



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.

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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:



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- 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

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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.



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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.

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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 unrecognised actuarial gains or losses and unrecognised 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 unrecognised 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 unrecognised 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.

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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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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 | | 181,057,052 | 114,928,464 |
| Less: Provision for Diminution in value of Investments | 9.12 | (1,173,593) | (1,255,785) |
| Investments (Net of Provisions) | | 179,883,459 | 113,672,679 |
| 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 | | 211,729,297 | 140,740,067 |



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

Held-to-maturity securities

Debentures, Bonds, Participation Term
Certificates, Term Finance Certificates and Sukuk Bonds 652,594 704,715

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)

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 | | | Book Value at December 31, 2006 | Rate of depreciation |
|--|----------------------|-----------------------------|----------------------|--------------------------|----------------------------------|----------------------|---------------------------------|--|
| | At January 1, 2006 | Additions/ (deletions) | At December 31, 2006 | At January 1, 2006 | Charge for the year/ (deletions) | At December 31, 2006 | | |
| 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 ljarah | | | | | | | | |
| | - | - | - | - | - | - | - | |
| 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 | | | Book Value at December 31, 2006 | Rate of amortisation |
|----------------------------|--------------------|------------------------|----------------------|--------------------------|----------------------------------|----------------------|---------------------------------|----------------------|
| | At January 1, 2006 | Additions/ (deletions) | At December 31, 2006 | At January 1, 2006 | Charge for the year/ (deletions) | At December 31, 2006 | | |
| ----- 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

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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 |
|--|---------------|------------|---------------|----------------|--|-----------------------------------|
| | | | | | | |
| 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 |
| | 34,683 | 10,286 | 13,261 | 2,975 | | |

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

| | Note | 2007 Rupees in '000 | 2006 |
|--|--------|------------------------|-------------------|
| 12. OTHER ASSETS | | | |
| Income/mark-up accrued in local currency | | 7,159,932 | 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 |
| 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

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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 | | <u>1,895,840</u> | <u>1,771,607</u> |
| 13. BILLS PAYABLE | | | |
| In Pakistan | | 6,922,716 | 10,549,446 |
| Outside Pakistan | | 139,185 | 56,216 |
| | | <u>7,061,901</u> | <u>10,605,662</u> |
| 14. BORROWINGS | | | |
| In Pakistan | | 8,804,668 | 11,069,740 |
| Outside Pakistan | | 2,598,061 | 1,612,672 |
| | 14.1 & 14.2 | <u>11,402,729</u> | <u>12,682,412</u> |
| 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 | <u>11,402,729</u> | <u>12,682,412</u> |
| 14.2 Details of borrowings secured / unsecured | | | |
| Secured | | | |
| Borrowings from State Bank of Pakistan: | | | |
| Under Export Refinance Scheme | | 3,213,430 | 2,470,235 |
| Long Term Financing under Export Oriented Project (LTF-EOP) | | 4,143,885 | 5,109,810 |
| Under Locally Manufactured Machinery (LMM) scheme | | - | 1,160 |
| Finance to payoff liabilities relating to former MBL | 14.2.1 | 376,000 | 564,000 |
| Others | | - | 66,907 |
| | | <u>7,733,315</u> | <u>8,212,112</u> |
| Repurchase agreement borrowings | | 383,886 | 504,710 |
| | | <u>8,117,201</u> | <u>8,716,822</u> |
| Unsecured | | | |
| Call borrowings | | 2,258,970 | 3,441,005 |
| Overdrawn nostro accounts | | 889,092 | 453,785 |
| Others | 14.2.3 | 137,466 | 70,800 |
| | | <u>3,285,528</u> | <u>3,965,590</u> |
| | | <u>11,402,729</u> | <u>12,682,412</u> |



Notes to the Consolidated Financial Statements

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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) |
| | | <u>(1,373,369)</u> | <u>(1,642,415)</u> |
| 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 |
| | | <u>6,472,429</u> | <u>4,019,021</u> |
| Net deferred tax liabilities | | <u>5,099,060</u> | <u>2,376,606</u> |

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

| | | | | |
|--------------------|---------------------------|---|-------------------------|------------------|
| 140,388,000 | 140,388,000 | Ordinary shares of Rs.10 each 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%).

| | Note | 2007 | 2006 |
|--|------|--------------------------|-------------------|
| | | Rupees in '000 | |
| 20. SURPLUS ON REVALUATION OF ASSETS - net | | | |
| 20.1 Surplus on revaluation of fixed assets - net of tax | 20.3 | 20,543,099 | 5,368,099 |
| 20.2 Surplus / (deficit) on revaluation of available-for-sale securities - net of tax | | | |
| Federal Government Securities | | (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 | 986,846 | 446,556 |
| 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 Contracts | Notional Principal (Rupees in '000) | No. of Contracts | Notional Principal (Rupees in '000) | No. of Contracts | Notional Principal (Rupees in '000) | No. of Contracts | Notional 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 Contracts | Notional Principal (Rupees in '000) | No. of Contracts | Notional Principal (Rupees in '000) | No. of Contracts | Notional Principal (Rupees in '000) | No. of Contracts | Notional 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

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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

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| | 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> | 8,721,386 |
| Deferred | | <u>322,986</u> | 61,981 |
| | 29.1 | <u>8,656,941</u> | 8,783,367 |
| For prior years | | | |
| Current | | <u>389,684</u> | 530,652 |
| Deferred | | <u>-</u> | - |
| | | <u>389,684</u> | 530,652 |
| | | <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> | 9,299,058 |
| Increase / (decrease) in taxes resulting from: | | |
| Inadmissible differences | <u>255,408</u> | 222,751 |
| Income taxed at reduced rate | <u>(939,118)</u> | (219,312) |
| Income exempt from tax | <u>(801,399)</u> | (1,069,228) |
| Overseas taxation | <u>250,000</u> | 550,098 |
| 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 | <u>(889,092)</u> | <u>(453,785)</u> |
| | <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 | <u>2,360</u> | <u>1,359</u> |
| 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 | | (144,141) | (318,705) |
| | 18 | <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 | | (65,736) | (55,973) |
| | 18 | <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) |
| | 759,957 | 802,937 | 729,725 | 733,572 | 638,103 |

| | Note | 2007 Rupees in '000 | 2006 |
|--|------|------------------------|---------------|
| 34.1.5 Reconciliation of payable to gratuity benefit plan | | | |
| Present value of defined benefit obligations | | 82,098 | 58,205 |
| Net actuarial losses not recognized | | (4,309) | (2,635) |
| Unrecognized Past Service Cost | | (11,081) | (22,161) |
| | 18 | 66,708 | 33,409 |
| Movement in net liability recognized | | | |
| Opening liability | | 33,409 | - |
| Charge for the year | | 33,299 | 33,409 |
| Benefits paid | | - | - |
| | | 66,708 | 33,409 |
| 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 |
| | | 33,299 | 33,409 |

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 | 1,662,930 | 1,639,708 |

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 |
| | 1,662,930 | 1,639,708 | 1,521,326 | 1,219,566 | 1,281,741 |

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 | <u>49,819,478</u> | <u>52,819,753</u> | 33,055,235 | 33,147,690 |
| Forward sale of foreign exchange | <u>38,137,569</u> | <u>38,601,982</u> | 15,352,480 | 15,354,064 |
| Cross currency swaps and interest rate swaps | <u>18,170,386</u> | <u>18,092,432</u> | 8,905,000 | 4,264,475 |
| Equity futures sold | <u>289,299</u> | <u>279,270</u> | 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

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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 at least 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

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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 |
| | <u>38,317,552</u> | <u>32,351,815</u> | <u>36,259,886</u> | <u>29,528,672</u> |

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 |
| | <u>38,317,552</u> | <u>32,351,815</u> | <u>36,259,886</u> | <u>29,528,672</u> |

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 | - |
| | <u>28,451,790</u> | <u>764,608,790</u> | <u>117,913,646</u> | <u>269,201,841</u> |

Notes to the Consolidated Financial Statements

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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.

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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 in 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 | Exposed to Yield/Interest risk | | | | | | | | | | Non-interest bearing financial instruments |
|---|-------------------------------|-------------|--------------------------------|--------------------|--------------------|------------------|-------------------|-------------------|-------------------|--------------------|----------------|--------------|--|
| | | | Up to 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 | Above 10 Years | | |
| 2007 | | | | | | | | | | | | | |
| 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 | 4,349,182 | - | - | - | - | - | - | - | - | - |
| Investments | 8.56% | 211,729,297 | 24,718,088 | 29,581,770 | 36,350,436 | 47,908,671 | 14,689,731 | 2,013,422 | 5,193,435 | 8,670,159 | 940,090 | 42,663,495 | |
| 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 | 131,382,263 | |
| 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 |
| | | 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 | (64,307,604) | |
| Off-balance sheet financial instruments | | | | | | | | | | | | | |
| Interest rate swaps and cross currency swap | | 18,170,386 | - | 289,299 | 6,669,022 | 2,183,478 | - | - | - | - | - | - | 9,317,886 |
| Equity futures sold | | 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 | | - | - | - | - | - | - | - | - | - | - | - | - |
| | | 106,416,732 | 32,477,564 | 19,183,812 | 32,501,604 | 12,935,866 | - | - | - | - | - | - | 9,317,886 |
| | | 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 | (64,307,604) | |
| | | | (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 | | | | | | | | | | |
| Yield/ Interest rate | | 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 | | | | | | | | | | | | |
| 3.05% | 78,862,625 | 5,328,059 | 18,265,650 | 13,212,181 | - | - | - | - | 724 | - | 42,056,011 | |
| 5.43% | 41,412,546 | 31,493,350 | 5,844,885 | 2,391,174 | 470,287 | 119 | - | - | - | - | 1,212,731 | |
| 5.07% | 23,164,082 | - | 3,797,529 | 16,747,792 | 2,618,761 | - | - | - | - | - | - | |
| 8.56% | 140,740,067 | 5,722,061 | 35,704,315 | 20,237,585 | 13,577,494 | 6,264,525 | 15,132,315 | 2,274,244 | 8,794,060 | 574,707 | 32,458,761 | |
| 10.08% | 316,455,800 | 62,590,392 | 52,488,983 | 97,332,079 | 48,669,198 | 46,882,213 | 158,300 | 2,055,574 | 1,541,900 | 4,736,285 | 876 | |
| 0.00% | 14,712,257 | - | 16,694 | - | 1,876 | - | - | 522 | - | - | 14,693,165 | |
| | 615,347,377 | 105,133,862 | 116,118,056 | 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 | | | | | | | | | | | | |
| 0.00% | 10,605,662 | - | - | - | - | - | - | - | - | - | 10,605,662 | |
| 3.78% | 12,682,412 | 1,610,623 | 9,706,697 | 109,600 | 66,666 | - | - | 204,133 | - | - | 984,693 | |
| 2.73% | 502,016,711 | 277,664,090 | 57,459,492 | 26,417,526 | 2,326,660 | - | - | - | - | - | 138,148,943 | |
| | 14,336 | 116 | - | 879 | - | - | 13,238 | - | - | - | - | |
| 0.00% | 20,919,030 | - | 19,946 | - | 23,030 | - | - | 95,212 | - | - | 20,780,842 | |
| | 546,238,151 | 279,274,829 | 67,186,135 | 26,528,005 | 2,416,356 | - | 13,238 | 299,448 | - | - | 170,520,140 | |
| | 69,109,226 | (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 | | | | | | | | | | | | |
| | 8,905,000 | - | - | - | - | 8,905,000 | - | - | - | - | - | |
| | 602,497 | - | 602,497 | - | - | - | - | - | - | - | - | |
| | 1,000,000 | 1,000,000 | - | - | - | - | - | - | - | - | - | |
| | 33,055,235 | 5,210,218 | 6,954,697 | 10,168,736 | 10,721,584 | - | - | - | - | - | - | |
| | 15,352,480 | 4,011,439 | 2,532,404 | 3,510,552 | 5,298,085 | - | - | - | - | - | - | |
| | 10,000,000 | 10,000,000 | - | - | - | - | - | - | - | - | - | |
| | 22,500 | 22,500 | - | - | - | - | - | - | - | - | - | |
| | 68,937,712 | 20,244,157 | 9,487,101 | 14,281,785 | 16,019,669 | 8,905,000 | - | - | - | - | - | |
| Total Yield / Interest Risk Sensitivity Gap | 138,046,938 | (153,896,810) | 58,419,022 | 137,674,591 | 78,940,829 | 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 | | | | | | | | | |
|---|-------------|-----------------|--------------------------|--------------------------|-------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|-------------------|
| | 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 | 14,774,115 | 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 | - |
| 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 | 7,108,797 | - | - | - | - | - | - | - |
| 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 | 2,618,133 | - | 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

| | Upto 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 Months to 1 Year | Over 1 to 2 Years | Over 2 to 3 Years | Over 3 to 5 Years | Over 5 to 10 Years | Above 10 Years |
|---|-----------------|--------------------------|--------------------------|-------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|-------------------|
| Rupees in '000 | | | | | | | | | |
| Assets | | | | | | | | | |
| Cash and balances with treasury banks | 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 | 31,219,315 | 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 | 131,540,107 | 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 | - | - | - | - | - |
| Borrowings | 12,682,412 | 9,794,698 | - | - | 254,907 | - | 204,133 | - | - |
| 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 | (446,555) | - |
| Other liabilities | 27,186,290 | 728,728 | 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

| | | |
|------------------------------------|----------------|----------------|
| | 107,549 | 100,002 |
| REPRESENTED BY | | |
| Islamic Banking Fund | 100,000 | 100,000 |
| Reserves | - | - |
| Unappropriated / Unremitted profit | 7,549 | 2 |
| | 107,549 | 100,002 |
| Surplus on Revaluation of Assets | - | - |
| | 107,549 | 100,002 |



Notes to the 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