,863	13,052,263	950,870	338,118	1,600	-	-	-	7,182,549	
Lending to financial institutions	5.07%	21,656,192	15,862,579	1,444,431	4,349,182	-	-	-	-	-	-	
Investments	8.56%	211,729,297	24,718,088	29,581,770	35,350,436	47,908,671	14,689,731	2,013,422	5,193,435	8,670,159	940,090	
Advances	11.08%	340,727,819	94,699,095	78,517,308	65,106,386	82,344,884	5,739,696	10,884,531	2,045,963	1,380,787	9,169	
Other assets	0.00%	15,455,687	-	-	-	-	-	-	-	-	15,455,687	
		722,795,773	155,276,176	137,339,887	116,646,360	130,591,673	20,431,027	12,897,953	7,239,398	10,050,946	940,090	
Liabilities												
Bills payable	0.00%	7,061,902	-	-	-	-	-	-	-	-	7,061,902	
Borrowings	3.93%	11,402,729	2,126,189	7,940,648	-	-	-	-	70,800	-	1,265,092	
Deposits and other accounts	3.00%	591,817,053	394,806,712	9,291,403	20,511,104	129,231	-	-	-	-	167,078,603	
Liabilities against assets subject to finance lease		33,739	-	4,297	4,482	8,113	12,735	4,112	-	-	-	
Other liabilities	0.00%	20,284,270	-	-	-	-	-	-	-	-	20,284,270	
		630,599,693	396,932,901	17,236,348	20,515,586	137,344	12,735	4,112	70,800	-	195,689,867	
On-balance sheet gap		92,196,080	(241,656,725)	120,103,539	96,130,774	130,454,329	20,418,292	12,893,841	7,168,598	10,050,946	940,090	
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 sold		289,299	-	289,299	-	-	-	-	-	-	-	
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		-	-	-	-	-	-	-	-	-	-	
Off-balance sheet gap		106,416,732	32,477,564	19,183,812	32,501,604	12,935,866	-	-	-	9,317,886	-	
Total Yield / Interest Risk Sensitivity Gap		198,612,812	(209,179,161)	139,287,351	128,632,378	143,390,195	20,418,292	12,893,841	7,168,598	19,368,832	940,090	
Cumulative Yield / Interest Risk Sensitivity Gap			(209,179,161)	(69,891,810)	58,740,568	202,130,763	222,549,055	235,442,896	242,611,494	261,980,326	282,920,416	
											198,612,812	

Notes to the Financial Statements

(for the year ended December 31, 2007)

Effective Yield/ Interest rate	Total	2006										Non-interest bearing financial instruments
		Exposed to Yield / Interest risk										
		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		
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	3.05%	78,862,625	5,328,059	13,212,181	-	-	-	-	724	-	42,056,011	
Balances with other banks	5.43%	41,412,546	31,493,350	2,391,174	470,287	119	-	-	-	-	1,212,731	
Lending to financial institutions	5.07%	23,164,082	-	16,747,792	2,618,761	-	-	-	-	-	-	
Investments	8.56%	140,740,067	5,722,061	20,237,585	13,577,494	6,264,525	15,132,315	2,274,244	8,794,060	574,707	32,458,761	
Advances	10.08%	316,455,800	62,590,392	52,488,983	48,669,198	46,882,213	158,300	2,055,574	1,541,900	4,736,285	876	
Other assets	0.00%	14,712,257	-	16,694	1,876	-	-	522	-	-	14,693,165	
		615,347,377	105,133,862	149,920,811	65,337,616	53,146,857	15,290,615	4,330,340	10,336,684	5,310,992	90,421,544	
Liabilities												
Bills payable	0.00%	10,605,662	-	-	-	-	-	-	-	-	10,605,662	
Borrowings	3.78%	12,682,412	9,706,697	109,600	66,666	-	-	204,133	-	-	984,693	
Deposits and other accounts	2.73%	502,016,711	277,664,090	26,417,526	2,326,660	-	-	-	-	-	138,148,943	
Liabilities against assets subject to finance lease		14,336	116	879	-	-	13,238	103	-	-	-	
Other liabilities	0.00%	20,919,030	-	-	23,030	-	-	95,212	-	-	20,780,842	
		546,238,151	279,274,829	26,528,005	2,416,356	-	13,238	299,448	-	-	170,520,140	
On-balance sheet gap		(174,140,967)	48,931,921	123,392,806	62,921,260	53,146,857	15,277,377	4,030,892	10,336,684	5,310,992	(80,098,596)	
Off-balance sheet financial instruments												
Interest rate swaps and cross currency swap		8,905,000	-	-	-	8,905,000	-	-	-	-	-	
Equity futures sold		602,497	-	602,497	-	-	-	-	-	-	-	
Forward call lending		1,000,000	-	-	-	-	-	-	-	-	-	
Forward purchase of foreign exchange		33,055,235	5,210,218	10,168,736	10,721,584	-	-	-	-	-	-	
Forward sale of foreign exchange		15,352,480	4,011,439	3,510,552	5,298,085	-	-	-	-	-	-	
Forward purchases of trading Government securities		10,000,000	-	-	-	-	-	-	-	-	-	
Forward sales of trading Government securities		22,500	-	-	-	-	-	-	-	-	-	
Off-balance sheet gap		68,937,712	20,244,157	14,281,785	16,019,669	8,905,000	-	-	-	-	-	
Total Yield / Interest Risk Sensitivity Gap		138,046,938	(153,896,810)	137,674,591	78,940,929	62,051,857	15,277,377	4,030,892	10,336,684	5,310,992	(80,098,596)	
Cumulative Yield/Interest Risk Sensitivity Gap		(153,896,810)	(95,477,788)	42,196,803	121,137,732	183,189,589	198,466,966	202,497,858	212,834,542	218,145,534	138,046,938	

Notes to the Financial Statements

(for the year ended December 31, 2007)

41.3 Liquidity Risk

Liquidity risk is the risk that the Group 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 Group maintain statutory deposits with central banks inside and outside Pakistan.

41.3.1 Maturities of Assets and Liabilities

	2007									
	Rupess in '000									
	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	95,010,514	69,376,913	14,744,115	10,889,486	-	-	-	-	-	-
Balances with other banks	38,216,263	23,873,412	13,052,263	950,870	338,118	1,600	-	-	-	-
Lending to financial institutions	21,656,192	15,862,579	1,444,431	4,349,182	-	-	-	-	-	-
Investments	211,729,297	25,975,122	22,513,217	34,216,220	69,928,299	29,711,008	2,880,074	13,888,774	8,921,323	3,695,260
Advances	340,727,819	44,813,126	65,490,514	32,079,136	71,061,635	24,716,935	27,818,534	38,975,393	18,993,410	16,779,136
Operating fixed assets	25,979,302	-	-	-	-	-	-	28,661	2,577	25,948,064
Deferred tax assets	-	-	-	-	-	-	-	-	-	-
Other assets	31,289,403	5,939,660	6,858,706	4,015,798	192,677	3,767,886	9,962,363	552,313	-	-
	764,608,790	185,840,812	124,103,246	86,500,692	141,520,729	58,197,429	40,660,971	53,445,141	27,917,310	46,422,460
Liabilities										
Bills payable	7,061,901	7,061,901	-	290,939	662,226	183,715	140,011	288,476	-	-
Borrowings	11,402,729	2,728,565	-	-	-	-	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Deposits and other accounts	591,817,052	467,662,028	30,029,348	67,477,692	10,438,842	7,435,245	1,837,228	6,491,030	390,226	55,413
Liabilities against assets subject to finance lease	33,739	-	4,297	4,482	8,113	12,735	4,112	-	-	-
Deferred tax liabilities	5,099,060	-	-	-	-	-	-	-	1,547,169	-
Other liabilities	31,280,663	11,935,949	1,239,094	3,511,172	13,180	10,201,606	9,663	3,551,891	-	1,751,876
	646,695,144	489,388,443	38,381,526	71,284,285	11,122,361	17,833,301	1,991,014	12,949,530	1,937,395	1,807,289
Net assets	117,913,646	(303,547,631)	85,721,720	15,216,407	130,398,368	40,364,128	38,669,957	40,495,611	25,979,915	44,615,171
Share capital	8,154,319	-	-	-	-	-	-	-	-	-
Reserves	16,378,394	-	-	-	-	-	-	-	-	-
Unappropriated profit	46,232,813	-	-	-	-	-	-	-	-	-
Minority interest	109,729	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets	47,038,391	-	-	-	-	-	-	-	-	-
	117,913,646	-	-	-	-	-	-	-	-	-

Notes to the Financial Statements

(for the year ended December 31, 2007)

2006									
Rupees in '000									
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 to 10 Years
Assets									
Cash and balances with treasury banks	78,862,625	18,265,650	13,209,920	236,674	-	-	-	724	-
Balances with other banks	41,412,546	5,541,734	2,391,174	1,045,135	119	-	-	-	-
Lending to financial institutions	23,164,082	3,797,529	16,747,792	2,618,761	-	-	-	-	-
Investments	140,740,067	3,854,699	9,280,763	30,698,923	21,737,459	20,723,117	8,782,231	11,369,974	3,073,586
Advances	316,455,800	42,973,488	46,047,045	74,401,036	29,867,599	30,681,841	39,197,210	14,127,166	518,833
Operating fixed assets	9,739,938	-	-	-	-	-	20,858	9,719,080	-
Deferred tax assets	-	-	-	-	-	-	-	-	-
Other assets	27,573,646	6,188,713	3,500,789	497,050	3,033,699	8,896,418	329,098	-	-
	637,948,704	103,654,523	91,177,483	109,497,579	54,638,876	60,301,376	48,329,397	35,216,944	3,592,419
Liabilities									
Bills payable	10,605,662	-	109,600	254,666	-	-	204,133	-	-
Borrowings	12,682,412	9,794,698	-	-	254,907	-	-	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-
Deposits and other accounts	502,016,711	69,631,553	14,454,044	7,796,143	4,055,681	2,386,141	2,954,218	4,081,889	4,928,514
Liabilities against assets subject to finance lease	14,336	116	-	886	-	13,231	103	-	-
Deferred tax liabilities	2,376,606	-	-	30	-	-	2,823,131	-	-
Other liabilities	27,186,290	8,492,615	3,714,835	465,207	10,322,820	-	2,079,689	-	1,382,396
	554,882,017	412,891,213	18,278,479	8,516,932	14,633,408	2,399,372	8,061,274	3,635,334	6,310,910
Net assets	83,066,687	23,499,428	72,899,004	100,980,647	40,005,468	57,902,004	40,268,123	31,581,610	(2,718,491)
Share capital	7,090,712	-	-	-	-	-	-	-	-
Reserves	14,384,857	-	-	-	-	-	-	-	-
Unappropriated profit	32,623,507	-	-	-	-	-	-	-	-
Minority interest	97,827	-	-	-	-	-	-	-	-
Surplus on revaluation of assets	28,869,784	-	-	-	-	-	-	-	-
	83,066,687	-	-	-	-	-	-	-	-

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.

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

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

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 Consolidated Financial Statements

For the year ended December 31, 2007

43. SUBSEQUENT EVENT

The Board of Directors of the holding company 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 5.18.

44. GENERAL

Figures have been rounded off to the nearest thousand rupees.

45. DATE OF AUTHORIZATION FOR ISSUE

The financial statements were authorized for issue on February 29, 2008 by the Board of Directors of the holding company.

Syed Ali Raza
Chairman & President

Muhammad Ayub Khan Tarin
Director

Tariq Kirmani
Director

Ibrar A. Mumtaz
Director