

# Notice of 62nd Annual General Meeting

Notice is hereby given that the 62nd Annual General Meeting of Allied Bank Limited will be held at Hotel Avari, Lahore on Friday, 28th March, 2008 at 11:00 a.m. to transact the following business:

## Ordinary Business:

1. To confirm the minutes of the last Annual General Meeting held on 29th March, 2007.
2. To receive, consider and adopt the Annual Audited Accounts of the Bank for the year ended December 31, 2007 together with the Directors' and Auditors' Report thereon.
3. To consider and approve Cash Dividend @ 15% (i.e. Rs.1.50 per share) as recommended by the Board of Directors in addition to 15% cash dividend already paid for the year 2007.
4. To appoint Auditors and fix their remuneration. One of the retiring joint Auditors M/s M.Yousuf Adil Saleem & Co Chartered Accountants being eligible have offered themselves for reappointment. On the proposal of some of the members the Board Audit Committee and the Board of Directors have recommended the appointment of M/s KPMG Taseer Hadi & Co., Chartered Accountants, who have also consented to act as one of the joint auditors. Retiring auditor M/s Ford Rhodes Sidat Hyder & Co Chartered Accountants has completed the period of five (5) years in accordance with the Clause (xli) of the Code of Corporate Governance and therefore is not eligible for re-appointment.

## Special Business:

5. To consider and approve Bonus Shares by utilizing Share Premium Account @ 20 % [i.e. one (01) share for every five (05) shares as recommended by the Board of Directors of the Bank for the year ended 31.12.2007.
6. To approve revision in the Directors' fee for attending Board and its Sub Committees' meetings.

Note: Statements under section 160 of the Companies Ordinance, 1984 is appended below.

## Other Business:

7. To transact any other business with the permission of the Chair.

**Waheed-ur-Rehman**  
Company Secretary

Date: March 7, 2008

Place: Lahore

Registered Office:

8-Kashmir /Egerton Road,

Lahore.

Notes:

- i) All members are entitled to attend and vote at the Meeting.
- ii) A member entitled to attend and vote is entitled to appoint a proxy under his / her own hand or through his/ her duly authorized attorney to attend and vote instead of himself / herself and the proxy must be a member of Allied Bank Limited.
- iii) The instrument of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority to be effective must be deposited at the registered office of Allied Bank Limited not less than 48 hours before the time for holding the Meeting.
- iv) Share Transfer Books of Allied Bank Limited will remain closed from 21st March, 2008 to 28th March, 2008 (both days inclusive). Share transfers requests received at M/s Technology Trade (Pvt.) Limited, Dagia House, 241-C, Block-2, PECHS, Karachi, the Registrar and Share Transfer Office of the Bank at the close of business on 20th March, 2008 will be treated as being in time for the purpose of entitlement of cash dividend and bonus shares to the transferees.
- v) Members are requested to notify immediately changes, if any, in their registered address to Bank's Share Registrar M/S Technology Trade (Pvt) Limited, 241-C, Block-2, PECHS, Karachi before book closure so that entitlement if any, be dispatched at the correct address.
- vi) CDC Account Holders will have to follow the under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan.

**A. For Attending the Meeting**

- i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his /her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport at the time of attending the Meeting.
- ii) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (if it has not been provided earlier) at the time of the Meeting.

**B. For Appointing Proxies:**

- i) In case of individuals, the account holder or sub-account holder and / or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.
- ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC numbers shall be mentioned on the form.
- iii) Attested copies of CNIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- iv) The proxy shall produce his / her original NIC or original passport at the time of the Meeting.
- v) In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature shall be submitted (if it has not been provided earlier) along with proxy form of the Company.

# Statements under Section 160 of the Companies Ordinance, 1984

## ITEM NO 5: ISSUANCE OF BONUS SHARES

To approve capitalization of a sum of Rs. 1,077,273,876 (Rupees One billion seventy seven million two hundred seventy three thousand eight hundred seventy six only) out of Share Premium Account for the issuance of bonus shares (B-4) in the proportion of 1 share for every 5 shares and approve the following resolution by way of Special Resolution.

“Resolved that:

- a) A sum of Rs. 1,077,273,876 out of shares premium account be capitalized and applied for the issuance of 107,727,387 Ordinary shares of Rs. 10 each in the proportion of 1 share for every 5 Ordinary Shares held, allotted as fully paid-up Bonus Shares to the members of the Bank whose names appear on the Register of Members of the Bank as at close of business on March 20, 2008.
- b) The bonus shares entitlement in fraction be consolidated into whole shares and Company Secretary is hereby authorize to sell the same in the Stock Market and proceeds of sale when realized be given to a charitable institution.
- c) CEO and the Company Secretary of the Bank be and are hereby authorized and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required for issuance, allotment and distribution of Bonus Shares (B-4).”

The Directors of the Company have no interest in the property or profits of the Bank other than that as holders of ordinary shares in the capital of the Bank and dividends, if any declared by the Bank according to their share holding.

## ITEM NO 6: TO RATIFY THE REVISION OF MEETING FEES FOR DIRECTORS FOR ATTENDING BOARD OR ITS SUB COMMITTEE MEETINGS

In view of Board’s responsibilities and enhanced role under the Code of Corporate Governance and other statutory obligations, directors have to devote more time and expertise in the overall stewardship of the Bank.

In view of the foregoing, the Board in its 157th meeting held on 10.08.2007 enhanced meeting fees for attending meeting(s) of the Board/Sub Committees of the Board, to Rs. 25,000/- per meeting, besides usual traveling and accommodation expenses as allowed in terms of Article 111 of the Articles of Association of the Bank. In terms of SBP, BPRD Circular No.3 dated April 23, 2007 the matter is being placed before the shareholders for post facto approval.

In this respect, the following Ordinary Resolution is proposed to be passed:

“Resolved that Directors’ Fee for attending the Board meeting or meeting of the Board Committees be and hereby increased from Rs. 5,000/- to Rs. 25,000/- per meeting with effect from 10.08.2007.”

There is no interest, directly or indirectly, of any of the directors of ABL in the above mentioned item.

# Statement of Compliance with Code of Corporate Governance

This statement is being presented to comply with the terms of the Code of Corporate Governance as contained in Prudential Regulation No.G-1, responsibilities of the Board of Directors advised vide SBP BSD Circular No.15 dated June 13, 2002 and Listing Regulations of Karachi, Lahore & Islamabad Stock Exchanges (Guarantee) Ltd. for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of Corporate Governance.

The Bank has adopted the Code of Corporate Governance and applied the principles contained in the Code in the following manner:

1. The directors have confirmed that none of them is serving as a director in more than ten listed companies including the Bank.
2. The Bank encourages representation of independent directors on its Board of Directors. At present, the Board includes 3 independent directors, 3 family directors (25% of the same family), 2 executive directors and 3 non-executive directors, including two Government nominees.
3. All the directors of the Bank are registered tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI and NBFC.
4. Election of the Directors was held on August 17, 2006 for a fresh term of three years.
5. Two casual vacancies occurred in the Board which were filled within the prescribed period.
6. The Bank has adopted a "Statement of Ethics & Business practices", which has been signed by all the directors and employees on joining the Bank.
7. The mission / vision statement, overall corporate strategy and significant policies have been approved by the Board. The Bank maintains a complete record of the particulars of significant policies along with the dates on which these were approved or amended.
8. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer are taken by the Board.
9. The Chairman of the Board is a non-executive director. The Board met at least once in every quarter. Written notices of the Board meetings along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
10. Appropriate arrangements were made for Orientation of Directors to acquaint them with their duties and responsibilities. Pakistan Institute of Corporate Governance (PICG) had awarded one of the Board member title of "Certified Director". Other members of the Board had completed few parts of the certified directorship. The Bank also encourages participation of members of Board to attend Seminars/workshops conducted by various forums.
11. The Board has approved appointments of CFO, Company Secretary and Head of Internal Audit including their remuneration and terms and conditions of employment, as determined by the CEO.
12. The Directors' Report for the year ended December 31, 2007 has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Bank were duly endorsed by the Chief Executive Officer and Chief Financial Officer before approval of the Board.

14. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
15. The Bank has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an Audit Committee which comprises of four members; all are non-executive directors, including the Chairman of the Committee. One of the directors is a Government nominee.
17. The meetings of the Audit Committee are held at least once in every quarter, prior to the approval of interim and the annual financial statements of the Bank as required by the Code. The Board had approved terms of reference of the Audit Committee.
18. An independent Internal Audit Department is in place.
19. The statutory joint auditors of the Bank have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Bank and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide services other than approved services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board.

Dated: February 29, 2008

Place: Lahore

**Mohammad Aftab Manzoor**

Chief Executive Officer

# Statement of Ethics and Business Practices

All employees of Allied Bank Limited, hereinafter called ABL, shall

## Abidance of Laws / Rules

- Conform to and abide by the ABL rules and obey all lawful orders and directives which may from time to time be given by any person or persons under whose jurisdiction, superintendence or control they may for the time being, be placed. They shall comply with and observe all applicable laws, regulations and ABL policies.
- Stand firmly against supporting the activities of any group or individual that unlawfully threatens public order and safety. The employees shall not be a member of any political party, take part in, subscribe in aid of, or assist in any way, any political movement. They shall not express views detrimental to the ideology, sovereignty or integrity of Pakistan.
- Not canvass or otherwise interfere or use influence in connection with or take part in any election as a candidate to a legislative / local body or issue an address to the electorate or in any manner announce or allowed to be announced publicly as a candidate or prospective candidate. They may, however, exercise their right to vote.
- Not bring or attempt to bring political or other pressure/influence directly or indirectly to bear on the authorities / superior officers or indulge in derogatory pamphleteering, contribute, or write letters to the news papers, anonymously or in their own name with an intent to induce the authority/superior officers to act in a manner inconsistent with rules, in respect of any matter relating to appointment, promotion, transfer, punishment, retirement or for any other conditions of service of employment.

## Integrity

- Conduct themselves with the highest standards of ethics, professional integrity and dignity in all dealings with the public, clients, investors, employees, and fellow bankers and not engage in acts discreditable to ABL, profession and nation. If they become aware of any irregularity that might affect the interests of ABL, they shall inform the senior management immediately.
- Maintain all books, data, information and records with scrupulous integrity, reporting in an accurate and timely manner all transactions / reports.
- Avoid all such circumstance in which there is personal interest conflict, or may appear to be in conflict, with the interests of ABL or its customers.
- Not use their employment status to seek personal gain from those doing business or seeking to do business with ABL, nor accept such gain if offered. They shall not accept any gift, favour, entertainment or other benefits the size or frequency of which exceeds normal business contacts from a constituent or a subordinate employee of ABL or from persons likely to have dealings with ABL and candidates for employment in ABL.
- Not accept any benefits from the estate of, or a trust created by a customer, or from an estate or trust of which ABL's Company or business units is an executor, administrator or trustee.

## Confidentiality

- Maintain the privacy and confidentiality of all the information acquired during the course of professional activities and refrain from disclosing the same unless otherwise required by statutory authorities/law. All such information will remain as a trust and will only be used for the purpose for which it is intended and will not be used for the personal benefits of any individual(s). Inside information about ABL's customers/affairs shall not be used for their own gain, or for that of others either directly or indirectly.

### Professionalism

- Serve ABL honestly and faithfully and shall strictly serve ABL's affairs and the affairs of its constituents. They shall use utmost endeavor to promote the interest and goodwill of ABL and shall show courtesy and attention in all transactions/ correspondence with officers of Government, State Bank of Pakistan, other Banks and Financial Institutions, others establishments dealing with ABL, ABL's constituents and the public.
- Disclose and assign to ABL all interest in any invention, improvement, discovery or work of authorship that they may make or conceive and which may arise out of their employment with ABL. If their employment is terminated, all rights to property and information generated or obtained as part of their employment relationship will remain the exclusive property of ABL.
- Not engage in Money Laundering and will be extremely vigilant in protecting ABL from being misused by anyone to launder money by strictly complying with "Know Your Customer" policies and procedures.

### Business/Work Ethics

- Respect fellow colleagues and work as a team. They shall at all times be courteous and not let any personal differences affect their work. They will treat every customer of ABL with respect and courtesy.
- Ensure good attendance and punctuality and demonstrate a consistently good record in this area. For any absence during working hours, they shall obtain written permission of their immediate supervisor. They shall not absent themselves from their duties, nor leave their station over night, without having first obtained the permission of the competent authority.
- Maintain a standard of personal hygiene and dress appropriately for attendance at work. Their appearance must inspire confidence and convey a sense of professionalism.
- As personal responsibility, safeguard both the tangible and intangible assets of ABL and its customer(s) that are under their personal control and shall not use ABL assets for their personal benefits except where permitted by ABL. They shall not use any ABL facilities including a telephone to promote trade union activities, or carry weapons into ABL premises unless so authorized by the management, or carry on trade union activities during office hours, or subject ABL officials to physical harassment.
- Not indulge in any kind of harassment including sexual harassment or intimidation whether committed by or against any senior/junior, co-worker, customer, vendor or visitor. They shall not use language, written or spoken in intra office communication(s) or communication(s) with individual(s) outside the office that may contain any statement or material that is offensive to others. They shall never use ABL's system to transmit or receive electronic image or text containing ethnic slurs, social epithets or any thing that might be construed as harassing, offensive or insulting to others.
- To meet their responsibilities to fellow employees, customers and investors they shall help in maintaining a healthy and productive work environment and shall not engage in the selling, manufacturing, distributing, using, any illegal substance or being under the influence of illegal drugs while on the job.
- Ensure strict adherence to all health and safety policies as may be implemented from time to time by ABL.
- Not to give any interview in the print/electronic media or have their photograph displayed or act in television / stage plays or in cinema without having permission from the competent authority.
- Intimate Human Resource Group of any changes in the personal circumstances relating to their employment or benefits.

Employees shall also not indulge in any of the following activities except with the prior permission of the competent authority:

# Statement of Ethics and Business Practices

- Borrow money from or in any way place themselves under pecuniary obligation to broker or moneylender or any employee of ABL or any firm or person having dealings with ABL.
- Buy or sell stock, share or securities of any description without funds to meet the full cost in the case of purchase or scrips for delivery in the case of sale. However, they can make a bona fide investment of their own funds in such stock, shares and securities as they may wish to buy.
- Lend money in their private capacity to a constituent of ABL or have personal dealings with a constituent in the purchase or sale of bills of exchange, Government paper or any other securities.
- Guarantee in their private capacity the pecuniary obligation of another person or agree to indemnify in such capacity any person from loss.
- Act as agent for an insurance company otherwise than as agent for on behalf of ABL.
- Be connected with the formation or management of a joint stock company.
- Engage in any other commercial business or pursuit either on their own account or as agent for another or others.
- Accept or seek any outside employment or office whether stipendiary or honorary.
- Undertake part time work for a private or public body or private person, or accept fee thereof.



# Statement of Internal Controls

## STATEMENT OF MANAGEMENT RESPONSIBILITIES

It is the responsibility of Bank's management to:

- Establish and maintain an adequate and effective system of internal controls and procedures for an efficient working environment for obtaining desired objectives.
- Evaluate the effectiveness of the Bank's internal control system that encompasses material matters by identifying control objective, reviewing significant policies and procedures and establishing relevant control procedures.

The control activities are being closely monitored across the Bank through Audit Group, working independent of line management. In addition, Compliance and Control Group monitors control activities on an on going basis. Both Groups cover all banking activities in general and key risks areas in particular. The Audit Committee of the Board reviews special audit reports periodically where significant violations to the local regulations, prescribed policies and procedures have occurred. The Audit Committee ensures their implementations through concerned Group to mitigate identified risks to safeguard the interest of the Bank.

The Bank's internal control system has been designed to provide reasonable assurance to the Bank's management and Board of Directors. All internal control systems, no matter how well designed, have inherent limitations that they may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. However, control activities are on going process that includes identification, evaluation and management of significant risks faced by the Bank.

In an effort to incorporate the Internal Control Guidelines as spelled out by the State Bank of Pakistan in BSD Circular No. 7 of 2004, the Bank is already in the process of carrying out a detailed exercise through a well established firm of Chartered Accountants including documentation and benchmarking of existing processes and controls relating to financial reporting on internationally accepted standards. This project will help in further improving the quality of internal controls across the Bank and in ensuring compliance with the SBP requirement for external auditors' attestation on Internal Control over financial reporting.

The Board of Directors is ultimately responsible for the internal control system and the Board endorses the above management evaluation.

**Mohammad Aftab Manzoor**  
Chief Executive Officer

# Auditors' Review Report

M. YOUSUF ADIL SALEEM & CO.  
CHARTERED ACCOUNTANTS

FORD RHODES SIDAT HYDER & CO.  
CHARTERED ACCOUNTANTS

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Allied Bank Limited (the Bank) to comply with Regulation G-1 of the Prudential Regulations for Corporate/Commercial Banking issued by the State Bank of Pakistan, Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Listing Regulations of the Lahore Stock Exchange and Chapter XI of the Listing Regulations of the Islamabad Stock Exchange, where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank's personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2007.

M. YOUSUF ADIL SALEEM & CO.  
Chartered Accountants  
Karachi

FORD RHODES SIDAT HYDER & CO.  
Chartered Accountants  
Karachi

Date: February 29, 2008

Date: February 29, 2008

# Financial Statements

for the year ended December 31, 2007

# Auditors' Report to the Members

M. YOUSUF ADIL SALEEM & CO.  
CHARTERED ACCOUNTANTS

FORD RHODES SIDAT HYDER & CO.  
CHARTERED ACCOUNTANTS

We have audited the annexed balance sheet of Allied Bank Limited (the Bank) as at December 31, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for twenty two branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's Board of Directors to establish and maintain a system of internal control and prepare and present the financial statements in conformity with approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of loans and advances covered more than sixty per cent of the total loans and advances of the Bank, we report that:

- a) in our opinion, proper books of account have been kept by the Bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962) and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Bank's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank and the transactions of the Bank which have come to our notice have been within the powers of the Bank;

M. YOUSUF ADIL SALEEM & CO.  
CHARTERED ACCOUNTANTS

FORD RHODES SIDAT HYDER & CO.  
CHARTERED ACCOUNTANTS

- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the Bank's affairs as at December 31, 2007 and its true balance of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Bank and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

M. YOUSUF ADIL SALEEM & CO.  
Chartered Accountants  
Karachi

FORD RHODES SIDAT HYDER & CO.  
Chartered Accountants  
Karachi

Date: February 29, 2008

Date: February 29, 2008

# Balance Sheet

as at December 31, 2007

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>ASSETS</b>			
Cash and balances with treasury banks	6	29,739,857	23,042,011
Balances with other banks	7	668,449	1,703,011
Lendings to financial institutions	8	18,419,241	19,050,239
Investments	9	83,958,463	46,953,241
Advances	10	168,407,280	144,033,634
Operating fixed assets	11	7,548,628	6,445,111
Deferred tax assets	12	662,431	638,168
Other assets	13	10,705,374	10,161,361
		320,109,723	252,026,776
<b>LIABILITIES</b>			
Bills payable	14	3,494,384	2,278,007
Borrowings	15	22,933,656	18,410,425
Deposits and other accounts	16	263,972,382	206,031,324
Sub-ordinated loans	17	2,499,000	2,500,000
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities		-	-
Other liabilities	18	7,332,059	5,119,267
		300,231,481	234,339,023
<b>NET ASSETS</b>		19,878,242	17,687,753
<b>REPRESENTED BY</b>			
Share capital	19	5,386,370	4,488,642
Reserves		6,050,713	6,133,209
Unappropriated profit		6,971,308	5,607,796
		18,408,391	16,229,647
Surplus on revaluation of assets - net of tax	20	1,469,851	1,458,106
		19,878,242	17,687,753
<b>CONTINGENCIES AND COMMITMENTS</b>		21	

The annexed notes 1 to 46 form an integral part of these financial statements.

Chief Financial Officer

President and Chief Executive

Director

Director

Chairman

# Profit and Loss Account

## for the year ended December 31, 2007

Rupees in '000	Note	December 31, 2007	December 31, 2006
Mark-up/Return/Interest earned	23	21,201,422	17,215,507
Mark-up/Return/Interest expensed	24	10,019,004	6,793,101
Net Mark-up/Interest Income		11,182,418	10,422,406
Provision against non-performing loans and advances – net		2,712,936	583,305
Provision/(Reversal) for diminution in the value of Investments – net	9.3	719	(14,623)
Bad debts written off directly	10.6.1	1,187	136,189
		2,714,842	704,871
Net Mark-up/Interest Income after provisions		8,467,576	9,717,535
<b>NON MARK-UP/INTEREST INCOME</b>			
Fee, commission and brokerage income	25	2,062,677	1,353,888
Dividend Income		147,184	193,255
Income from dealing in foreign currencies		194,879	282,285
Gain on sale of securities	26	1,439,387	376,792
Unrealized loss on revaluation of investments classified as held for trading – net	9.5	(1,463)	(30,180)
Other income	27	77,435	273,028
Total non-markup/Interest Income		3,920,099	2,449,068
		12,387,675	12,166,603
<b>NON MARK-UP/INTEREST EXPENSES</b>			
Administrative expenses	28	6,018,346	5,290,578
Provision against other assets – net	13.1	119,579	205,307
Provision against off-balance sheet obligations – net	18.1	39,805	2,546
Other charges	29	256,869	7,078
Total non-markup/Interest expenses		6,434,599	5,505,509
Extra-ordinary/unusual items		-	-
<b>PROFIT BEFORE TAXATION</b>		5,953,076	6,661,094
Taxation – Current	30	1,887,299	2,215,092
– Prior years	30	-	-
– Deferred	30	(10,381)	48,752
		1,876,918	2,263,844
<b>PROFIT AFTER TAXATION</b>		4,076,158	4,397,250
Unappropriated profit brought forward		5,607,796	2,731,979
Transfer from surplus on revaluation of fixed assets – net of tax		32,701	19,452
		5,640,497	2,751,431
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>		9,716,655	7,148,681
Basic earnings per share (in Rupees)	31	7.57	8.16
Diluted earnings per share (in Rupees)	31	7.57	8.16

The annexed notes 1 to 46 form an integral part of these financial statements.

Chief Financial Officer

President and Chief Executive

Director

Director

Chairman

# Cash Flow Statement

for the year ended December 31, 2007

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		5,953,076	6,661,094
Less: Dividend income		(147,184)	(193,255)
		5,805,892	6,467,839
Adjustments for non-cash charges			
Depreciation/amortization		341,656	238,881
Provision against non-performing loans and advances (including general provision) – net		2,712,936	583,305
Provision/(reversal of provision) for diminution in the value of investments – net		719	(14,623)
Unrealized loss on revaluation of held for trading securities		1,463	30,180
Provision against off balance sheet obligations – net		39,805	2,546
Provision against other assets – net		119,579	205,307
Gain on sale of operating fixed assets		(14,297)	(68,397)
Bad debts written off directly		1,187	136,189
		3,203,048	1,113,388
		9,008,940	7,581,227
(Increase)/decrease in operating assets			
Lendings to financial institutions		630,998	(13,272,857)
Held for trading securities		203,250	327,421
Advances – net		(27,087,769)	(33,546,354)
Other assets (excluding advance taxation)		(292,887)	(2,961,688)
		(26,546,408)	(49,453,478)
Increase/(decrease) in operating liabilities			
Bills payable		1,216,377	(170,613)
Borrowings from financial institutions		4,845,011	8,496,595
Deposits		57,941,058	44,621,056
Other liabilities		2,145,627	640,267
		66,148,073	53,587,305
		48,610,605	11,715,054
Income tax paid		(2,260,777)	(2,386,844)
Net cash flows from operating activities		46,349,828	9,328,210
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net investments in available-for-sale securities		(39,525,522)	(19,493,339)
Net investments in held-to-maturity securities		2,782,945	16,953,404
Net investments in subsidiaries		(437,512)	–
Dividend income		149,956	193,537
Investments in operating fixed assets		(1,493,897)	(1,997,685)
Proceeds from sale of fixed assets		63,021	102,752
Net cash flows used in investing activities		(38,461,009)	(4,241,331)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of sub-ordinated loan		–	2,500,000
Repayment of sub-ordinated loan		(1,000)	–
Dividends paid		(1,902,755)	(1,096,654)
Net cash flows (used in) / from financing activities		(1,903,755)	1,403,346
Increase in cash and cash equivalents		5,985,064	6,490,225
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		24,302,648	17,753,472
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		64,999	123,950
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	32	30,352,711	24,367,647

The annexed notes 1 to 46 form an integral part of these financial statements.

Chief Financial Officer

President and Chief Executive

Director

Director

Chairman



# Statement of Changes in Equity

## for the year ended December 31, 2007

Rupees in '000	Share Capital	Share Premium	Statutory Reserve	Special Reserve*	Merger Reserve*	General Reserve	Un-appropriated Profit	Total
<b>Balance as at January 1, 2006</b>	4,488,642	4,316,324	969,301	67,995	333,864	6,000	2,731,979	12,914,105
Final cash dividend for the year ended December 31, 2005 declared subsequent to year end (Rs. 2.5 per Ordinary share)	-	-	-	-	-	-	(1,101,160)	(1,101,160)
Transferred from surplus on revaluation of fixed assets to un-appropriated profit - net of tax	-	-	-	-	-	-	19,452	19,452
Profit after taxation for the year ended December 31, 2006	-	-	-	-	-	-	4,397,250	4,397,250
Total recognized income and expense for the year	-	-	-	-	-	-	4,416,702	4,416,702
Transfer to statutory reserve	-	-	439,725	-	-	-	(439,725)	-
<b>Balance as at December 31, 2006</b>	4,488,642	4,316,324	1,409,026	67,995	333,864	6,000	5,607,796	16,229,647
Final cash dividend for the year ended December 31, 2006 declared subsequent to year end (Rs. 2.5 per Ordinary share)	-	-	-	-	-	-	(1,122,160)	(1,122,160)
Bonus issue for the year ended December 31, 2006 declared subsequent to year end @ 20%	897,728	(897,728)	-	-	-	-	-	-
Interim cash dividend for the year ended December 31, 2007 (Rs. 1.5 per Ordinary share)	-	-	-	-	-	-	(807,955)	(807,955)
Transferred from surplus on revaluation of fixed assets to un-appropriated profit - net of tax	-	-	-	-	-	-	32,701	32,701
Profit after taxation for the year ended December 31, 2007	-	-	-	-	-	-	4,076,158	4,076,158
Total recognized income and expense for the year December 31, 2007	-	-	-	-	-	-	4,108,859	4,108,859
Transfer to statutory reserve	-	-	815,232	-	-	-	(815,232)	-
<b>Balance as at December 31, 2007</b>	5,386,370	3,418,596	2,224,258	67,995	333,864	6,000	6,971,308	18,408,391

\* These were created as a result of merger of Ibrahim Leasing Limited and First Allied Bank Modaraba into Allied Bank Limited.

The annexed notes 1 to 46 form an integral part of these financial statements.

Chief Financial Officer

President and Chief Executive

Director

Director

Chairman

# Notes to the Financial Statements

## for the year ended December 31, 2007

### 1. STATUS AND NATURE OF BUSINESS

Allied Bank Limited (the Bank), incorporated in Pakistan, is a scheduled Bank, engaged in commercial banking and related services. The Bank is listed on all stock exchanges in Pakistan. The Bank operates a total of 757 (2006: 742) branches in Pakistan. The long term credit rating of the Bank rated by the Pakistan Credit Rating Agency Limited (PACRA) is 'AA'. Short term rating of the Bank is 'A1+'. The Bank is a holding company of ABL Asset Management Company Limited.

The registered office of the Bank is situated in Lahore whereas the principal office is situated at Khayaban-e-Iqbal, Main Clifton Road, Bath Island, Karachi.

### 2. (a) BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan (SBP) has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The 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.

### (b) BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except that certain operating fixed assets are stated at revalued amounts, certain investments are stated at market value and derivative financial instruments have been marked to market.

### 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 (IASB) as are notified under the Companies Ordinance, 1984 and the provisions of and regulations/directives issued under the Banking Companies Ordinance, 1962 and the Companies Ordinance, 1984. In case requirements differ, the provisions of and regulations/directives issued under the Banking Companies Ordinance, 1962 and the Companies Ordinance, 1984 shall prevail.

3.2 The following new standards and amendments of approved accounting standards are applicable in Pakistan from the dates mentioned below against the respective standard of amendment.

	Effective date (accounting periods beginning on or after)
(i) IAS-1 (Revised) Presentation of Financial Statements	January 01, 2009
(ii) IAS-23 (Revised) Borrowing Costs	January 01, 2009
(iii) IAS-27 Consolidated and Separate Financial Statements	January 01, 2009
(iv) IAS-41 Agriculture	May 22, 2007
(v) IFRS-3 Business Combinations	January 01, 2009
(vi) IFRIC-11 Group and Treasury Share Transactions	March 01, 2007
(vii) IFRIC-12 Service Concession Arrangements	January 01, 2008
(viii) IFRIC-13 Customer Loyalty Programs	July 01, 2008
(ix) IFRIC-14 The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interactions	January 01, 2008
(x) IFAS-2 Ijarah	July 01, 2007

The Bank expects that the adoption of the above standards and interpretations will have no material impact on the Bank's financial statements in the period of initial application. They do, however, give rise to additional disclosures.

3.3 The SBP, vide BSD Circular No. 10, dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement (IAS 39) and International Accounting Standard 40, Investment Property (IAS 40) for banking companies till further instructions. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements. However, investments have been classified in accordance with the categories prescribed by the SBP, vide BSD Circular No. 10, dated July 13, 2004.

3.4 During the current year, a wholly owned subsidiary namely, ABL Asset Management Company Limited, was incorporated on October 12, 2007. The Bank, however, obtained exemption from preparation of consolidated financial statements from the SECP which was granted vide their letter No.EMD/233/673/2005-3264 dated February 22, 2008. However, this exemption is only available for the financial year ended December 31, 2007.

#### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates, judgements and assumptions that effect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Estimates and judgements are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In the process of applying the Bank's accounting policies, management has made the following estimates and judgements which are significant to the financial statements.

- (a) classification of investments (Note 5.3)
- (b) valuation of derivatives (Note 5.15.2)
- (c) impairment (Note 5.11)
- (d) recognition of taxation and deferred tax (Note 5.6)
- (e) provisions (Note 5.3, 5.4 and 5.12); and
- (f) accounting for post employment benefits (Note 5.7 and 34)

#### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 5.1 Cash and cash equivalents

For the purpose of Cash Flow Statement, cash and cash equivalents include cash and balances with treasury banks and balances with other banks (net of overdrawn nostro balances) in current and deposit accounts.

##### 5.2 Lendings to/borrowings from financial institutions

The Bank enters into transactions of borrowing (re-purchase) from and lending (reverse re-purchase) to financial institutions, at contracted rates for a specified period of time. These are recorded as under:

###### (a) Sale under re-purchase agreements

Securities sold subject to a re-purchase agreement are retained in the financial statements as investments and the counter party liability is included in borrowings from financial institutions. The differential in sale and re-purchase value is accrued on a prorata basis and recorded as interest expense.

###### (b) Purchase under resale agreements

Securities purchased under agreement to resell (reverse re-purchase) are included in lendings to financial institutions. The differential between the contracted price and resale price is amortised over the period of the contract and recorded as interest income.

Other borrowings including borrowing from SBP are recorded at the proceeds received. Markup on such borrowing is charged to the profit and loss account over the period of borrowings on accrual basis.

##### 5.3 Investments

The management determines the appropriate classification of its investments at the time of purchase and classifies these investments as held for trading, available for sale or held to maturity. These are initially recognized at cost, being the fair value of the consideration given including the acquisition cost.

###### (a) Held for trading

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

###### (b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity.

###### (c) Available for sale

These are investments that do not fall under the held for trading or held to maturity categories.

In accordance with the requirements of the SBP, quoted securities, other than those classified as held to maturity and investments in subsidiaries, are carried at market value. Investments classified as held to maturity are required to be carried at amortized cost whereas investments in subsidiaries are accounted for in accordance with the relevant International Accounting Standard as applicable in Pakistan.

The unrealized surplus/(deficit) arising on revaluation of the Bank's held for trading investment portfolio is taken to the profit and loss account.

# Notes to the Financial Statements

for the year ended December 31, 2007

The surplus/(deficit) arising on revaluation of quoted securities classified as available for sale is kept in a separate account shown in the balance sheet below equity. The surplus/(deficit) arising on these securities is taken to the profit and loss account when actually realised upon disposal.

Quoted securities are revalued as per directives of SBP.

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying value are credited/charged to profit and loss account. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements. Investments in other unquoted securities are valued at cost less impairment losses, if any.

Provision for diminution in the value of securities (except for debentures, participation term certificates and term finance certificates) is made after considering impairment, if any, in their value. Provision for diminution in value of debentures, participation term certificates and term finance certificates are made in accordance with the requirements of Prudential Regulations issued by SBP.

## 5.4 Advances (including net investment in finance lease)

Advances are stated net of general and specific provisions.

Leases, where the Bank transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognized at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any.

Specific provision against funded loans is determined in accordance with the requirements of the Prudential Regulations issued by the SBP and charged to the profit and loss account. General provision is maintained at 1.5% of the fully secured consumer portfolio and 5% of the unsecured consumer portfolio.

Advances are written off when there are no realistic prospects of recovery.

## 5.5 Operating fixed assets and depreciation

### Owned

Property and equipment owned by the Bank, other than land which is not depreciated, are stated at cost or revalued amount less accumulated depreciation and impairment losses, if any.

Depreciation is calculated using the straight line method, except buildings which are depreciated using the reducing balance method to write down the cost of property and equipment to their residual values over their estimated useful lives. The rates at which the fixed assets are depreciated are disclosed in note 11.2.

Depreciation on additions is charged from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed off.

Surplus arising on revaluation of fixed assets is credited to surplus on revaluation of fixed assets account. Deficit arising on subsequent revaluation of fixed assets is adjusted against the balance in the above mentioned surplus account as allowed under the provisions of the Companies Ordinance, 1984. The surplus on revaluation of fixed assets to the extent of incremental depreciation charged on the related assets, is transferred to equity.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognized in the profit and loss account in the year the asset is derecognized, except that the related surplus on revaluation of fixed assets (net of deferred tax) is transferred directly to equity.

The cost of day to day servicing (normal repairs and maintenance) is charged to the profit and loss account as and when incurred.

### Intangible assets

Intangible assets are carried at cost less any accumulated amortization and impairment losses, if any. The cost of intangible assets is amortized over their estimated useful lives, using the straight line method. Amortization is charged from the month the assets are available for use at the rate stated in note 11.3.

### Capital work-in-progress

Capital work-in-progress is stated at cost.

## 5.6 Taxation

### Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the year. The charge for current tax also includes adjustments, where considered necessary relating to prior years, arising from assessments finalised during the year for such years.

## Deferred

Deferred tax is recognized on all major temporary differences, tax credits and unused tax losses at the balance sheet date between the amounts attributed to assets and liabilities for financial reporting purpose and amounts used for taxation purposes. Deferred tax is calculated at the rates that are expected to apply to the periods when the difference will reverse, based on tax rates that have enacted or substantially enacted by the balance sheet date.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

The Bank also recognizes a deferred tax asset/liability on deficit/surplus on revaluation of fixed assets and securities which is adjusted against the related deficit/surplus in accordance with the requirements of IAS-12 "Income Taxes".

## 5.7 Staff retirement and other benefits

### 5.7.1 Staff retirement schemes

#### a) For employees who opted for the new scheme introduced by the management:

An approved pension scheme (defined benefit scheme) under which the benefits on the basis of frozen basic salary service and age as on June 30, 2002 are payable to all employees whose date of joining the Bank is on or before July 01, 1992, i.e., who have completed 10 years of service as on June 30, 2002; and

An approved gratuity scheme (defined benefit scheme) under which the benefits are payable as under:

i) For members whose date of joining the Bank is on or before July 01, 1992, their services would be calculated starting from July 01, 2002 for gratuity benefit purposes.

ii) For members whose date of joining the Bank is after July 01, 1992 their services would be taken at actual for the purpose of calculating the gratuity benefit.

A Contributory Provident Fund scheme with the Bank making equal contribution to that made by employees (defined contribution scheme).

#### b) For employees who did not opt for the new scheme, the Bank continues to operate the following:

An approved pension scheme (defined benefit scheme) under which the benefits on the basis of frozen basic salary as on June 30, 2002 are payable to all employees opting continuation of the previous scheme and whose date of joining the Bank is on or before July 01, 1992, i.e., who had completed ten years of service as on June 30, 2002; and

A contributory benevolent fund for all its employees (defined benefit scheme).

Annual contributions towards the defined benefit schemes are made on the basis of actuarial valuation carried out using the Projected Unit Credit Method. Actuarial gains/losses arising from experience adjustments and changes in actuarial assumptions are amortized over the future expected remaining working lives of the employees, to the extent of the greater of ten percent of the present value of the defined benefit obligation at that date (before deducting plan assets) and ten percent of the fair value of any plan assets at that date.

### 5.7.2 Other benefits

#### a) Employees' compensated absences

The Bank provides for compensated vested and non-vested absences accumulated by its employees on the basis of actuarial advice under the Projected Unit Credit Method.

#### b) Post retirement medical benefits

The Bank provides post retirement medical benefits to eligible retired employees. Provision is made annually to meet the cost of such medical benefits on the basis of actuarial advice under the Projected Unit Credit Method. Actuarial gains/losses are amortized over the future expected average remaining lives of the employees.

## 5.8 Assets acquired in satisfaction of claims

The Bank occasionally acquires assets in settlement of certain advances. These are stated at lower of the net realizable value of the related advances and the current fair value of such assets.

## 5.9 Deposits

Deposits are initially recorded at the amount of proceeds received. Markup accrued on deposits is recognized separately as part of other liabilities and is charged to profit and loss account.

# Notes to the Financial Statements

for the year ended December 31, 2007

## 5.10 Subordinated Loans

Subordinated loans are initially recorded at the amount of proceeds received. Markup accrued on these loans is recognized separately as part of other liabilities and is charged to profit and loss account over the period on accrual basis.

## 5.11 Impairment

At each balance sheet date the Bank reviews the carrying amount of its assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of assets is estimated in order to determine the extent of the impairment loss, if any. Recoverable amount is the greater of net selling price and value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the assets is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

## 5.12 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

Provision against identified non-funded losses is recognized when intimated and reasonable certainty exists for the Bank to settle the obligation. The loss is charged to profit and loss account net of expected recovery and is classified under other liabilities.

## 5.13 Stock and cash dividends

Stock and cash dividend declared subsequent to balance sheet date are considered as non-adjusting event and are not recorded in financial statements of the current year. These are recognized in the period in which they are approved.

## 5.14 Foreign currencies

### a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates. The financial statements are presented in Pakistani Rupees, which is the Bank's functional and presentation currency.

### b) Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates ruling on the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date. Forward foreign exchange contracts are valued at forward rates applicable to their respective maturities.

### c) Translation gains and losses

Translation gains and losses are included in the profit and loss account.

### d) Commitments

Commitments for outstanding forward foreign exchange contracts disclosed in these financial statements are translated at contracted rates. Contingent liabilities/commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange ruling on the balance sheet date.

## 5.15 Financial instruments

### 5.15.1 Financial assets and liabilities

Financial instruments carried on the balance sheet include cash and bank balances, lendings to financial institutions, investments, advances, certain receivables, bills payable, borrowings from financial institutions, deposits, sub-ordinated loan and other payables. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with them.

### 5.15.2 Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date on 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 financial instruments is taken to profit and loss account.

## 5.16 Off setting

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

## 5.17 Recognition

### 5.17.1 Trade date accounting

All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

### 5.17.2 Revenue recognition

Revenue is recognized to the extent that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following recognition criteria must also be met before revenue is recognized.

#### a) Advances and investments

Markup/return on regular loans/advances and investments is recognized on accrual basis. Where debt securities are purchased at premium or discount, the same is amortized through the profit and loss account using the effective interest rate method.

Interest or markup recoverable on classified loans and advances and investments is recognized on receipt basis. Interest/return/mark-up on rescheduled/restructured loans and advances and investments is recognized as permitted by the regulations of the SBP.

Dividend income is recognized when the right to receive the dividend is established.

Gains and losses on sale of investments are recognized in the profit and loss account.

#### b) Lease financing

Financing method is used in accounting for income from lease financing. Under this method, the unearned lease income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is deferred and taken to income over the term of the lease period so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Gains/losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognized when realized.

#### c) Fees, brokerage and commission

Fees, brokerage and commission on letters of credit/guarantee are recognized on an accrual basis. Account maintenance and service charges are recognized when realized.

## 5.18 Segment reporting

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

### 5.18.1 Business segments

#### a) Corporate finance

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

#### b) Trading and sales

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

#### c) Retail banking

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

#### d) Commercial banking

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

#### e) Payment and settlement

This includes payments and collections, funds transfer, clearing and settlement with the customers.

### 5.18.2 Geographical segments

The Bank conducts all its operations in Pakistan.

## 5.19 Related party transactions

Banking transactions with related parties are carried out at arms length, i.e., substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk (i.e., under the comparable uncontrolled price method).

# Notes to the Financial Statements

## for the year ended December 31, 2007

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>6. CASH AND BALANCES WITH TREASURY BANKS</b>			
In hand			
Local currency		5,532,495	3,906,829
Foreign currencies		347,435	258,328
Remittances in transit		692,499	606,569
With State Bank of Pakistan (SBP) in			
Local currency current accounts	6.1	19,151,260	14,396,794
Foreign currency current account	6.2	3,055	2,434
Foreign currency deposit accounts			
– Non remunerative		620,930	332,264
– Remunerative	6.3	620,930	996,792
With National Bank of Pakistan in			
Local currency current accounts		2,726,301	2,506,138
National Prize Bonds		44,952	35,863
		<b>29,739,857</b>	<b>23,042,011</b>

6.1 Deposits with the SBP are maintained to comply with the statutory requirements issued from time to time.

6.2 This represents US Dollar Settlement Account maintained with SBP.

6.3 This represents special cash reserve maintained with the SBP. The special cash reserve carries mark-up at rates ranging between 3.71% and 4.72% (2006: 3.39% and 4.39%) per annum.

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>7. BALANCES WITH OTHER BANKS</b>			
In Pakistan			
On current accounts		284	48,057
On deposit account		–	300,000
Outside Pakistan			
On current accounts	7.1	668,165	1,194,127
On deposit account		–	160,827
		<b>668,449</b>	<b>1,703,011</b>

7.1 Included in nostro accounts are balances, aggregating to Rs. 86.82 million (2006: Rs. 75.08 million), representing balances held with a related party outside Pakistan.

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>8. LENDINGS TO FINANCIAL INSTITUTIONS</b>			
Call money lendings	8.1	1,500,000	475,000
Letters of placement	8.2	1,850,000	384,500
Repurchase agreement lendings (Reverse Repo)	8.3 & 8.6	12,924,241	15,385,739
Certificates of investment	8.4	2,145,000	2,805,000
		<b>18,419,241</b>	<b>19,050,239</b>

8.1 These are unsecured lendings to Financial Institutions, carrying mark-up at the rates, ranging between 10.00% and 12.00% (2006: 12.00%) per annum and will mature on various dates, latest by February 19, 2008.

8.2 These are clean placements with Non-Banking Finance Companies, carrying mark-up at rates, ranging between 9.75% and 10.30% (2006: 12.00% and 13.50%) per annum and maturing on various dates, latest by February 11, 2008.

8.3 These are short-term lendings to various financial institutions against the government securities shown in note 8.6 below. These carry mark-up at rates ranging between 9.10% and 9.40% (2006: 8.25% and 9.40%) per annum and will mature on various dates, latest by February 07, 2008.

8.4 The certificates of investment carry mark-up at rates ranging between 9.80% and 10.25% (2006: 11.25% and 12.50%) per annum and will mature on various dates, latest by February 29, 2008.



Rupees in '000	December 31, 2007	December 31, 2006
<b>8.5 Particulars of lending</b>		
In local currency	18,419,241	19,050,239
In foreign currencies	-	-
	<b>18,419,241</b>	<b>19,050,239</b>

#### 8.6 Securities held as collateral against lending to financial institutions

Rupees in '000	December 31, 2007			December 31, 2006		
	Held by Bank	Further given as collateral	Total	Held by Bank	Further given as collateral	Total
Market Treasury Bills	12,924,241	-	12,924,241	15,385,739	-	15,385,739
	12,924,241	-	12,924,241	15,385,739	-	15,385,739

### 9. INVESTMENTS

Rupees in '000	Note	December 31, 2007			December 31, 2006		
		Held by Bank	Given as collateral	Total	Held by Bank	given as collateral	Total
<b>9.1 Investments by types:</b>							
Held-for-trading securities							
Ordinary shares of listed companies		33,860	-	33,860	267,290	-	267,290
Available-for-sale securities							
Market Treasury Bills		24,936,479	12,543,383	37,479,862	18,143,360	5,188,065	23,331,425
Federal Investment Bonds		-	-	-	-	5,000	5,000
Pakistan Investment Bonds		444,758	-	444,758	298,625	-	298,625
Ordinary shares/certificates of listed companies		1,601,605	-	1,601,605	1,457,860	-	1,457,860
Preference shares of listed companies		275,000	-	275,000	275,000	-	275,000
Investment in open end mutual funds		19,606,845	-	19,606,845	266,229	-	266,229
Ordinary shares of unlisted companies		82,099	-	82,099	17,099	-	17,099
Ordinary shares of unlisted companies - (related parties)		451,219	-	451,219	451,219	-	451,219
Pre IPO investments		2,514,900	-	2,514,900	305,000	-	305,000
Privately placed investments		1,890,918	-	1,890,918	250,000	-	250,000
Sukuk Bonds		2,420,000	-	2,420,000	-	-	-
Listed Term finance certificates (TFCs)		736,636	-	736,636	1,320,863	-	1,320,863
		54,960,459	12,543,383	67,503,842	22,785,255	5,193,065	27,978,320
Held-to-maturity securities							
Pakistan Investment Bonds		11,108,762	-	11,108,762	13,881,122	6,073	13,887,195
Foreign Currency Bonds (US\$)		160,010	-	160,010	212,087	-	212,087
TFCs, Debentures, Bonds and PTCs		4,903,356	-	4,903,356	4,867,258	-	4,867,258
		16,172,128	-	16,172,128	18,960,467	6,073	18,966,540
Subsidiary							
ABL Asset Management Company Limited		500,000	-	500,000	-	-	-
Allied Management Services (Private) Limited	42	-	-	-	62,488	-	62,488
Investment at cost		71,666,447	12,543,383	84,209,830	42,075,500	5,199,138	47,274,638
Less: Provision for diminution in value of investments	9.3	(192,290)	-	(192,290)	(203,038)	-	(203,038)
Investments (Net of Provisions)		71,474,157	12,543,383	84,017,540	41,872,462	5,199,138	47,071,600
Unrealized loss on revaluation of Held-for-trading securities	9.5	(1,463)	-	(1,463)	(30,180)	-	(30,180)
Deficit on revaluation of Available-for-sale securities	20.2	(40,628)	(16,986)	(57,614)	(87,162)	(1,017)	(88,179)
Total investments at market value		71,432,066	12,526,397	83,958,463	41,755,120	5,198,121	46,953,241

# Notes to the Financial Statements

## for the year ended December 31, 2007

Rupees in '000	Note	December 31, 2007	December 31, 2006
9.2	Investments by segments:		
	Federal Government Securities:		
	– Market Treasury Bills	37,479,862	23,331,425
	– Pakistan Investment Bonds	11,553,520	14,185,820
	– Federal Investment Bonds	–	5,000
	– Foreign Currency Bonds (US\$)	160,010	212,087
	Fully Paid up Ordinary Shares:		
	– Listed Companies	1,635,465	1,725,150
	– Unlisted Companies	533,318	468,318
	Investment in Open End Mutual Funds	19,606,845	266,229
	Fully paid up Preference Shares	275,000	275,000
	Pre IPO Investments	2,514,900	305,000
	Privately placed Investments	1,890,918	250,000
	Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:		
	Term Finance Certificates		
	– Listed	1,013,140	1,676,436
	– Unlisted	1,744,476	3,262,128
	Debentures	65,184	65,392
	Bonds – Government guaranteed	410,280	938,497
	– Others	4,820,000	238,645
	Participation Term Certificates	6,912	7,023
	Subsidiary	500,000	62,488
	Total investments at cost	84,209,830	47,274,638
	Less: Provision for diminution in the value of investment	(192,290)	(203,038)
	Investments (Net of Provisions)	84,017,540	47,071,600
	Unrealized loss on revaluation of Held-for-trading securities	(1,463)	(30,180)
	Deficit on revaluation of Available-for-sale securities	(57,614)	(88,179)
	Total investments at market value	83,958,463	46,953,241

9.2.1 Included herein are Market Treasury Bills having a book value of Rs. 12,231.58 million (2006: Rs. 4,855.86 million), given as collateral against repurchase agreement borrowings from financial institutions.

9.2.2 Included herein are Market Treasury Bills having a face value of Rs.339.80 million (2006: Rs. 339.80 million), held by the SBP and National Bank of Pakistan against Demand Loan and TT/DD discounting facilities sanctioned to the Bank.

9.2.3 This includes Rs. 200 million contributed by the Bank towards the equity of Khushhali Bank, as per SBP Letter No. BSD (RU-26/625-MFB/13317/00), dated August 07, 2000. In accordance with the restrictions imposed by Khushhali Bank Ordinance, 2000, the Bank cannot sell/transfer these shares before a period of five years from the date of subscription, that has expired on October 10, 2005. Thereafter, such sale/transfer shall be subject to the prior approval of State Bank of Pakistan, pursuant to section 10 of the Khushhali Bank Ordinance, 2000. In addition, profit of Khushhali Bank Limited cannot be distributed as dividend under clause 35(i) of the aforementioned Ordinance. However, Khushhali Bank Ordinance is in the process of amendment under which the restriction on the dividend payment is expected to be deleted. Moreover, the shareholders of Khushhali Bank Limited at the extra ordinary general meeting held in December 2007 have passed a resolution stating that Khushhali Bank be licensed and operated under the Micro Finance Institution Ordinance, 2001 under the conversion structure stipulated by SBP, which does not restrict the distribution of dividend to members.

9.2.4 These represent 20,000,000 (2006: 20,000,000) KIBOR plus 2% Cumulative Preference Shares of Masood Textile Mills Limited, with Call Option available to the issuer and Conversion Option available to the Bank, after completion of four years from the date of issue, i.e., June 29, 2005 and 7,500,000 (2006: 7,500,000) KIBOR plus 2.5% Cumulative Preference Shares of Fazal Cloth Mills Limited having redemption term within 60 days after completion of 5 years from the date of issue, i.e., May 13, 2006.

9.2.5 Information relating to investments in shares of listed and unlisted companies, redeemable capital, debentures and bonds, required to be disclosed as part of the financial statements under State Bank of Pakistan's BSD Circular No. 4 dated February 17, 2006, is given in Annexure "I", which is an integral part of these financial statements.

Rupees in '000		December 31, 2007	December 31, 2006
9.3	Particulars of Provision		
	Opening balance	203,038	342,115
	Charge for the year	9,130	24
	Reversals	(8,411)	(14,647)
	Net charge / (reversal)	719	(14,623)
	Amounts written off	(11,467)	(124,454)
	Closing balance	192,290	203,038
9.3.1	Particulars of Provision in respect of Type and Segment		
	By Type		
	Available-for-sale securities		
	Ordinary shares of listed companies	59,543	65,298
	Ordinary shares of unlisted companies	13,873	4,743
		73,416	70,041
	Held-to-maturity securities		
	TFCs, Debentures, Bonds and PTCs	118,874	132,997
		192,290	203,038
	By Segment		
	Fully Paid up Ordinary Shares:		
	- Listed companies	59,543	65,298
	- Unlisted companies	13,873	4,743
		73,416	70,041
	Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:		
	Term Finance Certificates - unlisted	46,778	60,582
	Debentures	65,184	65,392
	Participation Term Certificates	6,912	7,023
		118,874	132,997
		192,290	203,038
9.4	Quality of Available for Sale Securities		
	Information relating to quality of available for sale securities required to be disclosed as part of the financial statements under SBP's BSD Circular No. 4 dated February 17, 2006, is given in Annexure "I", which is an integral part of these financial statements.		
Rupees in '000	Note	December 31, 2007	December 31, 2006
9.5	Unrealized loss on revaluation of investments classified as held for trading		
	Ordinary shares of listed companies	(1,463)	(30,180)
10.	ADVANCES		
	Loans, cash credits, running finances, etc. - in Pakistan	170,743,654	143,383,499
	Net investment in finance lease - in Pakistan	741,148	777,878
	Bills discounted and purchased (excluding treasury bills)		
	Payable in Pakistan	1,455,922	2,942,960
	Payable outside Pakistan	3,256,536	3,493,264
		4,712,458	6,436,224
		176,197,260	150,597,601
	Financing in respect of continuous funding system (CFS)	2,327,097	1,107,817
	Advances - gross	178,524,357	151,705,418
	Provision for non-performing advances	(10,103,954)	(7,657,737)
	General provision for consumer financing	(13,123)	(14,047)
	Advances - net of provision	168,407,280	144,033,634

# Notes to the Financial Statements

## for the year ended December 31, 2007

Rupees in '000	December 31, 2007	December 31, 2006
10.1 Particulars of advances (Gross)		
10.1.1 In local currency	173,222,434	150,783,971
In foreign currencies	5,301,923	921,447
	178,524,357	151,705,418
10.1.2 Short term (for upto one year)	122,134,447	100,024,999
Long term (for over one year)	56,389,910	51,680,419
	178,524,357	151,705,418

### 10.2 Net investment in finance lease

Rupees in '000	December 31, 2007				December 31, 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
Lease rentals receivable	332,529	374,697	-	707,226	317,623	455,475	-	773,098
Residual value	33,341	108,030	-	141,371	47,653	94,295	-	141,948
Minimum lease payments	365,870	482,727	-	848,597	365,276	549,770	-	915,046
Financial charges for future periods	(63,243)	(44,206)	-	(107,449)	(67,503)	(69,665)	-	(137,168)
Present value of minimum lease payments	302,627	438,521	-	741,148	297,773	480,105	-	777,878

10.3 This represents secured financing in respect of purchase of shares from the CFS market. These carry markup at the rate of 11.17% to 19.77% (2006: 15.52% to 19.79% ) per annum.

10.4 Advances include Rs. 11,354.923 million (2006: Rs. 10,478.589 million) which have been placed under non-performing status as detailed below:-

Category of Classification	December 31, 2007								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Other assets especially mentioned	32,765	-	32,765	-	-	-	-	-	-
Substandard	1,311,832	-	1,311,832	327,091	-	327,091	327,091	-	327,091
Doubtful	532,967	-	532,967	265,960	-	265,960	265,960	-	265,960
Loss	9,477,359	-	9,477,359	9,365,630	-	9,365,630	9,365,630	-	9,365,630
	11,354,923	-	11,354,923	9,958,681	-	9,958,681	9,958,681	-	9,958,681

Category of Classification	December 31, 2006								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
Rupees in '000									
Other assets especially mentioned	35,811	-	35,811	-	-	-	-	-	-
Substandard	534,865	-	534,865	88,574	-	88,574	88,574	-	88,574
Doubtful	659,307	-	659,307	229,548	-	229,548	229,548	-	229,548
Loss	9,248,606	-	9,248,606	7,339,615	-	7,339,615	7,339,615	-	7,339,615
	10,478,589	-	10,478,589	7,657,737	-	7,657,737	7,657,737	-	7,657,737

## 10.5 Particulars of provision against non-performing advances

10.5.1 This represents provision against non-performing advances amounting to Rs. 9,958.681 million and a provision of Rs. 145.273 million made against Japan Power Generation Limited without changing its status to non-performing as per SBP Directive No. BID (Insp)/722/71-02-2007 dated March 14, 2007.

### 10.5.2

Rupees in '000	Note	December 31, 2007			December 31, 2006		
		Specific	General	Total	Specific	General	Total
Opening balance		7,657,737	14,047	7,671,784	8,648,742	10,155	8,658,897
Charge for the year		3,277,330	-	3,277,330	1,561,347	3,892	1,565,239
Reversals		(708,743)	(924)	(709,667)	(981,934)	-	(981,934)
		2,568,587	(924)	2,567,663	579,413	3,892	583,305
Amounts written off	10.6	(267,643)	-	(267,643)	(1,570,418)	-	(1,570,418)
Closing balance		9,958,681	13,123	9,971,804	7,657,737	14,047	7,671,784

### 10.5.3 Particulars of provisions against non-performing advances

Rupees in '000	December 31, 2007			December 31, 2006		
	Specific	General	Total	Specific	General	Total
In local currency	9,958,681	13,123	9,971,804	7,657,737	14,047	7,671,784
In foreign currencies	-	-	-	-	-	-
	9,958,681	13,123	9,971,804	7,657,737	14,047	7,671,784

10.5.4 During the year, in order to comply with the requirements of the BSD Circular No. 7, dated October 12, 2007, issued by the SBP, the Bank changed the method of computation of provision against the non-performing advances. SBP vide this circular has completely withdrawn the benefit of Forced Sale Valuation (FSV) against all NPLs (except NPLs of housing finance) for calculating provisioning requirement with effect from December 31, 2007. The Bank has made a provision of Rs. 1,906.343 million in order to comply with the requirements of aforementioned circular.

Had the above referred withdrawal of benefit of FSV against NPLs for calculating provision not taken place, profit before taxation for the year and advances (net of provision) at the end of the year would have been higher by Rs. 1,906.343 million.

Rupees in '000	Note	December 31, 2007	December 31, 2006
10.6 Particulars of write offs:			
10.6.1 Against Provisions	10.5	267,643	1,570,418
Directly charged to Profit & Loss account		1,187	136,189
		268,830	1,706,607
10.6.2 Write Offs of Rs. 500,000 and above	10.7	193,851	1,196,664
Write Offs of Below Rs. 500,000		74,979	509,943
		268,830	1,706,607

### 10.7 Details of loan write off 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 five hundred thousand rupees and above allowed to a person(s) during the year ended December 31, 2007 is given in Annexure - II. However, this write off does not affect the Bank's right to recover debts from these customers.

Rupees in '000	December 31, 2007	December 31, 2006
10.8 Particulars of loans and advances to directors, related parties, etc.		
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons		
Balance at beginning of year	4,200,854	3,887,659
Loans granted during the year	791,123	939,585
Repayments	(754,971)	(626,390)
Balance at end of year	4,237,006	4,200,854

# Notes to the Financial Statements

for the year ended December 31, 2007

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>11. OPERATING FIXED ASSETS</b>			
Capital work-in-progress	11.1	831,962	516,047
Property and equipment	11.2	6,678,658	5,899,386
Intangible assets	11.3	38,008	29,678
		<b>7,548,628</b>	<b>6,445,111</b>
<b>11.1 Capital work-in-progress</b>			
Civil works		464,465	249,263
Equipment		81,610	44,703
Advances to suppliers and contractors		285,887	222,081
		<b>831,962</b>	<b>516,047</b>

## 11.2 Property and equipment

Description	Note	Cost/Revaluation		Accumulated Depreciation			Net book value at December 31, 2007	Annual rate of depreciation %	
		At January 1, 2007	Additions/ (deletions)	At December 31, 2007	At January 1, 2007	Charge for the year/ adjustment/ (depreciation on deletions)			At December 31, 2007
Land	11.4	3,704,167	348,488 (14,453)	4,038,202	-	-	-	4,038,202	-
Buildings	11.4	1,538,382	272,262	1,810,644	136,593	77,439	214,032	1,596,612	5
Furniture and fixtures		361,256	36,533 (10,997)	386,792	275,286	20,824 (8,604)	287,506	99,286	10
Electrical, office and computer equipment		1,149,681	367,850 (17,044)	1,500,487	703,797	162,299 (16,917)	849,179	651,308	14.28 - 50
Vehicles		348,509	76,854 (77,824)	347,539	125,708	57,591 (46,073)	137,226	210,313	20
Building improvements (rented premises)		52,095	58,975	111,070	13,320	14,813	28,133	82,937	20
<b>Total</b>		<b>7,154,090</b>	<b>1,160,962</b> <b>(120,318)</b>	<b>8,194,734</b>	<b>1,254,704</b>	<b>332,966</b> <b>(71,594)</b>	<b>1,516,076</b>	<b>6,678,658</b>	

Description	Note	Cost/Revaluation		Accumulated Depreciation			Net book value at December 31, 2006	Annual rate of depreciation %	
		At January 1, 2006	Additions/ (deletions)	At December 31, 2006	At January 1, 2006	Charge for the year/ adjustment/ (depreciation on deletions)			At December 31, 2006
Land	11.4	2,882,599	852,585 (31,017)	3,704,167	-	-	-	3,704,167	-
Buildings	11.4	1,256,759	284,919 (3,296)	1,538,382	75,293	61,465 (165)	136,593	1,401,789	5
Furniture and fixtures		367,198	8,650 (14,592)	361,256	265,015	23,801 (13,530)	275,286	85,970	10
Electrical, office and computer equipment		891,789	280,917 (23,025)	1,149,681	614,306	110,697 (21,206)	703,797	445,884	14.28 - 50
Vehicles		219,749	201,839 (73,079)	348,509	152,924	28,388 (55,604)	125,708	222,801	20
Building improvements (rented premises)		25,932	26,163	52,095	6,226	7,094	13,320	38,775	20
<b>Total</b>		<b>5,644,026</b>	<b>1,655,073</b> <b>(145,009)</b>	<b>7,154,090</b>	<b>1,113,764</b>	<b>231,445</b> <b>(90,505)</b>	<b>1,254,704</b>	<b>5,899,386</b>	

### 11.3 Intangible assets

Description	Cost			Accumulated Amortization			Net book value at December 31, 2007	Rate of amortization %
	At January 01, 2007	Additions/ (deletion)	At December 31, 2007	At January 01, 2007	Amortization/ (amortization on deletion)	At December 31, 2007		
Computer software	56,890	17,020 (270)	73,640	27,212	8,690 (270)	35,632	38,008	14.28

Description	Cost			Accumulated Amortization			Net book value at December 31, 2006	Rate of amortization %
	At January 01, 2006	Additions/ (deletion)	At December 31, 2006	At January 01, 2006	Amortization/ (amortization on deletion)	At December 31, 2006		
Computer software	46,733	10,157	56,890	19,776	7,436	27,212	29,678	14.28

11.4 During the year 2005, the Bank arranged for valuation of properties from M/s. Iqbal A. Nanjee & Co. The revalued amounts of properties have been determined on the basis of Fair Value Model. The revaluation resulted in increase in the carrying values of the properties by Rs. 868.90 million, as at December 31, 2005. Had there been no revaluation, the carrying amount of revalued assets would have been as follows:

Rupees in '000	December 31, 2007	December 31, 2006
- Land	1,647,571	1,647,789
- Building	477,795	503,395

For information regarding location of revalued properties, refer Annexure III.

11.5 Fair value of property and equipment is not materially different from their carrying amount.

Rupees in '000	Note	December 31, 2007	December 31, 2006
11.6 Effect in the current year on profit and loss account of surplus arising on revaluation of buildings carried out in the year 2005	20.1	28,408	29,926

11.7 The land and buildings currently in use of the Bank include certain properties that have been acquired in satisfaction of claims. The total cost and net book value of these properties as at December 31, 2007 amounted to Rs. 1,305.336 million and Rs. 1,246.653 million respectively.

Rupees in '000	December 31, 2007	December 31, 2006
11.8 Restriction/discrepancy in the title of property having a net book value of	26,311	26,311
11.9 Carrying amount of temporarily idle property and equipment	46,978	61,432
11.10 The gross carrying amount of fully depreciated/amortized assets that are still in use		
Furniture and fixtures	153,850	153,845
Electrical, office and computer equipment	556,370	556,360
Vehicles	36,799	36,844
Intangible assets - software	4,668	4,668
11.11 The carrying amount of property and equipment that have retired from active use and are held for disposal	134	123

11.12 Fixed assets include the plot carried at cost of Rs. 33.790 million, which is acquired with the funds of the Bank and held in the name of Mohammad Waseem Mukhtar, the Director of the Bank.

# Notes to the Financial Statements

## for the year ended December 31, 2007

### 11.13 Disposal of fixed assets

The details of disposal of assets whose original cost or book value exceeds rupees one million or two hundred and fifty thousand rupees respectively, whichever is lower, are given below:

	Original cost / revalued amount	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser
Rupees in '000						
Land						
Plot # S-31-R-124(9)	14,453	-	14,453	13,600	Negotiation	Miss Maqsooda Sultan, Lahore
	14,453	-	14,453	13,600		
Furniture & Fixtures						
Items having book value of less than Rs.250,000 and cost of less than Rs.1,000,000						
	10,997	8,604	2,393	2,415	Negotiation	Various
Electrical, office and computer equipment						
Items having book value of less than Rs.250,000 and cost of less than Rs.1,000,000						
	17,044	16,917	127	210	Negotiation	Various
Vehicles						
Suzuki Cultus	609	122	487	487	As per Bank policy	Mr. Owais Shahid, Employee, Karachi
Toyota Corolla	862	517	345	551	As per Bank policy	Mr. Sibtain Naqvi, Employee, Karachi
Toyota Corolla	1,589	1,589	-	710	Auction	Mr. Farhan A Jaferi, Karachi
Toyota Corolla	879	161	718	879	Insurance Claim	EFU General Insurance
Suzuki Cultus	609	325	284	487	As per Bank policy	Mr. Noman Naseem, Employee, Karachi
Honda Civic	1,090	1,090	-	515	Auction	Mr. Malik Abdul Khaliq, Karachi
Items having book value of less than Rs.250,000 and cost of less than Rs.1,000,000						
	72,186	42,269	29,917	43,167	Various	Various
	77,824	46,073	31,751	46,796		
December 31, 2007	120,318	71,594	48,724	63,021		
December 31, 2006	124,860	90,505	34,355	102,752		

Information relating to sale of fixed assets (otherwise than through a regular auction) made to chief executive or a director or an executive or a shareholder holding not less than ten percent of the voting shares of the Bank or any related party, as required by SBP's BSD circular no. 4 dated February 17, 2006, is given in Annexure "III" and is an integral part of these financial statements.



Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>12. DEFERRED TAX ASSETS</b>			
Deferred debits arising in respect of			
Compensated leave absences		306,312	323,887
Provision against:			
Investments		67,302	48,209
Other assets		246,236	208,277
Off balance sheet obligations		102,736	88,804
Post retirement medical benefits		411,520	368,540
Deficit on revaluation of investments	20.2	20,165	6,284
		1,154,271	1,044,001
Deferred credits arising due to			
Surplus on revaluation of fixed assets	20.1	(189,006)	(198,948)
Accelerated tax depreciation / amortization		(219,275)	(109,242)
Excess of investment in finance lease over written down value of leased assets		(83,559)	(97,643)
		(491,840)	(405,833)
		662,431	638,168

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

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

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

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>13. OTHER ASSETS</b>			
Income/Mark-up accrued on advances, investments and placements:			
– in local currency		4,011,197	3,846,259
– in foreign currencies		88,620	9,947
Due on account of sale of investments		–	249,629
Advances, deposits, advance rent and other prepayments		717,618	950,208
Advance taxation (payments less provisions)		4,508,847	4,135,369
Stationery and stamps on hand		48,038	49,252
Prepaid exchange risk fee		24	–
Due from the employees' retirement benefit schemes	34.4	1,278,200	1,032,064
Unrealized gain on forward foreign exchange contracts		53,995	15,539
Exise Duty		11	–
Receivable from SBP – customers encashments		58,497	28,048
Suspense account		622,568	423,204
Others		21,289	16,917
		11,408,904	10,756,436
Less: Provision held against other assets	13.1	(703,530)	(595,075)
Other assets (net of provision)		10,705,374	10,161,361
<b>13.1 Provision against other assets</b>			
Opening balance		595,075	479,088
Charge for the year		458,206	208,652
Reversals		(338,627)	(3,345)
Net charge		119,579	205,307
Written off		(11,124)	(89,320)
Closing balance		703,530	595,075
<b>14. BILLS PAYABLE</b>			
In Pakistan		3,490,329	2,273,952
Outside Pakistan		4,055	4,055
		3,494,384	2,278,007

# Notes to the Financial Statements

## for the year ended December 31, 2007

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>15. BORROWINGS</b>			
In Pakistan		22,878,061	18,033,050
Outside Pakistan		55,595	377,375
		22,933,656	18,410,425
<b>15.1 Particulars of borrowings with respect to Currencies</b>			
In local currency		22,878,061	18,033,050
In foreign currencies		55,595	377,375
		22,933,656	18,410,425
<b>15.2 Details of borrowings Secured/Unsecured</b>			
Secured			
Borrowings from financial institutions		15,000	14,500
Borrowings from State Bank of Pakistan			
Under export refinance scheme	15.3	4,509,834	5,555,134
LTF – EOP	15.4	4,021,644	3,907,552
		8,531,478	9,462,686
Repurchase agreement borrowings	15.5	12,231,583	4,855,864
Unsecured			
Call borrowings	15.6	2,100,000	3,700,000
Overdrawn nostro accounts	15.7	55,595	377,375
		2,155,595	4,077,375
		22,933,656	18,410,425
<b>15.3</b> The Bank has entered into various agreements for financing with the State Bank of Pakistan (SBP) for extending export finance to customers. As per the agreements, the Bank has granted the SBP the right to recover the outstanding amount from the Bank at the date of maturity of the finance by directly debiting the current account maintained by the Bank with the SBP. These carry interest at the rate of 6.5% (2006: ranging between 6.5% and 7.5%) per annum. These borrowings are repayable within six months from the deal date.			
<b>15.4</b> This represents Long Term Financing against Export Oriented Projects (LTF-EOP) availed by the Bank for further extending the same to its customers for export oriented projects, for a maximum period of 7.5 years. The loan repayments to SBP correspond the respective repayment from customers. The loan carries mark-up ranging from 4% to 5% (2006: 4% to 5%) per annum.			
<b>15.5</b> These represent funds borrowed from the local interbank market against government securities, carrying mark-up at rates, ranging between 9.35% and 10.00% (2006: 8.00% and 8.85%) per annum maturing on various dates, latest by January 31, 2008.			
<b>15.6</b> These represent unsecured borrowings from the local interbank market, carrying mark-up at rates, ranging between 9.30% and 10.25% (2006: 10.35% and 11.25%) per annum maturing on various dates, latest by April 03, 2008.			
<b>15.7</b> Included in overdrawn nostro accounts are balances, aggregating to Rs. Nil (2006: Rs. 144.05 million), representing balances held with a related party outside Pakistan.			
Rupees in '000		December 31, 2007	December 31, 2006
<b>16. DEPOSITS AND OTHER ACCOUNTS</b>			
Customers			
Fixed deposits		72,912,363	53,304,136
Savings deposits		71,255,336	66,954,303
Current accounts – Remunerative		42,351,315	23,028,853
– Non-remunerative		67,742,105	56,422,618
		254,261,119	199,709,910
Financial Institutions			
Remunerative deposits		9,711,263	6,321,414
		263,972,382	206,031,324

Rupees in '000	December 31, 2007	December 31, 2006
16.1 Particulars of deposits		
In local currency	250,079,804	198,931,209
In foreign currencies	13,892,578	7,100,115
	263,972,382	206,031,324
<b>17. SUB-ORDINATED LOANS</b>		
Term Finance Certificates – Unsecured	2,499,000	2,500,000

The Bank has issued unsecured sub-ordinated Term Finance Certificates, which will contribute towards Tier II capital for minimum capital requirements (MCR) as per guidelines set by the SBP, under BSD Circular No. 12, dated August 24, 2004, to support the Bank's growth. All the regulatory approvals were obtained in December 2006. Liability to the TFC holders is subordinated to and rank inferior to all other debts of the Bank including deposits and is not redeemable before maturity without prior approval of the SBP. The rate of return is based on the Karachi Interbank Offer Rate (KIBOR) prevailing on the last working day before the beginning of each semi annual redemption period plus 1.9% (no floor, no cap). 0.24% of the principal shall be redeemed in the first 72 months and the remaining principal shall be redeemed in 4 equal semi-annual installments of 24.94% each of the Issue amount respectively, starting from the 78th month.

Other salient features of the issue are as follows:

Total issue :	Rs. 2,500 million
Rating :	A
Listing :	Karachi Stock Exchange (Guarantee) Ltd.
Repayment :	8 Years (2007 – 2014)
Profit payment :	Semi annually in arrears (365 day basis)

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>18. OTHER LIABILITIES</b>			
Mark-up/Return/Interest payable in local currency		1,226,480	1,323,318
Mark-up/Return/Interest payable in foreign currency		12,323	31,279
Accrued expenses		366,323	324,389
Branch adjustment account		1,807,988	131,623
Payable on account of purchase of investments		251,174	-
Provision for:			
gratuity	34.4	90,845	112,570
employees' medical benefits	34.4	1,175,772	1,052,971
employees' compensated absences	34.12	875,178	925,392
Unclaimed dividends		25,369	4,506
Dividend payable		6,497	-
Provision against off-balance sheet obligations	18.1	293,532	253,727
Retention money payable		35,930	16,436
Security deposits against lease		144,881	142,948
Others		1,019,767	800,108
		7,332,059	5,119,267
<b>18.1 Provision against off-balance sheet obligations</b>			
Opening balance		253,727	251,181
Charge for the year		41,853	4,108
Reversals		(2,048)	(1,562)
Net charge		39,805	2,546
Closing balance		293,532	253,727

The above provision has been made against letters of guarantee issued by the Bank.

# Notes to the Financial Statements

## for the year ended December 31, 2007

### 19. SHARE CAPITAL

#### 19.1 Authorized Capital

December 31, 2007		December 31, 2006	
No. of shares		Rupees in '000	
1,000,000,000	1,000,000,000	Ordinary shares of Rs.10/- each	10,000,000
			10,000,000

#### 19.2 Issued, subscribed and paid-up capital

##### Fully paid-up Ordinary shares of Rs.10/- each

December 31, 2007		December 31, 2006		Ordinary Shares	December 31, 2007		December 31, 2006	
No. of shares		No. of shares			Rupees in '000		Rupees in '000	
406,780,094	406,780,094			Fully paid in cash	4,067,801		4,067,801	
114,308,294	24,535,471			Issued as bonus shares	1,143,083		245,355	
521,088,388	431,315,565				5,210,884		4,313,156	
				18,348,550 Ordinary shares of Rs. 10 each, determined pursuant to the Scheme of Amalgamation in accordance with the swap ratio, stipulated therein less 9,200,000 Ordinary shares of Rs. 10 each, held by ILL on the cut-off date (September 30, 2004)	91,486		91,486	
9,148,550	9,148,550							
				8,400,000 Ordinary shares of Rs. 10 each, determined pursuant to the Scheme of Amalgamation of First Allied Bank Modaraba with Allied Bank Limited in accordance with the share swap ratio stipulated therein	84,000		84,000	
8,400,000	8,400,000							
538,636,938	448,864,115				5,386,370		4,488,642	

Ibrahim Fibres Limited and Ibrahim Agencies (Private) Limited, related parties of the Bank, held 170,379,240 (31.63%) and 47,473,652 (8.81%) [December 31, 2006: 141,982,700 (31.63%) and 27,281,554 (6.08%)] Ordinary shares of Rs.10 each, respectively, as at December 31, 2007.

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>20. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX</b>			
Surplus/(deficit) arising on revaluation of:			
- fixed assets	20.1	1,507,300	1,540,001
- securities	20.2	(37,449)	(81,895)
Surplus on revaluation of assets - net of tax		1,469,851	1,458,106
<b>20.1 Surplus on revaluation of Fixed Assets</b>			
Surplus on revaluation of fixed assets as at January 1		1,738,949	1,789,024
Surplus realized on disposal of revalued properties		(14,235)	(20,149)
Transferred to unappropriated profit in respect of incremental depreciation charged during the year - net of deferred tax		(18,466)	(19,452)
Related deferred tax liability		(9,942)	(10,474)
	11.6	(28,408)	(29,926)
Surplus on revaluation of fixed assets as at December 31		1,696,306	1,738,949
Less: Related deferred tax liability on :			
Revaluation as at January 1		198,948	209,965
Disposal of revalued properties		-	(543)
Incremental depreciation charged during the year transferred to profit and loss account		(9,942)	(10,474)
		189,006	198,948
		1,507,300	1,540,001

Rupees in '000	Note	December 31, 2007	December 31, 2006
20.2	Surplus/(Deficit) on revaluation of Available-for-sale securities		
	Federal Government Securities		
	Market Treasury Bills	(62,104)	(15,715)
	Pakistan Investment Bonds	(2,577)	(2,240)
	Term Finance Certificates – Listed	19,921	7,298
	Shares/Certificates – Listed	(79,261)	(97,150)
	Mutual Funds	66,407	19,628
		9.1	
	Less : Related deferred tax asset	(57,614)	(88,179)
		20,165	6,284
		(37,449)	(81,895)
21.	<b>CONTINGENCIES AND COMMITMENTS</b>		
21.1	Direct credit substitutes		
	Guarantees in favour of:		
	Banks and financial institutions	1,971,776	1,761,869
21.2	Transaction-related contingent liabilities		
	Guarantees in favour of:		
	Government	4,040,048	1,986,614
	Others	6,235,919	4,761,103
		10,275,967	6,747,717
21.3	Trade-related contingent liabilities	83,037,690	38,142,108
21.4	Claims against the Bank not acknowledged as debt	3,058,291	2,738,318
21.5	The Bank makes commitments to extend credit in the normal course of its business but these being revocable commitments do not attract any significant penalty or expense if the facility is unilaterally withdrawn.		
		December 31, 2007	December 31, 2006
21.6	Commitments in respect of forward foreign exchange contracts		
	Purchase	10,998,473	6,983,267
	Sale	4,763,749	3,266,742
21.7	Commitments in respect of:		
	Civil works	752,139	294,037
	Acquisition of operating fixed assets	168,654	1,149,408
21.8	Commitments in respect of lease financing	188,174	150,384
21.9	Commitments in respect of:		
	Forward lending	1,000,000	-
	Forward borrowing	-	1,853,461
		1,000,000	1,853,461
21.10	Commitments in respect of lending against CFS	733	250,824
21.11	Commitments in respect of purchase of shares	865,000	-

# Notes to the Financial Statements

## for the year ended December 31, 2007

### 21.12 Other Contingencies

21.12.1 The Income tax assessments of the Bank have been finalized up to and including Tax Year 2006 for local operations and Azad Kashmir Operations. Further, income tax returns for the tax year 2007 have also been filed for local and Azad Kashmir Operations.

- a) While finalizing income tax assessments up to the assessment year 2000-2001, the Income Tax Authorities made certain add backs with a tax impact of Rs. 278 million. As a result of appeals filed by the Bank before the Appellate Authorities, these add-backs were set-aside with a tax impact of Rs. 125 million. The appeal effect orders with regard to the above matters are pending.
- b) The assessments from Assessment Year 2001-2002 to Tax Year 2005 have been finalized with net additional tax liability of Rs. 4,684 million. As a result of the appeals filed by the Bank before the Appellate Authorities, various additions having tax impact of Rs. 4,718 million and Rs. 2,424 million have been deleted and set-aside by the Appellate Authorities, respectively. The appeal effect orders with regard to the above matters are pending.
- c) The assessment for Tax Year 2006 has been finalized with net additional tax liability of Rs. 671 million. However, the Bank has filed appeal against the above referred order before the Appellate Authority.

Pending the finalization of the above-referred appeals, no provision has been made by the Bank in an aggregate sum of Rs. 5,633 million in these financial statements. This sum includes tax liability, aggregating to Rs. 4,718 million, already deleted by the Appellate Authorities for which appeal effect orders are pending. The management is hopeful that the outcome of these appeals will be in favor of the Bank.

21.12.2 As a result of a compromise decree granted by the Honourable High Court of Sindh in August 2002, Fateh Textile Mills Limited pledged 16,376,106 shares of ABL with the Bank as security consequent to the default by Fateh Textile Mills Limited on the terms of the decree. The Bank published a notice on June 23, 2004 in accordance with the requirements of section 19(3) of the Financial Institutions (Recovery of Finances) Ordinance, 2001 and invited sealed bids from interested parties to purchase the pledged shares. The bidding process was scheduled for July 23, 2004 and the Bank had fixed a reserve price of Rs. 25 per share. On the bid date, the highest offer for these shares was received at a rate of Rs. 25.51 per share. The bid was approved and the successful bidder had deposited an amount of Rs. 417.75 million with the Bank.

Fateh Textile Mills Limited had filed a suit against the Bank in the High Court of Sindh challenging the sale of the above shares. The High Court had not granted a stay order on the process of sale of shares. However, the matter is still pending in the Court.

## 22. DERIVATIVE INSTRUMENTS

The Bank at present does not offer structured derivative products such as Interest Rate Swaps, Forward Rate Agreements or FX Options. However, the Bank's Treasury buys and sells derivative instruments such as:

- Forward Exchange Contracts
- Foreign Exchange Swaps
- Equity Futures

### Forward Exchange Contracts (with Importers and Exporters)

Forward Exchange Contract (FEC) is a product which is offered to the obligor who transact internationally. These traders use this product to hedge themselves from unfavorable movements in a foreign currency, however, by agreeing to fix the exchange rate, they do not benefit from favorable movements in that currency.

An FEC is a contract between the Obligor and the Bank in which both agree to exchange an amount of one currency for another currency at an agreed forward exchange rate for settlement more than two business days after the FEC is entered into (the day on which settlement occurs is called the value date). FEC is entered with those Obligors whose credit worthiness has already been assessed.

If the relevant exchange rate moves un-favourably, the Bank will loose money, and Obligor will benefit from that movement because the Bank must exchange currencies at the FEC rate. In order to mitigate this risk of adverse exchange rate movement, the Bank hedges its exposure by taking forward position in inter-bank FX.

### Foreign Exchange Swaps

A Foreign Exchange Swap (FX Swap) is used by the Bank if it has a need to exchange one currency for another currency on one day and then re-exchange those currencies at a later date. Exchange rates and forward margins are determined in the "interbank" market and fluctuate according to supply and demand.

An FX Swap prevents the Bank from gaining any benefit resulting from a favourable exchange rate movement in the relevant currency pair between the time Bank enters into the transaction deal and when settlement occurs. Cancellation of the swap may also result in exposure to market movements. The key advantage of an FX swap is that it provides the Bank with protection against unfavourable currency movements between the time it enters into the transaction and settlement. The term and amounts for FX Swap can also be tailored to suit the Bank's particular needs.

## Equity Futures

An equity futures contract is a standardized contract, traded on a futures counter of the stock exchange, to buy or sell a certain underlying scrip at a certain date in the future, at a specified price.

The Bank uses equity futures as a hedging instrument to hedge its equity portfolio, in both held for trading and available for sale, against equity price risk. Only selected shares are allowed to be traded on futures exchange. Equity futures give flexibility to the Bank either to take delivery on the future settlement date or to settle it by adjusting the notional value of the contract based on the current market rates. Maximum exposure limit to the equity futures is 10% of Tier I Capital of the Bank.

The accounting policies used to recognize and disclose derivatives are given in note 5.15.2.

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>23. MARK-UP/RETURN/INTEREST EARNED</b>			
On loans and advances		14,471,070	12,199,617
On investments in:			
Available for sale securities		3,332,119	1,716,804
Held to maturity securities		1,465,451	1,582,206
		4,797,570	3,299,010
On deposits with financial institutions		122,037	219,812
On securities purchased under resale agreements		1,114,717	824,084
On certificates of investment		296,385	226,961
On letters of placement		205,119	352,633
On call money lending		194,524	93,390
		21,201,422	17,215,507
<b>24. MARK-UP/RETURN/INTEREST EXPENSED</b>			
Deposits		8,721,680	6,125,387
Securities sold under repurchase agreements		583,467	313,740
Other short term borrowings		408,912	319,855
Markup on TFCs		304,945	21,387
Others		-	12,732
		10,019,004	6,793,101
<b>25. FEE, COMMISSION AND BROKERAGE INCOME</b>			
Core fees, commission and brokerage		1,654,654	1,152,093
Account maintenance charges		408,023	201,795
		2,062,677	1,353,888
<b>26. GAIN ON SALE OF SECURITIES</b>			
Federal Government Securities			
Market Treasury Bills		83	24
Pakistan Investment Bonds		-	375
Shares - Listed		624,782	376,393
Shares - Unlisted	42	83,413	-
Open End Mutual Funds		720,256	-
Term Finance Certificates - Listed		10,853	-
		1,439,387	376,792
<b>27. OTHER INCOME</b>			
Gain on sale of operating fixed assets		14,297	68,397
Miscellaneous		63,138	204,631
		77,435	273,028

# Notes to the Financial Statements

## for the year ended December 31, 2007

Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>28. ADMINISTRATIVE EXPENSES</b>			
Salaries, allowances, etc.		3,506,475	3,083,342
Charge for defined benefit plan		97,778	226,909
Contribution to defined contribution plan - provident fund		128,359	118,499
Non-executive directors' fees, allowances and other expenses		515	361
Rent, taxes, insurance, electricity, etc.		599,371	498,321
Legal and professional charges		64,006	67,874
Communications		237,858	174,032
Repairs and maintenance		114,188	83,675
Stationery and printing		131,194	111,194
Advertisement and publicity		157,641	188,517
Auditors' remuneration	28.1	9,277	8,805
Depreciation/Amortization	11.2 & 11.3	341,656	238,881
Brokerage and commission		74,006	71,740
Security service charges		143,797	108,686
Travelling, conveyance and fuel expenses		139,680	114,805
Entertainment		51,684	40,334
Computer expenses		145,158	119,799
Subscription		21,562	18,621
Donations	28.2	27,698	9,499
Others		26,443	6,684
		<b>6,018,346</b>	<b>5,290,578</b>

### 28.1 Auditors' remuneration

Rupees in '000	December 31, 2007			December 31, 2006		
	Ford Rhodes Sidat Hyder & Co.	M. Yousuf Adil Saleem & Co.	Total	Ford Rhodes Sidat Hyder & Co.	M. Yousuf Adil Saleem & Co.	Total
Audit fee	1,650	1,650	3,300	1,500	1,500	3,000
Special certifications, half yearly and quarterly reviews and sundry miscellaneous services	2,230	2,725	4,955	2,275	2,680	4,955
Out-of-pocket expenses	464	558	1,022	365	485	850
	<b>4,344</b>	<b>4,933</b>	<b>9,277</b>	<b>4,140</b>	<b>4,665</b>	<b>8,805</b>

28.2 None of the directors, executives and their spouses had any interest in the donations disbursed during the year. Donations paid in excess of Rs. 100,000 to a single party during the year are as follows:

Rupees in '000	December 31, 2007	December 31, 2006
National Management Foundation	20,000	-
Liver Foundation Trust	2,500	-
Shaukat Khanum Memorial Cancer Hospital and Research Centre	2,500	3,700
DHQ Hospital Dera Ghazi Khan	2,000	-
Tamir Welfare Organization	248	-
Care Foundation	200	400
Tameer-e-Millat Foundation	-	2,500
The Kidney Centre	-	1,000
Sahara For Life Trust	-	500
Golf Club Faisalabad	-	500
Mr. Tahir Sadiq	-	249
Agha Khan Hospital and Medical College Foundation	-	150
OGS Trust	-	150



Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>29. OTHER CHARGES</b>			
Penalties imposed by SBP		256,869	7,078
<b>30. TAXATION</b>			
Current – for the year		1,887,299	2,215,092
– for prior years		–	–
		1,887,299	2,215,092
Deferred		(10,381)	48,752
		1,876,918	2,263,844
<b>30.1 Relationship between tax expense and accounting profit</b>			
Accounting profit for the current year		5,953,076	6,661,094
Tax on income @ 35% (2006 : 35%)		2,083,577	2,331,383
Effect of permanent differences		170,404	65,477
Effect of exempt income		(298,268)	(91,085)
Adjustments in respect of tax on reduced rates		(18,824)	(36,804)
Others		(59,971)	(5,127)
Tax charge for the current year		1,876,918	2,263,844
<b>31. EARNINGS PER SHARE – BASIC AND DILUTED</b>			
Profit after taxation		4,076,158	4,397,250
			Number of Shares
Weighted average number of Ordinary shares outstanding during the year	31.1	538,636,938	538,636,938
			Rupees
Earnings per share – basic and diluted		7.57	8.16
There is no dilution effect on basic earnings per share.			
31.1	The comparative figure of weighted average number of shares outstanding has been restated to include the effect of bonus shares issued by the Bank during the year.		
Rupees in '000	Note	December 31, 2007	December 31, 2006
<b>32. CASH AND CASH EQUIVALENTS</b>			
Cash and balances with treasury banks	6	29,739,857	23,042,011
Balances with other banks	7	668,449	1,703,011
Overdrawn nostro accounts	15	(55,595)	(377,375)
		30,352,711	24,367,647
		December 31, 2007	December 31, 2006
<b>33. STAFF STRENGTH</b>			Number
Permanent		8,181	7,139
Temporary/on contractual basis/trainee		55	65
Bank's own staff strength at the end of the year		8,236	7,204
Outsourced		2,061	1,675
Total Staff strength		10,297	8,879

# Notes to the Financial Statements

## for the year ended December 31, 2007

### 34 DEFINED BENEFIT PLANS

#### 34.1 General description

The Bank operates a funded gratuity scheme for all employees who opted for the new staff retirement benefit scheme introduced by the management with effect from July 1, 2002. For those employees who did not opt for the new scheme, the Bank continues to operate a funded pension scheme.

The Bank also operates a contributory benevolent fund (defined benefit scheme – funded) and provides post retirement medical benefits (unfunded scheme) to eligible retired employees.

#### 34.2 Number of Employees under the schemes

The number of employees covered under the following defined benefit scheme/plans are:

	December 31, 2007	December 31, 2006
	Number	
– Gratuity fund	8,224	7,180
– Pension fund	3,743	4,000
– Benevolent fund	8,164	7,139
– Employees' compensated absences	8,164	7,139
– Post retirement medical benefits	8,164	7,139

#### 34.3 Principal actuarial assumptions

The actuarial valuations were carried out on December 31, 2007 based on the Projected Unit Credit Method, using the following significant assumptions:

	December 31, 2007	December 31, 2006	Sources of estimation
Discount rate:			
June 30, 2006	–	10.00%	Yield on investments in Government Bonds
December 31, 2006	–	10.00%	
December 31, 2007	10.00%	–	
Expected rate of return on plan assets:			
June 30, 2006	–	10.00%	Yield on investments in Government Bonds
December 31, 2006	–	10.00%	
December 31, 2007			
Pension fund	12.40%	–	
Gratuity fund	11.80%	–	
Benevolent fund	11.90%	–	
Expected rate of salary increase	8.00%	8.00%	Rate of salary increase
Pension indexation rate	3.00%	3.00%	
Medical inflation rate	7.00%	7.00%	
Exposure inflation rate	2.00%	2.00%	

#### 34.4 Reconciliation of (receivable from) / payable to defined benefit plan

Rupees in '000	December 31, 2007			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Present value of defined benefit obligations	3,461,993	574,685	557,296	1,624,176
Fair value of plan/scheme's assets	(5,738,722)	(475,357)	(692,158)	-
Net actuarial gains/(losses) not recognized	1,107,236	(8,483)	(82,552)	(448,404)
	(1,169,493)	90,845	(217,414)	1,175,772
Benefit of the surplus not available to the Bank refer note 34.4.1	-	-	108,707	-
	(1,169,493)	90,845	(108,707)	1,175,772

  

Rupees in '000	December 31, 2006			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Present value of defined benefit obligations	3,295,249	463,564	532,218	1,458,865
Fair value of plan/scheme's assets	(5,155,897)	(393,999)	(610,811)	-
Net actuarial gains/(losses) not recognized	907,356	43,005	(78,951)	(405,894)
	(953,292)	112,570	(157,544)	1,052,971
Benefit of the surplus not available to the Bank	-	-	78,772	-
	(953,292)	112,570	(78,772)	1,052,971

34.4.1 The latest actuarial valuation of Benevolent Fund, carried out as at December 31, 2007 highlighted a surplus of Rs. 217.414 million. Out of this amount, a benefit of Rs. 108.707 million can be availed by the Bank in future years in the form of reduced contributions.

34.4.2 The effect of increase of one percentage point and the effect of decrease of one percentage point in the medical trend rates on the present value of medical obligation as at December 31, 2007 would be Rs. 105.745 million (2006: Rs. 116.666 million) and Rs. 88.026 million (2006: Rs. 96.937 million) respectively.

#### 34.5 Movement in (receivable from) / payable to defined benefit plan

Rupees in '000	December 31, 2007			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Opening balance	(953,292)	112,570	(78,772)	1,052,971
Charge/(reversal) for the year - note 34.9	(216,201)	84,299	6,345	208,814
Contribution to fund made during the year				
Bank's contribution	-	(106,024)	(36,280)	-
Benefits paid	-	-	-	(86,013)
	(1,169,493)	90,845	(108,707)	1,175,772

  

Rupees in '000	December 31, 2006			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Opening balance	(655,217)	112,325	(76,073)	937,276
Charge for the year - note 34.9	(298,075)	84,084	30,219	188,045
Contribution to fund made during the year				
Bank's contribution	-	(83,839)	(32,918)	-
Benefits paid	-	-	-	(72,350)
Closing balance	(953,292)	112,570	(78,772)	1,052,971

# Notes to the Financial Statements

for the year ended December 31, 2007

## 34.6 Reconciliation of present value of defined benefit obligations

Rupees in '000	December 31, 2007			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Opening balance	3,295,249	463,564	532,218	1,458,865
Current service cost	-	77,343	19,174	42,926
Interest cost	329,525	46,356	53,222	145,887
Benefits paid	(381,960)	(35,388)	(45,894)	(86,013)
Actuarial (gains) / losses	219,179	22,810	(1,424)	62,511
Closing balance	3,461,993	574,685	557,296	1,624,176

Rupees in '000	December 31, 2006			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Opening balance	3,244,547	376,520	559,397	1,292,221
Current service cost	-	75,048	15,770	41,460
Interest cost	324,455	37,652	55,940	129,222
Benefits paid	(337,476)	(23,808)	(47,439)	(72,350)
Actuarial (gains) / losses	63,723	(1,848)	(51,450)	68,312
Closing balance	3,295,249	463,564	532,218	1,458,865

## 34.7 Reconciliation of fair value of plan assets

Rupees in '000	December 31, 2007			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Opening balance	5,155,897	393,999	610,811	-
Expected return on plan assets	515,590	39,400	61,081	-
Bank's contribution	-	106,024	36,280	-
Employees' contribution	-	-	36,280	-
Benefits paid	(381,960)	(35,388)	(45,894)	-
Actuarial gains / (losses)	449,195	(28,678)	(6,400)	-
Closing balance	5,738,722	475,357	692,158	-

Rupees in '000	December 31, 2006			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Opening balance	5,475,648	286,159	563,483	-
Expected return on plan assets	547,565	28,616	56,348	-
Bank's contribution	-	83,839	32,918	-
Employees' contribution	-	-	32,918	-
Benefits paid	(337,476)	(23,808)	(47,439)	-
Actuarial gains / (losses)	(529,840)	19,193	(27,417)	-
Closing balance	5,155,897	393,999	610,811	-

### 34.8 Composition of fair value of plan assets

Rupees in '000	December 31, 2007			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Government securities	3,447,938	19,492	335,540	-
Listed shares *	1,344,419	166,671	160,354	-
Bank balances *	946,365	289,194	196,264	-
	5,738,722	475,357	692,158	-
<b>*Fair value of Bank's financial instruments included in plan assets</b>				
Shares of ABL	524,607	25,601	-	-
Bank balances with ABL	946,365	289,194	196,264	-
	1,470,972	314,795	196,264	-
Rupees in '000	December 31, 2006			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Government securities	4,394,299	46,055	364,410	-
Bank balances *	761,598	347,944	246,401	-
	5,155,897	393,999	610,811	-
<b>*Fair value of Bank's financial instruments included in plan assets</b>				
Shares of ABL	-	-	-	-
Bank balances with ABL	761,598	347,944	246,401	-
	761,598	347,944	246,401	-

### 34.9 Charge for defined benefit plan

Rupees in '000	December 31, 2007			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Current service cost	-	77,343	19,174	42,926
Interest cost	329,525	46,356	53,222	145,887
Expected return on plan assets	(515,590)	(39,400)	(61,081)	-
Actuarial (gains)/losses	(30,136)	-	1,375	20,001
Contributions - employee	-	-	(36,280)	-
Benefit of the surplus not available to the bank	-	-	29,935	-
	(216,201)	84,299	6,345	208,814
Rupees in '000	December 31, 2006			
	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Current service cost	-	75,048	15,770	41,460
Interest cost	324,455	37,652	55,940	129,222
Expected return on plan assets	(547,565)	(28,616)	(56,348)	-
Actuarial (gains)/losses	(74,965)	-	3,885	17,363
Contributions - employee	-	-	(32,918)	-
Benefit of the surplus not available to the Bank	-	-	43,890	-
	(298,075)	84,084	30,219	188,045

34.9.1 The effect of increase of one percentage point and the effect of decrease of one percentage point in the medical trend rates on the aggregate of the current service cost and interest cost components of net period post-employment medical costs would be Rs. 10.575 million (2006: Rs. 10.500 million) and Rs. 8.803 million (2006: Rs. 8.724 million) respectively.

# Notes to the Financial Statements

## for the year ended December 31, 2007

Rupees in '000	December 31, 2007	December 31, 2006
<b>34.10 Actual return on plan assets</b>		
– Pension fund	964,785	822,242
– Gratuity fund	10,722	38,285
– Benevolent fund	54,681	71,892

### 34.11 Five year data of defined benefit plan and experience adjustments

Rupees in '000	Pension fund				
	2007	2006	2005	2004	2003
Present value of defined benefit obligation	3,461,993	3,295,249	3,244,547	3,862,879	4,257,746
Fair value of plan assets	(5,738,722)	(5,155,897)	(5,475,648)	(5,635,568)	(5,223,596)
(Surplus) / deficit	(2,276,729)	(1,860,648)	(2,231,101)	(1,772,689)	(965,850)

#### Experience adjustments on plan obligations / assets

Actuarial gain / (loss) on obligation	(219,179)	(63,723)	636,805	428,741	(1,120,021)
Actuarial gain / (loss) on assets	449,195	(529,840)	(360,464)	310,488	1,803,811

Rupees in '000	Gratuity fund				
	2007	2006	2005	2004	2003
Present value of defined benefit obligation	574,685	463,564	376,520	294,852	216,995
Fair value of plan assets	(475,357)	(393,999)	(286,159)	(211,816)	(110,874)
(Surplus) / deficit	99,328	69,565	90,361	83,036	106,121

#### Experience adjustments on plan obligations / assets

Actuarial gain / (loss) on obligation	(22,810)	1,848	1,362	101,325	(18,741)
Actuarial gain / (loss) on assets	(28,678)	19,193	(1,362)	7,318	(79,807)

Rupees in '000	Benevolent fund				
	2007	2006	2005	2004	2003
Present value of defined benefit obligation	557,296	532,218	559,397	545,574	583,430
Fair value of plan assets	(692,158)	(610,811)	(563,483)	(504,731)	(501,864)
(Surplus) / deficit	(134,862)	(78,593)	(4,086)	40,843	81,566

#### Experience adjustments on plan obligations / assets

Actuarial gain / (loss) on obligation	1,424	51,450	(2,126)	50,519	(600,716)
Actuarial gain / (loss) on assets	(6,400)	(27,417)	2,126	(49,592)	485,637

Rupees in '000	Post retirement medical				
	2007	2006	2005	2004	2003
Present value of defined benefit obligation	1,624,176	1,458,865	1,292,221	1,224,870	1,164,760
Fair value of plan assets	-	-	-	-	-
(Surplus) / deficit	1,624,176	1,458,865	1,292,221	1,224,870	1,164,760

#### Experience adjustments on plan obligations / assets

Actuarial gain / (loss) on obligation	(62,511)	(68,312)	-	1,398	(106,284)
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#### 34.12 Employees' compensated absences

The liability of the Bank in respect of long-term employees' compensated absences is determined, based on actuarial valuation, carried out using the Projected Unit Credit Method. The liability of the Bank as at December 31, 2007, as per the latest actuarial valuation carried out as at December 31, 2007 which, after considering the estimated liability for the current year, amounted to Rs. 875.178 million (2006: Rs. 925.392 million). A charge of Rs. 14.521 million (2006: Rs. 222.635 million) has been provided during the current year, representing the management's best estimate.

#### 34.13 Expected contributions to be paid to the funds in the next financial year

The Bank contributes to the gratuity fund as per actuarial's expected charge for the next one year. Contribution to the benevolent fund is made by the Bank as per rates set out in the benevolent scheme. No contributions are being made to pension fund due to large amount of surplus of fair value of plan's assets over present value of defined obligation. Based on actuarial advice, management estimates that the charge / reversal in respect of defined benefit plans for the year ending December 31, 2008 would be as follows:

Rupees in '000	Pension Fund	Gratuity Fund	Benevolent Fund	Post Retirement Medical
Expected (reversal) / charge for the next year	(409,849)	97,259	(7,929)	234,041

### 35. DEFINED CONTRIBUTION PLAN

The Bank operates a contributory provident fund scheme for employees who are covered under the new gratuity scheme. The employer and employee both contribute 8.33% of the basic salaries to the funded scheme every month. Number of employees covered under this plan are 6,745 (2006: 6,598) as on December 31, 2007. During the year, employees made a contribution of Rs. 128.359 million (2006: Rs. 118.499 million) to the fund. The Bank has also made a contribution of equal amount to the fund.

### 36. COMPENSATION OF DIRECTORS AND EXECUTIVES

Rupees in '000	Note	President/Chief Executive		Directors		Executives	
		December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Fees	36.1	-	-	515	361	-	-
Managerial remuneration		20,570	15,000	-	7,275	350,120	277,099
Charge for defined benefit plans		944	842	-	-	56,962	74,310
Contribution to defined contribution plan		1,714	1,275	-	-	29,165	21,555
Rent and house maintenance		-	-	-	270	151,602	71,931
Utilities		1,555	667	-	728	37,111	27,748
Medical		292	24	-	728	45,875	19,668
Bonus		10,161	7,500	-	-	266,227	251,158
Conveyance and others		733	480	-	-	50,863	31,880
		35,969	25,788	515	9,362	987,925	775,349
Number of persons	36.2	2	1	11	10	436	330

36.1 This represents remuneration paid to each director including the outgoing director for attending meetings of the Board of Directors, Audit Committee and other committees held during the year. Each director was paid Rs. 5,000 from January 2007 to July 2007 and Rs. 25,000 from August 2007 to December 2007, respectively for each meeting attended.

36.2 Number of persons include the outgoing President, Director(s) and executives.

36.3 The Chief Executive, Directors and certain executives are also provided with other facilities, including free use of the Bank maintained cars.

# Notes to the Financial Statements

## for the year ended December 31, 2007

### 37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market prices, except for securities classified by the Bank as held to maturity. Fair value of unquoted equity investments is determined on the basis of lower of cost and break up value of these investments as per the latest available audited accounts.

Fair value of fixed term loans, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to the absence of current and active market for such assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of loans and advances has been calculated in accordance with the Bank's accounting policy as stated in note 5.4.

The maturity and repricing profile and effective rates are stated in notes 41.3.1 and 41.2.3 respectively.

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

### 38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

Rupees in '000	December 31, 2007				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
Total Income	241,543	1,961,690	9,700,956	19,129,996	190,844
Total Expenses	(123,631)	(1,719,213)	(7,598,087)	(17,591,464)	(116,476)
Net Income	117,912	242,477	2,102,869	1,538,532	74,368
Segment Assets (Gross)	275,683	19,152,721	75,048,673	236,481,289	164,254
Segment Non Performing Loans	-	-	3,643,515	7,711,408	-
Segment Provision Required	-	-	4,172,680	6,840,217	-
Segment Liabilities	177,137	15,070,717	195,095,581	86,283,417	3,604,629
Segment Return on net Assets (ROA) (%)*	42.77%	1.27%	2.97%	0.67%	45.28%
Segment Cost of Funds (%)*	0.00%	7.64%	3.79%	8.41%	0.00%

  

Rupees in '000	December 31, 2006				
	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking	Payment & Settlement
Total Income	169,366	2,063,283	8,326,310	13,521,560	784,622
Total Expenses	(95,912)	(1,798,344)	(6,547,025)	(11,376,011)	(650,599)
Net Income	73,454	264,939	1,779,285	2,145,549	134,023
Segment Assets (Gross)	156,669	20,537,908	59,942,453	179,602,511	257,132
Segment Non Performing Loans	-	-	2,658,173	7,820,416	-
Segment Provision Required	-	-	2,712,102	6,011,522	-
Segment Liabilities	72,062	8,892,264	151,543,249	71,173,039	2,404,682
Segment Return on net Assets (ROA) (%)*	59.41%	1.44%	3.62%	1.46%	63.17%
Segment Cost of Funds (%)*	0.00%	8.26%	4.33%	9.18%	0.00%

\* The segment return on net assets and cost of funds are based on average assets and average liabilities for the year.

### 39. RELATED PARTY TRANSACTIONS

The Bank has related party relationships with its subsidiary, companies with common directorship having equity under 20%, directors and employee benefit plans.

Banking transactions with related parties are executed substantially on the same terms, including mark-up rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties and do not involve more than a normal risk (i.e., under the comparable uncontrolled price method).

Details of transactions with related parties except those under the terms of employment and balances with them as at the year end were as follows:



Rupees in '000	December 31, 2007					December 31, 2006				
	Directors	Companies with common directorship having equity under 20%	Subsidiaries	Key management personnel	Other related parties	Directors	Companies with common directorship having equity under 20%	Subsidiaries	Key management personnel	Other related parties
Nature of related party transactions										
Loans										
Loans at the beginning of the year	395	-	-	66,159	-	-	-	-	69,037	-
Loans given during the year	8,774	-	-	33,912	-	2,908	-	-	10,436	-
Loans repaid during the year	(7,890)	-	-	(15,377)	-	(2,513)	-	-	(13,314)	-
Loans at the end of the year	1,279	-	-	84,694	-	395	-	-	66,159	-
Deposits										
Deposits at the beginning of the year	1,814	59,801	9,123	6,206	-	6,668	76,125	4,369	12,730	-
Deposits received during the year	5,010,040	1,274,352	1,152,943	132,535	-	17,432	765,872	140,262	52,622	-
Deposits repaid during the year	(4,991,911)	(1,244,664)	(658,658)	(119,821)	-	(22,286)	(782,196)	(135,508)	(59,146)	-
Deposits at the end of the year	19,943	89,489	503,408	18,920	-	1,814	59,801	9,123	6,206	-
Other receivables	-	-	5,740	-	-	-	-	-	-	-
Net receivable from staff retirement benefit funds	-	-	-	-	1,153,044	-	-	-	-	918,541
Staff retirement fund deposits	-	-	-	-	1,863,389	-	-	-	-	1,947,475
Investments made during the year	-	205,699	-	-	-	-	-	-	-	-
Investments sold during the year	-	161,326	-	-	-	-	-	-	-	-
Mark-up earned	-	-	-	3,152	-	-	-	-	2,727	-
Mark-up expensed	67	185	14,690	102	26,003	97	356	3,423	231	142,453
Charge / (reversal) in respect of staff retirement benefit funds	-	-	-	-	2,802	-	-	-	-	(65,273)

The other balances, held with related parties, outstanding at the end of current year are included in notes 7.1, 15.7 and 19.2 to these financial statements.

## 40. CAPITAL ADEQUACY

### 40.1 Capital Management

#### Objectives of Managing Capital

Capital Management aims to ensure that there is sufficient capital to meet the capital requirements of the Bank as determined by the underlying business strategy. The Capital Management process is governed by the Bank's Asset & Liability Committee (ALCO). ALCO is responsible for managing Bank's capital position vis-à-vis internal as well as regulatory requirements. ALCO also reviews the volume and mix of the Bank's assets, liabilities and funding sources in light of liquidity, capital, risk and profitability considerations.

Bank's capital management seeks:

- to comply with the capital requirements set by the regulators and comparable to the peers;
- to improve the liquidity of the Bank's assets to allow for an optimal deployment of the Bank's resources;
- to protect the Bank against unexpected events and maintain strong ratings;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide adequate return to shareholders;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- to achieve low overall cost of capital with appropriate mix of capital elements.

#### Externally Imposed Capital Requirements

In order to strengthen the solvency of Banks / Development Financial Institutions (DFI), SBP through its BSD Circular No. 6 of 2005 dated October 28, 2005 has asked the Banks to:

- (a) raise its capital to Rs. 4 billion by the end of financial year 2007
- (b) maintain a minimum Capital Adequacy Ratio (CAR) of 8%

Capital requirement of Rs. 4 billion has to be raised to Rs. 6 billion by the end of financial year 2009 by the Banks in a phased manner.

The paid up capital and CAR of the Bank stands at Rs. 5.39 billion and 9.29 % of its risk weighted exposure as at December 31, 2007.

Bank's regulatory capital is analyzed into two tiers as per regulatory requirements.

# Notes to the Financial Statements

for the year ended December 31, 2007

Tier 1 capital, which includes fully paid up capital, balance in share premium account, reserve for bonus issue, general reserves as per the financial statements and net un-appropriated profits, etc after deductions for investments in the equity of subsidiary companies engaged in banking and financial activities, deficit on revaluation of available for sale investments.

Tier 2 capital, which includes general provisions for loan losses (up to a maximum of 1.25 % of risk weighted assets), reserves on the revaluation of fixed assets and equity investments (up to a maximum of 50 % of the balance in the related revaluation reserves), subordinated debt (up to a maximum of 50 %).

Tier 3 capital has also been prescribed by the SBP for managing market risk; however the Bank does not have any Tier 3 capital.

The required capital is achieved by the Bank through:

- enhancement in the risk profile of asset mix at the existing volume level;
- ensuring better recovery management; and
- maintain acceptable profit margins.

Bank was well capitalized and met all capital requirements to which it was subject throughout the period.

## 40.2 Capital adequacy ratio

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

Rupees in '000	December 31, 2007	December 31, 2006
Regulatory Capital Base		
Tier I Capital		
Shareholders capital	5,386,370	4,488,642
Reserves	6,050,713	6,133,209
Unappropriated profits	6,971,308	5,607,796
	18,408,391	16,229,647
Less: Adjustments	557,614	144,383
Total Tier I Capital	17,850,777	16,085,264
Tier II Capital		
Subordinated debt (upto 50% of total Tier I Capital)	2,499,000	2,500,000
General Provisions subject to 1.25% of Total Risk Weighted Assets	13,123	14,047
Revaluation Reserve (upto 50%)	734,926	770,001
Total Tier II Capital	3,247,049	3,284,048
Eligible Tier III Capital	-	-
Total Regulatory Capital (a)	21,097,826	19,369,312

Rupees in '000	December 31, 2007		December 31, 2006	
	Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
Risk-Weighted Exposures				
Credit Risk				
Balance Sheet Items				
Cash and other liquid Assets	30,408,306	678,950	24,745,022	842,316
Money at call	18,419,241	4,295,000	19,050,239	3,284,500
Investments	83,958,463	33,546,033	46,953,241	6,942,075
Loans and advances	168,407,280	143,130,474	144,033,634	116,455,007
Fixed assets	7,548,628	7,548,628	6,445,111	6,445,111
Deferred taxation	662,431	662,431	638,168	638,168
Other assets	10,705,374	6,062,814	10,161,361	5,814,494
	320,109,723	195,924,330	252,026,776	140,421,671
Off Balance Sheet items				
Performance bonds etc.	12,247,743	3,282,524	8,255,859	1,908,421
Stand By letters of credit	83,037,690	27,503,371	38,142,108	8,097,854
Outstanding foreign exchange contracts				
- Purchase	10,998,473	80,248	6,983,267	69,104
- Sale	4,763,749	20,896	3,266,742	13,750
	111,047,655	30,887,039	56,647,976	10,089,129
Credit risk-weighted exposures		226,811,369		150,510,800

Rupees in '000		December 31, 2007	December 31, 2006
		Risk Adjusted Value	Risk Adjusted Value
Market Risk			
General market risk		32,400	237,113
Specific market Risk		32,400	237,113
Foreign exchange Risk		116,361	296,009
Market risk-weighted exposures		181,161	770,235
Total Risk-Weighted exposures	(b)	226,992,530	151,281,035
Capital Adequacy Ratio [(a) / (b) x 100]		9.29%	12.80%

#### 41. RISK MANAGEMENT

The Risk Management Framework (the Framework) provides principles for identifying, assessing, and monitoring risk within the Bank. The Framework specifies the key elements of the risk management process in order to maximise opportunities, to minimise adversity and to achieve improved outcomes and outputs based on informed decision making.

##### Categories of Risk

The Bank generates most of its revenues by accepting Credit, Country, Liquidity and Market Risk. Effective management of these four risks is the decisive factor in our profitability. In addition, the Bank is subject to certain consequential risks that are common to all business undertakings. These risks are grouped under two headings: Operational and Reputational Risk. The Framework is organized with reference to these five risk categories, as detailed below:

**Credit Risk** This risk is defined as the possibility of loss due to unexpected default or a deterioration of credit worthiness of a business partner.

Credit Risk includes Country Risk i.e., the risks that counterparty is unable to meet its foreign currency obligations as a result of adverse economic conditions or actions taken by governments in the relevant country.

**Market Risk** The risk of loss generated by adverse changes in the price of assets or contracts currently held by the Bank (this risk is also known as price risk)

**Liquidity Risk** The risk that the Bank is unable to meet its payment obligations when they fall due and to replace funds when they are withdrawn; the consequences of which may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

**Operational Risk** Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. The definition excludes reputational risk.

**Reputational Risk** The risk of failing to meet the standards of performance or behavior required or expected by stakeholders in commercial activities or the way in which business is conducted.

##### Risk Responsibilities

- The Board of Directors is accountable for overall supervision of the risk management process. This is discharged by distributing responsibilities at Board level for their management and determining the manner in which risk authorities are set. The Board is also responsible for approval of all risk policies and ensuring that these are properly implemented. Further, the Board shall also seek appointment of senior management personnel capable of managing the risk activities conducted by the Bank.
- The Board Risk Management Committee (BRMC) is responsible for ensuring that the overall risk strategy and appetite of the Bank is appropriately defined in the Strategic Plan and recommend the same to the Board of Directors.
- The BRMC recommends for approval to the Board of Directors the policies proposed by MANCO (Management Committee of the Bank) which discharges various responsibilities assigned to it by the BRMC.

# Notes to the Financial Statements

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- The President and Group Chiefs are accountable for the management of risk collectively through their membership of risk committees i.e. Management Committee and the Asset & Liability Committee. Independent supervision of risk management activities is provided by the Audit Committee.
- The Risk Management Group is headed by a Group Chief responsible to set-up and implement the Framework of the Bank.

## Risk Management Group Organization

Risk management functions have been segregated by business specialization, i.e., Credit Risk, Credit Administration, Risk Architecture, Risk Analytics, Operational Risk and Market Risk. All these functions are operating in tandem to improve and maintain the health of assets and liabilities.

### 41.1 Credit Risk

Credit risk, the potential default of one or more debtors, is the largest source of risk for the Bank. The Bank is exposed to credit risk through its lending and investment activities. The Bank's credit risk function is divided into Corporate and Financial Institutions Risk, Commercial and Retail Risk, and Consumer Risk. The functions operate within an integrated framework of credit policies, guidelines and processes. The credit risk management activities are governed by the Credit Risk Framework of the Bank, that defines the respective roles and responsibilities, the credit risk management principles and the Bank's credit risk strategy.

The Bank manages 3 principal sources of credit risk:

- i) Sovereign credit risk on its public sector advances
- ii) Non-sovereign credit risk on its private sector advances
- iii) Counterparty credit risk on interbank limits

#### Sovereign Credit Risk

When the Bank lends to public sector borrowers, it prefers obtaining a full sovereign guarantee or the equivalent from the Government of Pakistan (GOP). However, certain public sector enterprises have a well defined cash flow stream and appropriate business model, based on which the lending is secured through collaterals other than GOP guarantee.

#### Non-Sovereign Credit Risk

When the Bank lends to private sector borrowers it does not benefit from sovereign guarantees or the equivalent. Consequently, each borrower's credit worthiness is analyzed on the Credit Application Package that incorporates a formalized and structured approach for credit analysis and directs the focus of evaluation towards a balanced assessment of credit risk with identification of proper mitigants. These risks include Industry Risk, Business Risk, Financial Risk, Security Risk and Account Performance Risk. Financial analysis is further strengthened through use of separate financial spreadsheet templates that have been designed for manufacturing/trading concerns, financial institutions and insurance companies.

#### Counter Party Credit Risk on Interbank Limits

In the normal course of its business, the Bank's Treasury utilizes products such as Reverse REPO and call lending to meet the needs of the borrowers and manage its exposure to fluctuations in market, interest and currency rates and to temporarily invest its liquidity prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty in the transaction may be unable to meet its obligation to the Bank.

Reflecting a preference for minimizing exposure to counterparty credit risk, the Bank maintains eligibility criteria that link the exposure limits to counterparty credit ratings by external rating agencies. For example, the minimum rating for counterparties to be eligible for a banking relationship with the Bank is BBB.

#### Country Risk

The Bank has in place a Country Risk Management Policy which has been approved by the Board. This policy focuses on international exposure undertaken by the Bank. The Bank utilizes country risk rating assessment reports published by Dun & Bradstreet Limited (an international credit rating agency) which use political, commercial, macroeconomic and external risk factors in assigning a country risk rating. The country risk limits used by the Bank are linked to the Dun & Bradstreet ratings and FID is responsible for monitoring of country exposure limits.

### Credit Administration

Credit Administration is involved in minimizing losses that could arise due to security and documentation deficiencies. The Credit Administration Division constantly monitors the security and documentation risks inherent in the existing credit portfolio through six regional credit administration departments located all over the country.

### Risk Analytics

To ensure a prudent distribution of asset portfolio, the Bank manages its lending and investment activities within a framework of Borrower, Group and Sector exposure limits and risk profile benchmarks.

#### Internal Risk Rating Models

The Bank has developed internal risk rating models to assign credit risk ratings to its Corporate and Institutional borrowers. These models are based on expert judgment, comprising of both quantitative and qualitative factors. The ratings are assigned at Risk Analytic's Level and are given due weightage while extending credit to these asset classes. The Bank intends to comply with the requirements of Foundation Internal Ratings Based approach for credit risk measurement under Basel II, for which services of a consultant have been solicited to assist the Bank in carrying out statistical testing and validation of the rating models.

#### Stress Testing

The Bank is also conducting stress testing of its existing portfolio, which includes all assets, i.e., advances as well as investments. This exercise is conducted on a semi-annual basis in line with regulatory requirements through assigning shocks to all assets of the Bank and assessing its resulting affect on capital adequacy.

#### Early Warning System

In order to ensure that monitoring of the regular lending portfolio focuses on problem recognition, an early warning system in the form of a 'Watch-List' category has been instituted to cover the gap between Regular and Substandard categories. Identification of an account on the said 'Watch-List' influences the lending branch to carry out an assessment of the borrower's ability to rectify the identified problem / weakness within a reasonable time-frame, consider tighter structuring of facilities, confirm that there are no critical deficiencies in the existing security position and, if possible, arrange for strengthening of the same through obtaining additional collateral. It should however, be noted that the Watch-List category of accounts is part of the Bank's Regular portfolio and does not require any provisioning.

In some cases, an account may even be downgraded directly from a Regular to Sub-Standard or worse on subjective basis based on the severity of the trigger involved.

#### Management of Non Performing Loans

The Bank has a Special Asset Management Group (SAM), which is responsible for management of non performing loans. SAM undertakes restructuring / rescheduling of problem loans, as well as litigation both civil and criminal for collection of debt.

For the non-performing loan portfolio, the Bank makes a specific provision based on an assessment of the credit impairment of each loan. At the end of 2007, the average specific provisioning rate was 87.70% of the non-performing loan portfolio.

The accounting policies and methods used to determine specific and general provision are given in the note numbers 5 and 10 to these financial statements. The movement in specific and general provision held is given in note 10.5 to these financial statements.

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## Portfolio Diversification

During the year 2007 the banking sector advances in Pakistan grew by 10% whereas growth in the Bank's advances was 18%. The growth pattern indicates that the Bank has outpaced overall credit growth of banking sector, while concomitantly maintaining healthy Advances to Deposit Ratio and Capital Adequacy Ratio.

While expanding the advances portfolio, efficient portfolio diversification has been a key consideration. The diversification takes into account the volatility of various sectors by placing concentration limits on lending to these sectors thereby ensuring a diversified advances portfolio. Composition of the bank's advance's portfolio is significantly diversified. Textile, Cement, Financial Institutions, Agriculture and Transport/Communication are major contributors to the advances portfolio. These sectors are considered to be the biggest contributors towards country's GDP as well.

## 41.1.1 Segmental Information

### 41.1.1.1 Segments by class of business

	December 31, 2007					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture	12,553,125	7.03%	14,521,863	5.50%	61,187	0.05%
Cement/clay/ceramics	11,891,027	6.66%	1,924,072	0.73%	5,293,492	4.52%
Electric generation	14,449,231	8.09%	14,766,551	5.59%	98,138	0.08%
Financial institutions	9,344,112	5.23%	9,711,263	3.68%	20,263,642	17.31%
Food manufacturing	9,911,026	5.55%	3,640,871	1.38%	-	-
Individuals	5,450,062	3.05%	74,614,250	28.27%	220,739	0.19%
Iron steel	3,660,908	2.05%	11,446,037	4.34%	3,928,798	3.36%
Oil and gas etc.	4,950,378	2.77%	13,706,737	5.19%	14,740,868	12.59%
Sugar	4,907,093	2.75%	1,380,337	0.52%	757,298	0.65%
Textile	38,738,827	21.70%	4,887,491	1.85%	7,266,796	6.21%
Transport, storage and communication	15,422,747	8.64%	4,464,466	1.69%	208,861	0.18%
Wholesale and retail trade	7,562,881	4.24%	15,447,791	5.85%	968,116	0.83%
Others	39,682,940	22.23%	93,460,653	35.41%	63,272,711	54.04%
	178,524,357	100.00%	263,972,382	100.00%	117,080,646	100.00%

### 41.1.1.2 Segments by sector

	December 31, 2007					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/Government	19,758,288	11.07%	38,829,872	14.71%	37,472,124	32.01%
Private	158,766,069	88.93%	225,142,510	85.29%	79,608,522	67.99%
	178,524,357	100.00%	263,972,382	100.00%	117,080,646	100.00%

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

Rupees in '000	December 31, 2007		December 31, 2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Agriculture	334,558	281,122	366,071	242,843
Chemical	192,307	188,119	236,486	79,814
Food manufacturing	351,984	350,784	437,020	259,561
Individuals	189,258	179,645	120,501	119,641
Textile	1,590,827	1,121,628	3,123,218	2,665,949
Transport, storage and communication	945,536	732,655	300,866	218,916
Wholesale and retail trade	624,336	575,361	802,230	520,140
Others	7,126,117	6,529,367	5,092,197	3,550,873
	11,354,923	9,958,681	10,478,589	7,657,737

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

Rupees in '000	December 31, 2007		December 31, 2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
Public/Government	506,947	322,828	230,183	126,989
Private	10,847,976	9,635,853	10,248,406	7,530,748
	11,354,923	9,958,681	10,478,589	7,657,737

#### 41.1.1.5 Geographical Segment Analysis

Rupees in '000	December 31, 2007			
	Profit before taxation	Total Assets employed	Net assets employed	Contingencies and commitments
Pakistan	5,953,076	320,109,723	19,878,242	117,080,646

#### 41.2 Market Risk

The Bank is exposed to Foreign Exchange Rate Risk, Interest Rate Risk and Equity Price Risk.

Market Risk Function has been partially set up with current responsibility of performing basic market risk measurement, monitoring and control functions. However, to give it a formal structure, the Bank has appointed services of Duetsche Bank Risk Advisory for assistance in establishment of Market Risk Management Framework.

Market Risk Pertaining to the Trading Book

##### Trading Book

A trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. To be eligible for trading book, financial instruments must be held with the intent of trading and free of any restrictive covenants on their tradability. In addition, positions need to be frequently and accurately valued and the portfolio should be actively managed.

The Bank's trading book includes equity securities classified as 'Held for Trading'. These positions are actively managed by the capital market desk. Bank's trading book constitutes capital market equities therefore, they are exposed to equity price risk.

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## Risk Pertaining to Banking Book Investment Portfolio

All investments excluding trading book are considered as part of banking book. Banking book include:

- i) Available for sale securities
- ii) Held to maturity securities
- iii) Other strategic investments

Treasury investments parked in the banking book include:

- i) Government securities
- ii) Capital market investments
- iii) Strategic investments
- iv) Investments in bonds, debentures, etc

Due to the diversified nature of investments in banking book, it is subject to interest rate and equity price risk.

## Interest Rate Risk – Banking Book

Government securities (PIB & T-Bills) and other money market investments are subject to interest rate risk. To capture the risk associated with these securities extensive modeling is being done with respect to duration analysis. Stress testing and scenario models are also in place to capture the sensitivity of the portfolio to adverse movement in interest rates. For prudent risk management all money market investments are marked to market to assess changes in the market value of investments due to interest rate movements.

## Equity Position Risk – Banking Book

The Bank's portfolio of equity securities categorized under 'Available for Sale' and 'Strategic Investments' are parked in the banking book. These investments expose the Bank to equity price risk.

## Stress Testing

The Bank also conducts Stress Testing of the Bank's investment portfolio to ascertain the impact of various scenarios on the capital adequacy and sustainability of the Bank. The exercise assumes various stress conditions, with respect to Market Risk (Rise or Fall in Interest Rates, leading to interest rate risk), Equity Price Risk resulting from Stock Market movements, FX Rate Risk leading from adverse movements in exchange rates and Liquidity Risk (ability to meet short-term obligations if there is a run on deposits).

## Duration GAP Analysis

A Duration Gap Analysis is also conducted to ascertain the duration gap between the Bank's assets and liabilities, to ascertain the effect of interest rate shifts on the market value of equity.

## Market Risk Capital Charge

The Bank uses standardized measurement method for calculation of market risk capital charge. The results are as under:

Rupees in '000	December 31, 2007	
	Risk Weighted Exposures	Capital Charge
General market risk – Equity Exposures	32,400	2,592
Specific market risk – Equity Exposures	32,400	2,592
Foreign Exchange risk	116,361	9,309
<b>Total</b>	<b>181,161</b>	<b>14,493</b>



#### 41.2.1 Foreign Exchange Risk

Foreign Exchange Risk is the risk of loss arising from fluctuations of exchange rates. Our FX Risk is first controlled through substantially matched funding policy. On the mismatched exposures, the Bank utilizes appropriate derivative instruments such as Forwards and Swaps.

The majority of net foreign currency exposure is in US Dollars. The Bank is carefully monitoring the net foreign currency exposure and the effect of exchange rate fluctuations by conducting sensitivity analysis and stress testing, as well as utilizing the currency forwards and swaps to hedge the related exposure.

Rupees in '000	December 31, 2007			
	Financial assets	Financial liabilities	Off-balance sheet items	Net foreign currency exposure
Pakistani Rupee	303,289,311	284,121,793	(6,234,724)	12,932,794
United States Dollar	7,308,529	11,721,695	4,420,146	6,980
Great Britain Pound	195,844	1,429,445	1,215,538	(18,063)
Japanese Yen	757	96	-	661
Euro	253,484	855,939	601,343	(1,112)
Other Currencies	112,016	993	(2,303)	108,720
	7,870,630	14,008,168	6,234,724	97,186
	311,159,941	298,129,961	-	13,029,980

#### 41.2.2 Equity Position Risk

The Board with the recommendations of ALCO approves exposure limits applicable to investments in Trading Book. Equity securities are perpetual assets and are classified under either Held for Trading Portfolio or Available for Sale Portfolio.

##### Concentration Risk

ALCO is responsible for making investment decisions in the capital market and setting limits that are a component of the risk management framework. Portfolio, Sector and Scrip wise limits are assigned by the ALCO to guard against concentration risk and these limits are reviewed and revised periodically. The capital market desk ensures compliance of concentration limits set by ALCO. Limit monitoring is done on a daily basis. Limit breaches if any are promptly reported to ALCO with proper reason and justification.

##### Price Risk

Trading and investing in equity securities give rise to price risk. ALCO and Treasury's Capital Market Unit both ensure that through prudent trading strategy and use of equity futures, the equity price risk is mitigated, albeit to a certain extent.

# Notes to the Financial Statements

## for the year ended December 31, 2007

### 41.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

		December 31, 2007											
Rupees in '000	Effective Yield/Interest rate	Total	Exposed to Yield/Interest risk								Non-interest bearing financial instruments		
			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	
<b>On-balance sheet financial instruments</b>													
<b>Assets</b>													
Cash and balances with treasury banks	3.71% - 4.72%	29,739,857	620,930	-	-	-	-	-	-	-	-	-	29,118,927
Balances with other banks	-	668,449	-	-	-	-	-	-	-	-	-	-	668,449
Lendings to financial institutions	9.56%	18,419,241	14,354,479	4,064,762	-	-	-	-	-	-	-	-	-
Investments	8.99%	83,958,463	5,226,956	20,793,363	15,408,023	8,522,875	1,601,096	53,336	2,901,695	5,414,812	-	-	24,036,307
Advances	10.55%	168,407,280	147,644,863	6,912,889	924,744	1,801,970	1,486,396	934,062	1,153,579	3,462,196	2,848,735	-	1,237,846
Other assets	-	9,966,651	-	-	-	-	-	-	-	-	-	-	9,966,651
		311,159,941	167,847,228	31,771,014	16,332,767	10,324,845	3,087,492	987,398	4,055,274	8,877,008	2,848,735	-	65,028,180
<b>Liabilities</b>													
Bills payable	-	3,494,384	-	-	-	-	-	-	-	-	-	-	3,494,384
Borrowings	8.23%	22,933,656	19,223,177	1,470,631	2,043,895	195,953	-	-	-	-	-	-	-
Deposits and other accounts	4.28%	263,972,382	177,294,854	12,619,479	3,934,715	2,381,229	-	-	-	-	-	-	67,742,105
Sub-ordinated loans	11.93%	2,499,000	-	-	2,499,000	-	-	-	-	-	-	-	-
Other liabilities	-	5,230,539	-	-	-	-	-	-	-	-	-	-	5,230,539
		298,129,961	196,518,031	14,090,110	8,477,610	2,577,182	-	-	-	-	-	-	76,467,028
<b>On-balance sheet gap</b>		<b>13,029,980</b>	<b>(28,670,803)</b>	<b>17,680,904</b>	<b>7,855,157</b>	<b>7,747,663</b>	<b>3,087,492</b>	<b>987,398</b>	<b>4,055,274</b>	<b>8,877,008</b>	<b>2,848,735</b>	<b>-</b>	<b>(11,438,848)</b>
<b>Off-balance sheet financial instruments</b>													
<b>Forward lending</b>													
Commitments in respect of Repo Lending	10.25%	1,000,000	1,000,000	-	-	-	-	-	-	-	-	-	-
Commitments in respect of CFS lending	14%	733	733	-	-	-	-	-	-	-	-	-	-
Commitments in respect of forward exchange contracts	-	10,998,473	-	-	-	-	-	-	-	-	-	-	10,998,473
<b>Forward borrowing</b>													
Commitments in respect of forward exchange contracts	-	4,763,749	-	-	-	-	-	-	-	-	-	-	4,763,749
<b>Off-balance sheet gap</b>		<b>7,235,457</b>	<b>1,000,733</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,234,724</b>
<b>Total Yield/Interest Risk Sensitivity Gap</b>		<b>20,265,437</b>	<b>(27,670,070)</b>	<b>17,680,904</b>	<b>7,855,157</b>	<b>7,747,663</b>	<b>3,087,492</b>	<b>987,398</b>	<b>4,055,274</b>	<b>8,877,008</b>	<b>2,848,735</b>	<b>-</b>	<b>-</b>
<b>Cumulative Yield/Interest Risk Sensitivity Gap</b>		<b>20,265,437</b>	<b>(27,670,070)</b>	<b>(9,989,166)</b>	<b>(2,134,009)</b>	<b>5,613,654</b>	<b>8,701,146</b>	<b>9,688,544</b>	<b>13,743,818</b>	<b>22,620,826</b>	<b>25,469,561</b>	<b>-</b>	<b>-</b>

#### 41.2.3.1 Reconciliation of Assets and Liabilities exposed to Yield/Interest Rate Risk with Total Assets and Liabilities

Total financial assets as per note 41.2.3	311,159,941
Add Non Financial Assets	
Operating fixed assets	7,548,628
Deferred tax asset	662,431
Other assets	738,723
<b>Total assets as per balance sheet</b>	<b>320,109,723</b>
Total liabilities as per note 41.2.3	298,129,961
Add Non Financial Liabilities	
Other liabilities	2,101,520
<b>Total liabilities as per balance sheet</b>	<b>300,231,481</b>

### 41.3 Liquidity Risk

Liquidity risk is the risk that the Bank is unable to fund its current obligations and operations in the most cost efficient manner. ALCO is the forum to oversee liquidity management. The overall Bank's principle is that the ALCO has the responsibility for ensuring that Bank's policy for liquidity management is adhered to on a continual basis.

Other than customer's deposits, the Bank's funding source is the inter-bank money market. Change in the government monetary policy and market expectations of interest rate are all important factors that can adversely affect our key funding source. Efficient and accurate planning plays a critical role in liquidity management. Our MIS provides information on expected cash inflows/out flows which allow the Bank to take timely decisions based on the future requirements.

Comprehensive gap analysis, stress testing and scenario analysis is done on periodic basis to capture any adverse effect of market movements on liquidity position. Based on the results produced by analytical models, ALCO devise the liquidity management strategy to maintain sufficient liquidity to deal with any related catastrophe.

### 41.3.1 Maturities of Assets and Liabilities

The table below summarizes the maturities of assets and liabilities in accordance with liquidity assumptions used by the bank to monitor liquidity risk. Assets and liabilities are assumed to mature on their contractual maturities or on the expected date of realization/settlement/replacement as required by the assumptions.

Rupees in '000	December 31, 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
<b>Assets</b>										
Cash and balances with treasury banks	29,739,857	29,739,857	-	-	-	-	-	-	-	-
Balances with other banks	668,449	668,449	-	-	-	-	-	-	-	-
Lendings to financial institutions	18,419,241	14,354,479	4,064,762	-	-	-	-	-	-	-
Investments	83,958,463	5,665,425	17,997,491	10,411,424	8,362,387	24,327,425	1,738,973	9,899,686	4,482,076	1,073,576
Advances	168,407,280	23,632,878	35,731,127	10,325,079	42,328,286	13,511,777	10,700,959	15,514,401	12,327,943	4,334,830
Operating fixed assets	7,548,628	30,264	60,528	90,792	181,585	1,123,861	242,452	349,226	420,218	5,049,702
Deferred tax assets	662,431	197,931	14,290	14,128	17,885	57,367	27,851	53,463	22,832	256,684
Other assets	10,705,374	1,384,449	1,211,008	2,666,112	4,192,222	21,290	21,290	42,580	106,450	1,059,973
	320,109,723	75,673,732	59,079,206	23,507,535	55,082,365	39,041,720	12,731,525	25,859,356	17,359,519	11,774,765
<b>Liabilities</b>										
Bills payable	3,494,384	3,494,384	-	-	-	-	-	-	-	-
Borrowings	22,933,656	12,404,504	2,308,839	5,029,153	951,313	1,116,464	644,814	282,617	195,952	-
Deposits and other accounts	263,972,382	48,461,991	53,579,823	29,565,060	27,682,616	24,834,784	28,848,192	16,174,661	19,257,541	15,567,714
Sub-ordinated loans	2,499,000	-	-	500	500	1,000	1,000	2,000	2,494,000	-
Other liabilities	7,332,059	3,156,440	1,797,499	121,419	167,826	189,409	176,018	297,321	715,668	710,459
	300,231,481	67,517,319	57,686,161	34,716,132	28,802,255	26,141,657	29,670,024	16,756,599	22,663,161	16,278,173
<b>Net assets/(liabilities)</b>	<b>19,878,242</b>	<b>8,156,413</b>	<b>1,393,045</b>	<b>(11,208,597)</b>	<b>26,280,110</b>	<b>12,900,063</b>	<b>(16,938,499)</b>	<b>9,102,757</b>	<b>(5,303,642)</b>	<b>(4,503,408)</b>
Share capital	5,386,370									
Reserves	6,050,713									
Unappropriated profit	6,971,308									
Surplus on revaluation of assets - net of tax	1,469,851									
	19,878,242									

41.3.1.1 When an asset or liability does not have any contractual maturity date, the period in which these are assumed to mature has been taken as the expected date of maturity.

### 41.4 Operational Risk

The Bank, like all financial institutions, is exposed to many types of operational risks, including the potential losses arising from internal activities or external events caused by breakdowns in information, communication, physical safeguards, business continuity, supervision, transaction processing, settlement systems and procedures and the execution of legal, fiduciary and agency responsibilities.

The Bank maintains a system of internal controls designed to keep operational risk at appropriate levels, in view of the Bank's financial strength and the characteristics of the activities and market in which it operates. These internal controls are periodically updated to conform to industry best practice.

The Bank is currently in the process of implementing internationally accepted Internal Control-Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), with a view to consolidate and enhance the existing internal control processes. Further the Bank has appointed a consultant to assist in implementation of Operational Risk Framework.

# Notes to the Financial Statements

## for the year ended December 31, 2007

### 42. LIQUIDATION OF ALLIED MANAGEMENT SERVICES (PRIVATE) LIMITED

The Board of Directors of Allied Bank Limited in its meeting held on October 30, 2006 had approved the liquidation of Allied Management Services (Private) Limited, (AMSL), a wholly owned subsidiary of the Bank, consequent to the merger of First Allied Bank Modaraba (managed by AMSL) into the Bank. Subsequently, shareholders of Allied Management Services (Private) Limited in Extra Ordinary General Meeting held on April 28, 2007 resolved to wind up the company as per the provisions of sections 362 to 370 of Companies Ordinance, 1984 under the Members' Voluntary Winding Up and appointed a liquidator. On account of liquidation ABL received Rs. 145.901 million against the holding of 6,248,800 shares (99.99%) carried at cost of Rs. 62.488 million resulting in gain of Rs. 83.413 million. The Bank has received acknowledgement of filing (No. ARL/ QA-573A dated January 11, 2008) for Forms 107, 26, 29, 109, 110, 112, 37 and 26 from SECP.

### 43. RECLASSIFICATION

Following corresponding figure has been reclassified for the purpose of better presentation.

From	To	December 31, 2006
		Rupees in '000
Balances with other banks	Cash and balances with treasury banks	2,434

### 44. NON ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 29, 2008 has proposed a final cash dividend in respect of 2007 of Rs. 1.5 per share (2006: Rs. 2.5 per share). In addition, the directors have also announced a bonus issue of 20% (2006: 20%). These appropriations will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2007 donot include the effect of these appropriations which will be accounted for in the financial statements for the year ending December 31, 2008.

### 45. GENERAL

- 45.1 These accounts have been prepared in accordance with the revised forms of annual financial statements of the banks issued by the State Bank of Pakistan through its BSD Circular No. 04 dated February 17, 2006.
- 45.2 Figures have been rounded off to the nearest thousand rupees.

### 46. DATE OF AUTHORIZATION FOR ISSUE

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

Chief Financial Officer

President and Chief Executive

Director

Director

Chairman

# Annexure I

As referred to in notes 9.2.5 and 9.4 to the financial statements

## 1. DETAIL OF INVESTMENT IN SHARES - LISTED

S. No.	Name of Company	No. of Shares	Amount in Rupees		
			Paid-up Value per Share	Total Paid-up Value	Market Price per Share
1	DADABHOY LEASING	47,300	10	473,000	1.40
2	DADABHOY MODARBA	567,500	10	5,675,000	0.90
3	ENGRO CHEMICAL LIMITED	75,000	10	750,000	265.75
4	FAUJI FERTILIZER BIN QASIM LIMITED	6,175,000	10	61,750,000	42.05
5	FAUJI FERTILIZER COMPANY	1,000,000	10	10,000,000	118.75
6	HUB POWER COMPANY LIMITED	9,370,000	10	93,700,000	30.50
7	KAISER ARTS & CRAFT	766,500	10	7,665,000	0.55
8	LUCKY CEMENT LIMITED	200,000	10	2,000,000	116.50
9	MEEZAN BANK LIMITED	550,000	10	5,500,000	38.50
10	MOHIB EXPORT LIMITED	21,275	10	212,750	0.15
11	MY BANK LIMITED	500,000	10	5,000,000	23.95
12	NATIONAL BANK OF PAKISTAN	300,000	10	3,000,000	232.15
13	NISHAT MILLS LIMITED	519,800	10	5,198,000	105.20
14	OIL & GAS DEVELOPMENT COMPANY	876,700	10	8,767,000	119.45
15	PACE PAKISTAN LIMITED	1,100,000	10	11,000,000	36.55
16	PAK OMAN ADVANTAGE FUND	96,000	10	960,000	8.25
17	PAKISTAN OIL FIELDS	575,000	10	5,750,000	334.40
18	PAKISTAN PETROLEUM LIMITED	325,000	10	3,250,000	245.05
19	PAKISTAN STATE OIL	25,000	10	250,000	406.60
20	PAKISTAN TELECOMMUNICATION COMPANY LIMITED	987,600	10	9,876,000	42.05
21	PICIC GROWTH MUTUAL FUND	3,152,500	10	31,525,000	28.50
22	REDCO TEXTILE MILLS	300	10	3,000	2.35
23	S.G. FIBRE LTD	788,800	10	7,888,000	52.30
24	SAFA TEXTILE MILLS LIMITED	860,700	10	8,607,000	6.15
25	TRG PAKISTAN LIMITED	3,494,500	10	34,945,000	14.00
26	WORLD CALL TELECOM LIMITED	469	10	4,690	16.60
	Pre IPO Investment				
27	ARIF HABIB BANK LIMITED	11,900,000	21	249,900,000	N/A

## 2. DETAIL OF INVESTMENT IN SHARES - UNLISTED

S. No.	Name of Company	Percentage of Holding	No. of Shares	Paid-up Value per Share	Total Paid-up Value	Break-up Value per Share	Amount in Rupees		
							Total Book Value December 31, 2007	Break-up Value as per Audited Accounts	Name of Chief Executive / Managing Agent
1	ABL ASSET MANAGEMENT COMPANY	100.00	50,000,000	10	500,000,000	-	500,000,000	-	Anis ur Rahman
2	AL-AMIN TEXTILE MILLS LIMITED *	-	13,100	10	131,000	-	1	-	Suleman Haji Allah Bux
3	ARABIAN SEA COUNTRY CLUB LIMITED	6.45	500,000	10	5,000,000	9.36	5,000,000	30.06.2007	Arif Khan Abbasi
4	ATLAS POWER	-	6,500,000	10	65,000,000	10.00	65,000,000	-	Maqsoodd A. Basraa
5	ATTOCK TEXTILE MILLS LIMITED*	-	55,500	10	555,000	-	505,500	-	Fareeda Khanum
6	BANKERS EQUITY LIMITED*	-	807,699	10	8,076,990	-	1	-	Under Liquidation
7	EASTERN CAPITAL LIMITED	16.13	500,000	10	5,000,000	17.16	5,000,000	30.06.2007	Munir M. Ladha
8	EQUITY PARTICIPATION FUND	0.97	15,000	100	1,500,000	550.37	1,500,000	30.06.2007	Jamal Nasim
9	FIRST WOMEN BANK LIMITED	8.48	2,544,000	10	25,440,000	31.17	21,200,000	31.12.2006	Zarine Aziz
10	HABIB ALLIED INTERNATIONAL BANK	9.50	2,375,000	90	214,771,250	167.52	214,769,350	31.12.2006	Zakir Mahmood
11	INVESTMENT CORPORATION OF PAKISTAN (MERGED WITH IDBP)	-	100,000	10	1,000,000	-	9,130,000	30.06.2004	Abdul Latif Uqaili
12	KAYTEX MILLS LTD *	-	151,100	10	1,511,000	-	1,511,000	-	Col. (Retd.) M. Yaqoub
13	KHUSHHALI BANK LIMITED	11.73	200	1,000,000	200,000,000	1,036,871.94	200,000,000	31.12.2006	M. Ghalib Nishtar
14	KOHINOOR LOOMS *	-	210,000	10	2,100,000	-	1	-	-
15	NATIONAL WOOLEN MILLS LIMITED	0.05	6,900	10	69,000	-	51,900	-	Haji Sher Shah
16	NIFT	9.07	662,584	10	6,625,840	54.18	1,526,500	30.06.2007	Muzzafar M. Khan
17	PASSCO	3.33	1,000	1,000	1,000,000	(661.30)	1,000,000	31.03.2007	Maj. Gen. Ahmad Nawaz Saleem Mela
18	RUBY RICE & GENERAL MILLS LIMITED	-	14,500	10	145,000	-	104,500	-	Mahboob Ali
19	SME BANK LIMITED	0.39	774,351	10	7,743,510	11.44	5,250,000	31.12.2006	Mansur khan
20	SWIFT	-	10	-	-	-	1,769,508	-	-
	Privately Placed Investment								
21	ENGRO ASAHI POLYMER & CHEM. LTD.	-	3,106,567	-	-	-	55,918,206	-	Asif Qadir
22	NISHAT CHUNIAN POWER LTD.	-	2,000,000	10	20,000,000	-	20,000,000	-	Saleem
23	NISHAT MILLS POWER LTD.	-	2,500,000	10	25,000,000	-	25,000,000	-	Mohammad Mansha

\* These companies stand de-listed as at December 31, 2007

# Annexure I

As referred to in notes 9.2.5 and 9.4 to the financial statements

## 3. DETAIL OF INVESTMENT IN BONDS

Government Guaranteed

Amount in Rupees

S. No.	Name of Bonds	Balance as on December 31, 2007	Coupon Rate	Date of Issue	Date of Maturity	Coupon Due	Redemption Period
1	GOVT. COMPENSATION BONDS	11,650,000	6%	1-Mar-89	1-Mar-09	YEARLY	AFTER 20 YEAR
2	GOVT. COMPENSATION BONDS	280,117,000	6%	1-Jun-89	1-Jun-09	YEARLY	AFTER 20 YEAR
3	GOVT. COMPENSATION BONDS	118,513,000	9%	1-Jul-90	1-Jul-10	YEARLY	AFTER 20 YEAR
4	US DOLLAR BOND (\$ 1,756,940)	160,010,000	6%	1-Jul-90	1-Jul-10	YEARLY	YEARLY
		570,290,000					

## 4. OTHERS

Sukuk Bonds

Amount in Rupees

S No.	Name of Bond	Balance as on December 31, 2007	Rate of Mark-up	Date of Maturity	Coupon Due	Term of Redemption
1	SECURITY LEASING CORPORATION	270,000,000	11.97%	31-May-12	06-Jan-08	Half Yearly
2	CENTURY PAPER & BOARD MILLS	1,150,000,000	11.35%	24-Sep-14	25-Mar-08	Half Yearly
3	DAWOOD HERCULES	1,000,000,000	11.21%	17-Sep-12	16-Mar-08	Half Yearly
4	MAPLE LEAF CEMENT	2,400,000,000	11.68%	06-Jan-14	07-Jun-08	Half Yearly
		4,820,000,000				

## 5. DETAIL OF INVESTMENT IN TFCs - LISTED

Amount in Rupees

S. No.	Name of Company	No. of Certificate	Paid-up Value per Certificate	Total Paid-up Value
1	ABN AMRO BANK LIMITED	7,000	5,000	35,000,000
2	ASKARI COMMERCIAL BANK	20,000	5,000	100,000,000
3	AZGARD NINE LIMITED	1,300	5,000	6,500,000
4	BANK AL-FALAH LIMITED	20,000	5,000	100,000,000
5	ESCORT INVESTMENT BANK	20,000	5,000	100,000,000
6	FAYSAL BANK LIMITED	29,341	5,000	146,705,000
7	FINANCIAL RECEIVABLES & SECURITIZATION COMPANY LIMITED	21,000	5,000	105,000,000
8	SEARLE PAKISTAN	10,000	5,000	50,000,000
9	STANDARD CHARTERED BANK	10,000	5,000	50,000,000
10	TELECARD LIMITED	75,888	5,000	379,440,000
11	UNITED BANK LIMITED	10,000	5,000	50,000,000
Pre IPO Investment				
12	GRAYS LEASING	20,000	5,000	100,000,000
13	NIB BANK LTD.	30,000	5,000	150,000,000
14	PAK ARAB FERTILIZERS	176,000	5,000	880,000,000
15	UNITED BANK LTD.	160,000	5,000	800,000,000

## 6. DETAIL OF INVESTMENT IN TFCs - UNLISTED

Amount in Rupees

S. No.	Name of Borrower	No. of Certificates	Paid-up Value Per Certificates	Total Paid-up Value	Name of Chief Executive/ Managing Agent	Outstanding Principal December 31, 2007
1	BLUE STAR SPINNING MILLS LIMITED	1	165,291	165,291	Ch.Sardar Mohammad	1,726,000
		1	270,681	270,681		
		1	263,639	263,639		
		1	251,937	251,937		
		1	244,584	244,584		
		1	233,192	233,192		
		1	225,529	225,529		
		1	214,966	214,966		
		1	206,474	206,474		
		1	195,704	195,704		
		1	187,419	187,419		
		1	176,954	176,954		
		1	168,364	168,364		
		1	158,215	158,215		
		1	149,309	149,309		
2	BENTONITE LIMITED	13	107,610	1,398,930	Khalid Shakeel	1,360,000
		1	107,619	107,619		
		1	470,440	470,440		
		15	20,100	301,500		
		1	20,680	20,680		
3	SHAH JEWANA TEXTILE MILLS LIMITED	13	40,010	520,130	Shahida Faisal Saleh Hyat	118,139
		1	40,069	40,069		
		11	120,090	1,320,990		
4	FARUKI PULP MILLS LIMITED	13	1,050,900	13,661,700	Salim Akbar Faruki	7,020,000
		1	1,050,993	1,050,993		
5	CHOUDHRY WIRE ROPE INDUSTRIES	13	217,000	2,821,000	Ch. Muhammad Akram	864,834
		1	228,902	228,902		
6	REHMAN SHARIF TEXTILE MILLS	13	49,690	645,970	Mohammad Sharif	226,213
		1	49,819	49,819		
7	LARR SUGAR MILLS	23	476,315	10,955,245	Abdul Rauf	1,798,104
		1	476,320	476,320		
		23	200,759	4,617,457		
		1	200,758	200,758		
		13	207,774	2,701,062		
		1	207,775	207,775		
		13	601,916	7,824,908		
8	SADHUJA TEXTILE MILLS	1	601,918	601,918	Ali Asghar	916,109
		1	137,946	137,946		
		3	278,924	836,772		
		2	274,376	548,752		
		1	2,790,892	2,790,892		
9	TANOCRAFT LIMITED	15	59,500	892,500	Kanwer Furqan Ali	243,054
		1	60,942	60,942		
		5	69,900	349,500		
		1	70,385	70,385		
10	KHAIRPUR SUGAR MILLS	13	55,536	721,968	Muhammad Mubeen Jumani	1,248,000
		1	55,538	55,538		
		5	337,000	1,685,000		
		1	337,077	337,077		
		1	335,227	3,110,221		
11	BACHANI SUGAR MILLS	1	135,236	135,236	Najmuddin Ansari	12,667,000
		14	1,526,874	21,376,236		
		13	655,656	8,523,528		
		1	655,657	655,657		
12	FRONTIER CERAMICS	15	117,000	1,755,000	Shamsul Hassan	2,610,699
		1	118,846	118,846		
		13	224,000	2,912,000		
		1	217,221	217,221		
		13	113,000	1,469,000		
13	SCAN RECYCLING	1	113,960	113,960	Fauzan Qasim	265,451
		15	17,200	258,000		
		1	17,300	17,300		
14	DEWAN FAROOQUE SPINNING MILLS	1	240,542	240,542	Dewan Mohammed Yousuf Farooqi	62,500,000
		25,000	5,000	125,000,000		
15	BOSICOR PAKISTAN LIMITED	10,000	5,000	50,000,000	Aamir Abbassciy	28,571,429
16	DEWAN CEMENT LIMITED	10,000	5,000	50,000,000	Dewan Mohammed Yousuf Farooqi	43,498,987
17	AL-ABBAS HOLDING	5,750	100,000	575,000,000	Shunaid Qureshi	575,000,000
18	GHANI HOLDING	5,750	100,000	575,000,000	Shunaid Qureshi	575,000,000
19	RAI TEXTILE MILLS	6	391,687	2,350,122	Javed Ahmad Kayani	266,765

# Annexure I

As referred to in notes 9.2.5 and 9.4 to the financial statements

## DETAIL OF INVESTMENT IN TFCs - UNLISTED

Amount in Rupees

S. No.	Name of Borrower	No. of Certificates	Paid-up Value Per Certificates	Total Paid-up Value	Name of Chief Executive/ Managing Agent	Outstanding Principal December 31, 2007
20	ARUJ TEXTILE MILLS	5	654,970	3,274,850	Sheikh Muhammad Tahir	1,093,970
21	DEWAN HATTAR CEMENT LIMITED (A)				Dewan Muhammad Yousaf Farooqi	15,291,540*
22	DEWAN HATTAR CEMENT LIMITED (B)				Dewan Muhammad Yousaf Farooqi	4,224,000*
23	DEWAN CEMENT LIMITED (A)				Dewan Muhammad Yousaf Farooqi	5,784,468*
24	DEWAN CEMENT LIMITED (B)				Dewan Muhammad Yousaf Farooqi	1,435,015*
25	DEWAN CEMENT LIMITED		-	Dewan Muhammad Yousaf Farooqi	27,298,222*	
26	DEWAN HATTAR CEMENT LIMITED		-	Dewan Muhammad Yousaf Farooqi	59,011,513*	
27	PAKISTAN MOBILE COMMUNICATION	40,000	5,000	200,000,000	Zuhair Khaliq	80,000,000
28	AL-ABBAS SUGAR IND. LIMITED	40,000	5,000	200,000,000	Shunaid Qureshi	200,000,000
29	NEW ALLIED ELECTRONICS	10,000	5,000	50,000,000	Mian Pervaiz Akhtar	50,000,000
	Privately Placed Investment					
30	ORIX LEASING	308,000	5,000	1,540,000,000	Humayun Murad	1,540,000,000
31	JAVEDAN CEMENT	2,500	100,000	250,000,000	Shunaid Qureshi	250,000,000

\*Certificate by these companies have not yet been issued. Therefore "Number of Certificate", "Paid-up Value per Certificate" & "Total Paid-up Value" is not given.

## 7. DETAIL OF INVESTMENT IN PTCs - UNLISTED

Amount in Rupees

S. No.	Name of Company	No. of Certificate	Paid up Value per Certificate	Total Paid-up Value	Name of Chief Executive / Managing Agent	Outstanding December 31, 2007
1	SETHI IND. LTD.	1	12,493	12,493	Abdul Wajid Sethi	1,276,057
		5	12,000	60,000		
2	CRYSTAL CHEMICALS	1	59,000	59,000	Maqsood A Shaikh	1,559,000
		13	62,000	806,000		
3	MAS DAIRIES LTD.	1	50,000	50,000	Mian Nisar Akhtar	1,009,000
		9	51,000	459,000		
4	PANGRIO SUGAR MILLS	15	236,000	3,540,000	Sajid Hussain Naqvi	3,067,621
		1	240,000	240,000		
		1	168,000	168,000		
		13	169,000	2,197,000		

## 8. DETAIL OF INVESTMENT IN DEBENTURES - UNLISTED

Amount in Rupees

Name of Company	Terms of Redemption		Rate of Interest	Amount Outstanding as on December 31, 2007
	Principal	Interest		
<b>PUBLIC SECTOR</b>				
GHAZI TEXTILE MILLS	Overdue	Overdue	12.50%	1,625,000
HARIPUR COLD STORAGE	Overdue	Overdue	12.00%	500,000
HARIPUR COLD STORAGE	Overdue	Overdue	12.50%	459,000
HARIPUR COLD STORAGE	Overdue	Overdue	12.00%	56,000
KARACHI DEVELOPMENT AUTHORITY	Overdue	Overdue	12.50%	62,355,000
<b>PRIVATE SECTOR</b>				
EFFEF INDUSTRIES LIMITED	Overdue	Overdue	14.00%	109,108
PAKISTAN POLY PROPYLENE PKG. LIMITED	Overdue	Overdue	14.00%	80,000



## 9. DETAIL OF INVESTMENT IN MUTUAL FUNDS - LISTED

Amount in Rupees

S. No.	Name of Company	No. of Units	Paid-up Value per Unit	Total Paid-up Value	Total Book Value December 31, 2007	Market Price per Unit December 31, 2007
1	AKD INCOME FUND	7,138,737	50.00	356,936,850	375,000,000	52.7587
2	AKD INCOME FUND A	2,374,884	50.00	118,744,200	125,000,000	52.7587
3	AKD OPPORTUNITY FUND	675,072	50.00	33,753,600	40,000,000	60.1500
4	ALFALAH GHP INCOME MULTIPLIER FUND	7,632,204	50.00	381,610,200	400,000,000	52.5899
5	AMZ PIUS INCOME FUND	7,103,416	100.00	710,341,600	750,000,000	105.9394
6	AMZ PLUS STOCK FUND	250,000	100.00	25,000,000	25,000,000	106.8900
7	ASKARI INCOME FUND A	11,367,942	100.00	1,136,794,200	1,200,000,000	105.6900
8	ATLAS INCOME FUND	860,503	500.00	430,251,500	450,000,000	524.5200
9	ATLAS INCOME FUND A	95,425	500.00	47,712,500	50,000,000	524.5200
10	ATLAS ISLAMIC FUND	10,298	500.00	5,149,000	5,000,000	515.2900
11	BMA CHUNDRIGAR ROAD SAVING FUND	19,853,176	10.00	198,531,760	200,723,980	10.3107
12	DAWOOD MONEY MARKET FUND	3,328,756	100.00	332,875,600	350,000,000	105.4613
13	DAWOOD MONEY MARKET FUND A	1,423,785	100.00	142,378,500	150,000,000	105.4613
14	FAYSAL SAVING GROWTH FUND	1,907,669	100.00	190,766,900	200,000,000	105.1500
15	FAYSAL SAVING GROWTH FUND A	1,903,855	100.00	190,385,500	200,000,000	105.1500
16	FIRST HABIB INCOME FUND	1,915,709	100.00	191,570,900	200,000,000	104.7700
17	HBL INCOME FUND A	2,393,261	100.00	239,326,100	250,000,000	104.5600
18	HBL STOCK FUND	200,000	100.00	20,000,000	20,000,000	102.4000
19	HBL-INCOME FUND	11,988,108	100.00	1,198,810,800	1,250,000,000	104.5600
20	IGI INCOME FUND	2,862,049	100.00	286,204,900	300,000,000	104.9400
21	J. S. INCOME FUND	9,475,978	100.00	947,597,800	1,000,000,000	105.8600
22	JS INCOME FUND A	1,891,611	100.00	189,161,100	200,000,000	105.8600
23	KASB LIQUID FUND	7,148,985	100.00	714,898,500	750,000,000	105.2700
24	KASB LIQUID FUND A	2,377,330	100.00	237,733,000	250,000,000	105.2700
25	MCB DYNAMIC CASH FUND	19,158,006	100.00	1,915,800,600	2,000,000,000	104.7080
26	NAFA CASH FUND	214,893,948	10.00	2,148,939,480	2,250,000,000	10.5116
27	NAFA CASH FUND	23,814,060	10.00	238,140,600	250,000,000	10.5116
28	NATIONAL INVESTMENT TRUST	73,991	10.00	739,910	2,260,835	59.8500
29	PAK INT.ELEMENT ISLAMIC FUND	1,523,746	50.00	76,187,300	63,860,585	53.7000
30	PAKISTAN INCOME FUND	19,102,197	50.00	955,109,850	1,000,000,000	52.5500
31	PAKISTAN INCOME FUND A	4,762,812	50.00	238,140,600	250,000,000	52.5500
32	UNITED COMPOSITE ISLAMIC FUND	274,758	100.00	27,475,800	25,000,000	107.5000
33	UNITED GROWTH & INCOME FUND	43,074,773	100.00	4,307,477,300	4,500,000,000	104.7903
34	UNITED MONEY MARKET FUND A	4,778,662	100.00	477,866,200	500,000,000	104.7140
Pre IPO Investment						
35	KASB BALANCE FUND	500,000	50	25,000,000	25,000,000	50.0000
36	DAWOOD TAKAFUL FAMILY FUND	-	-	-	35,000,000	-
37	JS AGGRESSIVE FUND	-	-	-	300,000,000	-

## 10. DETAIL OF INVESTMENT IN PREFERENCE SHARES - UNLISTED

Amount in Rupees

S. No.	Name of Company	Percentage Holding	No. of Shares	Paid-up Value per Share	Total Paid-up Value	Break-up Value per Share	Break-up Value as per Audited Accounts (Date of Accounts)	Name of Chief Executive / Managing Agent	Term of Redemption
1	MASOOD TEXTILES	33.33%	20,000,000	10.00	200,000,000	16.85	6/30/06	Shahid Nazir	Can convert 1/3 of PS alongwith dividend into ordinary shares after expiry of 4 years at a discount of 15%
2	FAZAL CLOTH	30.00%	7,500,000	10.00	75,000,000	10.00		Sheikh Naseem Ahmed	ABL's stake in the preference share for Rs.75 M to be redeemed within 60 days after completion of 5 years from the date of issue

# Annexure I

As referred to in notes 9.2.5 and 9.4 to the financial statements

## 11. QUALITY OF AVAILABLE FOR SALE SECURITIES

Rupees in '000

S. No.	Name of Security	December 31, 2007		December 31, 2006	
		Market Value	Credit Rating	Market Value	Credit Rating
GOVERNMENT SECURITIES					
1	MARKET TREASURY BILLS	37,417,758	Un Rated	23,315,710	Un Rated
2	FEDERAL INVESTMENT BONDS	-	Un Rated	5,000	Un Rated
3	PAKISTAN INVESTMENT BONDS	243,211	Un Rated	296,385	Un Rated
LISTED TFCs					
4	ASKARI COMMERCIAL BANK	104,736	AA-	66,260	AA-
5	ABN AMRO BANK LIMITED	36,794	A	54,967	A
6	AL-ABBAS HOLDING - UNLISTED	575,000	**	-	**
7	ASKARI COMMERCIAL BANK	-	**	99,960	AA-
8	AZGARD NINE LIMITED	6,500	A+	99,690	A+
9	BANK AL FALAH LIMITED	104,190	AA-	249,866	AA-
10	CHANDA OIL & GAS COMPANY	-	**	71,200	A
11	ESCORT INVESTMENT BANK	100,000	A+	-	**
12	FAYSAL BANK	146,705	AA-	100,000	AA-
13	FINANCIAL RECEIVABLE & SECURITIZATION COMPANY LIMITED	76,022	AA-	-	**
14	FINANCIAL RECEIVABLE & SECURITIZATION COMPANY LIMITED	33,630	AA-	-	**
15	GHANI HOLDING - UNLISTED	575,000	**	-	**
16	NAIMAT BAIASAL OIL & GAS LIMITED	-	**	70,093	A+
18	SEARLE PAKISTAN	44,528	A-	-	**
19	SECURITY LEASING CORPORATION LIMITED	-	**	59,976	**
20	SONERI BANK LIMITED	-	**	149,910	A+
21	UNION BANK / STANDARD CHARTERED	50,595	AAA	155,969	A+
22	UNITED BANK	52,879	AA	150,000	AA-
SHARES UNLISTED					
23	ARABIAN SEA COUNTRY CLUB	5,000	**	5,000	**
24	ATTOCK TEXTILE MILLS LIMITED	-	**	505	**
25	EASTERN CAPITAL	5,000	**	5,000	**
26	EQUITY PARTICIPATION FUND	8,256	**	1,500	**
27	FIRST WOMEN BANK	21,200	**	21,200	**
28	HABIB ALLIED INTERNATIONAL BANK (HAIB)	214,769	**	214,769	**
29	ICP LIMITED (MERGED INTO IDBP)	1,000	**	9,130	**
30	KAYTEX MILLS LIMITED	-	**	1,511	**
31	KHUSHHALLI BANK	200,000	**	200,000	**
32	NATIONAL WOOLEN MILLS LIMITED	-	**	51	**
33	NIFT	35,896	**	1,527	**
34	NISHAT CHUNIAN POWER LIMITED	-	**	-	**
35	NISHAT MILLS POWER LIMITED	-	A+&A1	-	**
36	PASSCO	(661)	**	1,000	**
37	RUBY RICE & GENERAL MILLS LIMITED	-	**	105	**
38	SME BANK	5,250	**	5,250	**
39	SWIFT	1,770	**	1,770	**
SHARES LISTED					
40	ADAMJEE INSURANCE COMPANY LIMITED	-	**	3,763	AA
41	BANK AL FALAH LIMITED	-	**	4	AA& A1+
42	BANK OF PANJAB	-	**	411	AA& A1+
43	BOC PAKISTAN LIMITED	-	**	1,293	Un Rated
44	BROTHER TEXTILES MILLS	-	**	72	**
45	COLONY MILL LIMITED	-	**	0	Un Rated
46	D.G. KHAN CEMENT	-	**	17	Un Rated
47	D.G. KHAN CEMENT	-	**	5	Un Rated
48	DADABHOY LEASING	66	**	-	**
49	DADABHOY MODARBA	511	**	5,025	**
50	ENGRO CHEMICAL	19,931	AA&A1+	33,800	AA& A1+
51	ESCORTS INVESTMENT BANK LIMITED	-	**	458	A&A1
52	FAUJI CEMENT LIMITED	-	**	6,198	**
53	FAUJI FERTILIZER BIN QASIM	251,249	**	44,177	Un Rated
54	FAUJI FERTILIZER COMPANY	118,750	**	37,258	Un Rated
55	FAYSAL BANK LIMITED	-	**	24,214	AA & A1+
56	FIRST INVESTEC MODARABA	-	**	11	**
57	HUB POWER COMPANY	285,785	**	229,507	**
58	ICP LIMITED (MERGED INTO IDBP)	-	**	76,473	**

**QUALITY OF AVAILABLE FOR SALE SECURITIES**

Rupees in '000

S. No.	Name of Security	December 31, 2007		December 31, 2006	
		Market Value	Credit Rating	Market Value	Credit Rating
59	KAISER ARTS & CRAFT	422	**	-	**
60	KOHINOOR INDUSTRIES LIMITED	-	**	241	**
61	KOT ADDU POWER COMPANY LIMITED	-	**	101,140	**
62	LUCKY CEMENT LIMITED	23,300	**	880	**
63	MCB BANK LIMITED	-	**	15,972	AA+& A1+
64	MEEZAN BALANCE FUND	-	**	14,396	5 STAR
65	MEEZAN BANK LIMITED	21,175	A+&A-1	-	**
66	MIRZA SUGAR MILL LIMITED	-	**	1	Un Rated
67	MOHAMMAD FAROOQ TEXTILE MILLS	-	**	53	**
68	MOHIB EXPORT LIMITED	3	**	3	**
69	MY BANK LIMITED	11,975	A&A1	-	**
70	NATIONAL BANK OF PAKISTAN	69,645	AAA&A1+	65,036	AAA & A1+
71	NISHAT MILLS LIMITED	54,683	A+&A1	33,803	A+&A1+
72	OIL & GAS DEVELOPMENT COMPANY	104,722	AAA&A1+	124,726	AAA& A1+
73	PACE PAKISTAN LIMITED	40,205	A+&A1	-	**
74	PAK OMAN ADVANTAGE FUND	792	AA-	-	**
75	PAK REINSURANCE	-	**	167,369	**
76	PAKISTAN OIL FIELDS	192,280	**	237,847	**
77	PAKISTAN PETROLEUM LIMITED	79,641	**	23,200	Un Rated
78	PAKISTAN PREMIER FUND	-	**	423	4 STAR
79	PAKISTAN PTA LIMITED	-	**	1	Un Rated
80	PAKISTAN STATE OIL	10,165	AAA&A1+	11,935	AAA& A1+
81	PAKISTAN STRATEGIC ALL. FUND	-	**	8,500	4 STAR
82	PAKISTAN SYNTHETIC LIMITED	-	**	1	**
83	PAKISTAN TELECOMMUNICATION COMPANY LIMITED	35,743	**	-	**
84	PICIC GROWTH MUTUAL FUND	89,846	2- Star	30,976	4 STAR
85	PICIC INSURANCE LIMITED	-	**	0.04	A-
86	PICIC INVESTMETN FUND	-	**	421	3 STAR
87	REDCO TEXTILE MILLS	1	**	5,477	**
88	S.G.FIBRE LIMITED	41,254	**	45,907	**
89	SAFA TEXTILE MILLS LIMITED	5,293	**	8,886	**
90	SAUDI PAK COMM. BANK LIMITED	-	**	2	A-& A-2
91	SHARISH TEXTILE MILLS LIMITED	-	**	0.03	**
92	SOUTHERN ELECTRIC POWER COMPANY	-	**	3	Un Rated
93	TRG PAKISTAN LIMITED	30,723	BBB+&A2	-	**
94	UTP GROWTH FUND	-	**	737	Un Rated
95	WORLD CALL TELECOM LIMITED	8	A+&A1	86	A+& A1
96	YOUSAF WEAVING MILLS LIMITED	-	**	2.00	**
PREFERENCE SHARES OF LISTED COMPANIES					
97	FAZAL CLOTH	75,000	**	75,000.00	**
98	MASOOD TEXTILE	200,000	**	200,000.00	**
INVESTMENT IN MUTUAL FUND					
99	AKD INCOME FUND	501,926	**	-	**
100	AKD OPPORTUNITY FUND	40,606	**	-	**
101	ALFALAH GHP INCOME MULTIPLIER FUND	401,377	5 STAR	-	**
102	AMZ PLUS INCOME FUND	752,532	**	-	**
103	AMZ PLUS STOCK FUND	28,326	**	24,288	Un Rated
104	ASKARI INCOME FUND	1,201,478	**	-	**
105	ATLAS INCOME FUND	501,403	5 STAR	-	**
106	ATLAS ISLAMIC FUND	5,306	**	-	**
107	BMA CHUNDRIGAR ROAD SAVING FUND	204,700	**	-	**
108	DAWOOD MONEY MARKET FUND	501,209	5 STAR	-	**
109	FAYSAL SAVING & GROWTH FUND	400,782	**	-	**
110	FIRST HABIB INCOME FUND	200,709	**	-	**
111	HBL INCOME FUND	1,503,716	**	-	**
112	HBL STOCK FUND	20,480	**	-	**
113	IGI INCOME FUND	300,343	**	-	**
114	JS INCOME FUND	1,203,373	**	-	**
115	KASB LIQUID FUND	1,002,835	**	-	**
116	KASB-FUND	25,000	**	-	**
117	MCB DYNAMIC CASH FUND	2,005,996	**	-	**
118	MEEZAN ISLAMIC INCOME FUND	-	**	59,550	Un Rated
119	NAFA CASH FUND	2,509,203	5 STAR	-	**
120	NATIONAL INVESTMENT TRUST	4,428	4 STAR	3,318	4 STAR

# Annexure I

As referred to in notes 9.2.5 and 9.4 to the financial statements

## QUALITY OF AVAILABLE FOR SALE SECURITIES

Rupees in '000

S. No.	Name of Security	December 31, 2007		December 31, 2006	
		Market Value	Credit Rating	Market Value	Credit Rating
121	PAK INT. ELEMENT ISLAMIC FUND	81,825	**	71,835	3 STAR
122	PAKISTAN CAPITAL MARKET FUND	-	**	76,867	3 STAR
123	PAKISTAN INCOME FUND	1,254,106	4 STAR	-	**
124	RELIANCE INCOME FUND	-	-	25,000	Un Rated
125	UNITED COMPOSITE ISLAMIC FUND	29,536	**	25,000	Un Rated
126	UNITED GROWTH & INCOME FUND	4,513,818	A	-	**
127	UNITED MONEY MARKET FUND	500,393	A+	-	**
PRE IPO INVESTMENT					
128	FINANCIAL RECEIVABLES & SECURITIZATION COMPANY LIMITED	-	**	105,000	**
129	GRAY LEASING	100,000	**	-	**
130	UNITED BANK LIMITED	800,000	AA	-	**
131	NIB BANK LIMITED	150,000	**	-	**
132	TREASURY SHARES	584,900	**	-	**
133	PAK ARAB FERTILIZERS	880,000	**	-	**
SUKUK BONDS					
134	SECURITY LEASING CORP	270,000	Un Rated	-	**
135	CENTURY PAPER & BOARD MILLS	1,150,000	Un Rated	-	**
136	DAWOOD HERCULES	1,000,000	Un Rated	-	**

\*\* Ratings are not available

# Annexure II

As referred to in note 10.7 to the financial statements

**SHOWING WRITTEN OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND OR ABOVE DURING THE YEAR ENDED DECEMBER 31, 2007**

S. No.	Name and address of the Borrower	Name of Individuals / Partners / Directors with NIC Nos.	Father's / Husband's Name	Outstanding liabilities at the Beginning of Year				Rupees in Million				
				Principal	Interest/ Mark-up	Other	Total	Principal Written-off	Interest/ Mark-up Written-off	Other Financial Relief Provided	Total 9 + 10 + 11	
												5
1	SINDH PROVINCIAL CO-OPERATIVE BANK LIMITED, RISALA ROAD, HYDERABAD (EST. UNDER THE ESTABLISHMENT OF FEDERAL GOVT. BANK FOR CO-OPERATIVES & REGULATIONS OF CO-OPERATIVE BANK ACT 1977 THROUGH ITS GEN.MANAGER, CENTRAL OFFICE SERAI ROAD KARACHI)	AYYAZ AHMED HAMEEDA BEGUM	M.AZEEM M.AZEEM	322-87-410704 323-91-747742	2.166	0.000	3.292	5.458	2.166	0.000	3.046	12.000
2	AL-HAMRA INTERNATIONAL, H.NO.8 ST.NO.3, BLOCK S, NEW MULTAN COLONY, MULTAN.	ARIFF MEHMOOD	M.AZEEM	274-85-238759	6.692	0.000	9.055	15.747	3.484	0.000	9.055	12.539
3	FATIMA TRADING ESTABLISHMENT	S.M. SALEEM SHAHEEN SALEEM S. MUDASSAR HUSSAIN SHAMIM AHMED	GHULAM MUHAMMAD	274-85-238759	18.475	0.000	23.402	41.877	18.475	0.000	23.402	41.877
4	PAKISTAN MINERAL WATER & BOTTLING PLANT (PVT) LIMITED, P.M.W & BOTTLING PLANT PVT. LIMITED, I/E GADOON AMAZAI	MUHAMMAD ALI CHISHTY	LATE AHMED CHISHTI	286-87032118	33.690	0.000	70.087	103.777	10.822	0.000	70.087	80.909
5	BOLAN TRADERS ROOM # 11 & 1,2,3 FLOOR TEXTILE PLAZA, I. I. CHUNDRIGAR ROAD, KARACHI.	MASOOD JAWED ALITAF HUSSAIN	MAHMOOD BUX		50.000	0.000	12.952	62.952	8.988	0.000	12.952	21.940
6	DILMON CONSTRUCTION	FAREED UDDIN ALITAF HUSSAIN			0.006	0.000	1.005	1.011	0.006	0.000	1.005	1.011
7	MUSLIM CONSTRUCTION CO. 9-D, COMMERCIAL AREA NURSERY, PECHS SOCIETY, KARACHI.	SHEIKH ABDUL SAITAR ABDUL BASIT SHEIKH ABDUL MAJEED SHEIKH SABEEN SHEIKH	ALLAH BUKSH SHEIKH ABDUL SAITAR SHEIKH ABDUL SAITAR SHEIKH ABDUL SAITAR	517-35-331195 502-62-242254 502-76-595405 502-92-595404	0.004	0.000	1.048	1.052	0.004	0.000	1.048	1.052
8	MASHAL FABRICS (PVT.) LIMITED 21 K.M. CHUGHTAI ROAD FEROZEPUR ROAD, LAHORE.	MUHAMMAD ISHAQUE JAN FAWAD ISHAQ MRS KHURSHID ISHAQ YASMEEN FAWAD AISHA MANZOOR SHABBIR AHMED AFIA SHABBIR		136-28-057959 136-92-057960 136-39-057965 136-59-028695 136-63-057963	12.899	0.000	10.761	23.660	3.241	0.000	10.761	14.002
9	AZEEM TAPES (PVT) LIMITED PLOT # 152.154.155, INDUSTRIAL ESTATE, GADOON AMAZAI.				1.162	0.000	0.790	1.952	0.759	0.000	0.790	1.549

# Annexure II

As referred to in note 10.7 to the financial statements

**SHOWING WRITTEN OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND OR ABOVE DURING THE YEAR ENDED DECEMBER 31, 2007**

S. No.	Name and address of the Borrower	Name of Individuals / Partners / Directors with NIC Nos.	Father's / Husband's Name	Outstanding liabilities at the Beginning of Year				Rupees in Million			
				Principal	Interest/ Mark-up	Other	Total	Principal Written-off	Interest/ Mark-up Written-off	Other Financial Relief Provided	Total 9 + 10 + 11
10	ABDALLI SONS (PVT) LIMITED, 3A, SMALL INDUSTRIAL ESTATE, MULTAN.	HAMID KHAN DURRANI FARKHANDA DURRANI (LATE) MUHAMMAD KHAN DURRANI ZARGHAM KHAN DURRANI ABDUL KHALIQ KHAN DURRANI SINCE LONG SETTLED IN USA (NIC NOT AVAILABLE)	HAFAEZ KHAN DURRANI W/O HAMEED KHAN HAMEED KHAN HAMEED KHAN ABDUL QADOOS KHAN	6.372	0	12.666	19.038	1.149	0	12.666	13.82
11	TAJ TEXTILE MILLS LIMITED, 31-C-1, GHAIB ROAD, GULBERG-III, LAHORE.	NADIR ALI AWAN TANVEER ELLAHI AMIR ALI SHAH AHMED JEHANGIR JEHANGIR ELLAHI SHAHRIKH ALI	MUZAFFAR ALI AWAN AHSAN ELLAHI JEHANGIR ELLAHI JEHANGIR ELLAHI AHSAN ELLAHI TANVIR ELLAHI	187.663	0	104.161	291.824	115.656	0	104.161	219.817
12	NATIONAL TYRE & RUBBER CO. MOULVI TAMIZ UDDIN KHAN ROAD, OPP. BEACH HOTEL, KARACHI.	HUSSAIN MUMTAZ	PIR GHULAM HUSSAIN	1.520	0	15.694	17.214	1.520	0	15.694	17.214
13	GHULAM HUSSAIN & COMPANY GRAIN MARKET, VEHARI.	MUHAMMAD JAMIL GHULAM HUSSAIN MST RABIA BEGUM MST RAZIA BEGUM NAIK MUHAMMAD		3.000	0	6.814	9.814	1.222	0	6.814	8.036
14	JAMAL PAPERS (PVT) LIMITED HOUSE # 47/8, BLOCK # 13, SHAHEED ROAD, MIAN CHANNU, KHANIWAL.	M.N.AVEED MUGHAL ABDUL WAHEED MUGHAL M.A.RSHAD MUGHAL KHALID AZIZ MUGHAL	JAMAL UDDIN JAMAL UDDIN JAMAL UDDIN JAMAL UDDIN	13.698	0	12.033	25.731	8.494	0	12.033	20.527
15	PRIME PAPER & BOARD (PVT) LIMITED MARALA ROAD, MALKAY KALAN, SIALKOT.	AKHLAQ HUSSAIN NAYYER ABBAS		1.340	0	2.084	3.424	0.175	0	1.900	2.075
16	MIAN INDUSTRIES COTTON GINNING & PRESSING (PVT) LIMITED CHAK # 461/EB, LUDDON ROAD, BUREWALA.	MUHAMMAD SHAHBAZ MUHAMMAD MUMTAZ MUHAMMAD NAWAZ SARMAD EJAZ SHAMIM BAHAR	MUHAMMAD MAZHAR MUHAMMAD MAZHAR MUHAMMAD MAZHAR MUHAMMAD EJAZ MUHAMMAD EJAZ	3.300	0	1.743	5.043	0.800	0	1.743	2.543

**SHOWING WRITTEN OFF LOANS OR ANY OTHER FINANCIAL RELIEF OF FIVE HUNDRED THOUSAND OR ABOVE DURING THE YEAR ENDED DECEMBER 31, 2007**

S. No.	Name and address of the Borrower	Name of Individuals / Partners / Directors with NIC Nos.	Father's / Husband's Name	Outstanding liabilities at the Beginning of Year				Rupees in Million			
				Principal	Interest/ Mark-up	Other	Total	Principal Written-off	Interest/ Mark-up Written-off	Other Financial Relief Provided	Total 9 + 10 + 11
17	FRUIT SAP LIMITED 14-GREEN WOOD APARTMENT, CIVIC CENTRE, NEW GARDEN TOWN, LAHORE.	ZAFAR IQBAL MIAN RIAZ AHMED MIAN MRS.SHAHEEN ZAFAR MASOOD SAJJAD MRS.YASMEEN MASOOD MIAN ALLAH WASAYA		2,550	0	4,857	7,407	2,550	0	4,857	7
18	HUSSAIN COTTON GINNING & PRESSING FACTORY CHAK NIZAM, ARIFWALA ROAD, PAKPATTAN.	AMANULLAH HAMEED ALI HAMEEDA SHAIKH MUHAMMAD MUHAMMAD SALEEM MST.NAZIRI BEGUM MST. NASEEM AKHTAR	M.LATEEF M.LATEEF MIAN GHULAM HUSSAIN	0	0.000	0.609	0.609	0	0.000	0.550	0.550
19	MAST QALANDAR COTTON & GINNING FACTORY	NAMCHAND GURDAS MAL AHSANULLAH VIJAY KUMAR	BAKSHOO MAL WAPARI MAL GHULAM SARWAR CHA BAKSHOO MAL	16,960	0	6,924	16,967	10,844	0	6,858	17,702
20	AHMED AGENCIES	SHEIKH MUHAMMAD AFZAL		7,050	0	6,466	7,056	2,750	0	5,687	8
21	HOUSE OF FABRICS (PVT) LIMITED	SYED GOHAR HUSSAIN NAQVI SYED MEHDI ABBAS NAQVI SABEENA SHAHID FARZANA NAQVI		0.675	0	0.292	0.967	0.675	0	0.964	1.639
22	CH. SPRAY CENTRE BANGLA ROAD, MAMUNKANJAN.	CH.SAIFULLAH MUHAMMAD SHARIF MUHAMMAD AMIN	MUHAMMAD RAFIQ MUHAMMAD IBRAHIM MUHAMMAD IBRAHIM	1,540	0.000	0.683	2,223	0.071	0	0.540	0.611
<b>TOTAL</b>				<b>26,904</b>	<b>0.000</b>	<b>5,159.561</b>	<b>32,064</b>	<b>193,851</b>	<b>0.000</b>	<b>306,613</b>	<b>18,191,550</b>

# Annexure III

As referred to in notes 11.4 and 11.13 to the financial statements

## 1. DISPOSAL OF FIXED ASSETS AS ON DECEMBER 31, 2007

Rupees in '000

Particulars	Original cost/ revalued amount	Accumulated depreciation	Book value	Sale Proceeds	Mode of disposal	Particulars of purchaser
Furniture & Fixtures Items having book value of less than Rs.250,000 and cost of less than Rs.1,000,000						
- Bank Employees	113	51	62	62	As per Bank policy	Khursheed Ahmed Khan
	143	97	46	56	As per Bank policy	Bilal Mustafa
- Others	256	148	108	118	Various	Various
	10,741	8,456	2,285	2,297		
<b>TOTAL</b>	<b>10,997</b>	<b>8,604</b>	<b>2,393</b>	<b>2,415</b>		

Rupees in '000

Particulars	Original cost/ revalued amount	Accumulated depreciation	Book value	Sale Proceeds	Mode of disposal	Particulars of purchaser
Electrical, Office & Computer Equipment Items having book value of less than Rs. 250,000 and cost of less than Rs. 1,000,000						
- Bank Employees	116	91	25	25	As per Bank policy	Khursheed Ahmed Khan
	97	79	18	18	As per Bank policy	Bilal Mustafa
	24	-	24	24	As per Bank policy	Ali Azfar Naqvi
	10	1	9	10	As per Bank policy	M.Yaseen Mamdani
	10	1	9	9	As per Bank policy	Sharma Lajpatrai
	10	10	-	1	As per Bank policy	Qaboola Zarin
	4	4	-	-	As per Bank policy	Zahid Rasool
	10	3	7	7	As per Bank policy	Tariq Mehmood Shahid
	10	5	5	5	As per Bank policy	Iftikhar Hussain Mir
	10	3	7	7	As per Bank policy	Bilal Ayub Butt
	10	6	4	4	As per Bank policy	Ahmer Humayun
	10	6	4	5	As per Bank policy	S.A.H Chisti
	10	6	4	4	As per Bank policy	Adnan
	4	4	-	1	As per Bank policy	Najmul Azam
	9	7	2	2	As per Bank policy	Aslam Hameed
	5	4	1	2	As per Bank policy	Syed Akber Raza
- Others	349	230	119	124	Various	Various
	16,695	16,687	8	86		
<b>TOTAL</b>	<b>17,044</b>	<b>16,917</b>	<b>127</b>	<b>210</b>		



## 2. LOCATION OF REVALUED PROPERTIES AS ON DECEMBER 31, 2007

Date of Purchase	Revaluation Date	Particulars	City Location
01.01.1985	September 30, 2005	TAJ COMPLEX KARACHI	KARACHI
01.10.1973	September 30, 2005	NAPIER ROAD, LAHORE	LAHORE
02.08.1999	September 30, 2005	QUAID-E-AZAM ROAD, MULTAN CANTT	MULTAN
04.03.1979	September 30, 2005	SATELLITE TOWN QUETTA	QUETTA
05.06.1985	September 30, 2005	AMBER TOWER, KARACHI	KARACHI
05.06.1997	September 30, 2005	KASHMIR ROAD RAWALPINDI	RAWALPINDI
05.08.1999	September 30, 2005	BANGLORE TOWN, KARACHI	KARACHI
08.05.1994	September 30, 2005	GRAIN MARKET, VEHARI	VEHARI
08.07.1999	September 30, 2005	CITIZEN COLONY, HYDERABAD	HYDERABAD
08.10.1986	September 30, 2005	BUFFER ZONE, KARACHI	KARACHI
08.11.1986	September 30, 2005	AMBER PALACE, KARACHI	KARACHI
08.11.1993	September 30, 2005	NORTH NAZIMABAD, KARACHI	KARACHI
09.08.1980	September 30, 2005	UNIVERSITY ROAD KARACHI	KARACHI
09.08.1999	September 30, 2005	LAKSON SQUARE, SARWAR SHAHEED ROAD, KARACHI	KARACHI
09.09.1992	September 30, 2005	SHAHDMAN COLONY, LAHORE	LAHORE
09.10.1988	September 30, 2005	ZAIBUNNISA STREET, KARACHI	KARACHI
10.06.2000	September 30, 2005	S.I.T.E., KARACHI	KARACHI
10.09.1999	September 30, 2005	L.D.A., WASA, LAHORE	LAHORE
11.08.1998	September 30, 2005	BLOCK K NORTH NAZIMABAD KARACHI	KARACHI
11.12.1997	September 30, 2005	ASGHAR MALL CHOWK RAWALPINDI	RAWALPINDI
12.07.1999	September 30, 2005	SAIMA TRADE TOWER, I.I. CHUNDRIGAR ROAD, KARACHI	KARACHI
13.10.1973	September 30, 2005	LARKANA	LARKANA
13.10.1988	September 30, 2005	QUANDHARI BAZAR, QUETTA	QUETTA
14.12.1998	September 30, 2005	REGENCY ARCADE, FAISALABAD	FAISALABAD
15.08.1966	September 30, 2005	CAVALRY ROAD NOWSHERA	NOWSHERA
15.08.1994	September 30, 2005	ADAM ARCADE BRANCH KARACHI	KARACHI
15.09.1996	September 30, 2005	SITARA TOWER, FAISALABAD	FAISALABAD
15.09.1998	September 30, 2005	BABA-E-URDU ROAD, KARACHI	KARACHI
16.02.1986	September 30, 2005	RASHID MINHAS ROAD, KARACHI	KARACHI
16.08.1992	September 30, 2005	KASHMIR EGERTON ROAD LAHORE	LAHORE
17.05.1995	September 30, 2005	199-UPPER MALL, LAHORE	LAHORE
17.12.1987	September 30, 2005	BOATING BASIN, KARACHI	KARACHI
19.08.1998	September 30, 2005	CLOTH MARKET KARACHI	KARACHI
19.09.1996	September 30, 2005	AHMEDPUR, BAHAWALPUR	BAHAWALPUR
20.03.1979	September 30, 2005	DADABHOY CENTRE KARACHI	DADABHOY
20.03.1998	September 30, 2005	NURSERY, PECHS, KARACHI	KARACHI
20.04.1994	September 30, 2005	NEW SADIQ BAZAR, RAHIMYAR KHAN	RAHIMYAR KHAN
20.07.1975	September 30, 2005	BLUE AREA, ISLAMABAD	ISLAMABAD
20.07.1975	September 30, 2005	TRUNK BAZAR, RAWALPINDI	RAWALPINDI
20.12.1999	September 30, 2005	BANK SQUARE BRANCH, GUJRANWALA	GUJRANWALA
22.04.1985	September 30, 2005	ANARKALI LAHORE	LAHORE
23.09.1996	September 30, 2005	MODEL TOWN, LAHORE	LAHORE
23.12.1970	September 30, 2005	GOLE CLOTH FAISALABAD	FAISALABAD
24.02.1992	September 30, 2005	TRADE TOWER, KARACHI	KARACHI
24.02.1992	September 30, 2005	TRADE TOWER, KARACHI	KARACHI
25.01.1987	September 30, 2005	MAIN BOULEVARD, LAHORE	LAHORE
25.08.1999	September 30, 2005	KEHKASHAN, JADE GARDEN CLIFTON, KARACHI	KARACHI
26.05.2000	September 30, 2005	P.I.B. COLONY, KARACHI	KARACHI
27.08.2003	September 30, 2005	STOCK EXCHANGE BUILDING KARACHI	KARACHI
27.11.1996	September 30, 2005	KHAYABAN-E-JAMI KARACHI	KARACHI
27.12.1994	September 30, 2005	BRANDERTH ROAD, LAHORE	LAHORE
28.06.1997	September 30, 2005	JINNAH COLONY FAISALABAD	FAISALABAD
29.04.1982	September 30, 2005	SIRKI ROAD, QUETTA	QUETTA
29.06.1998	September 30, 2005	MASJID-E-TOOBA KARACHI	KARACHI
29.07.1975	September 30, 2005	BLOCK NO.1, SARGODHA	SARGODHA
29.09.1999	September 30, 2005	FORT SULTAN BUILDING, STAR GATE BRANCH, KARACHI.	KARACHI
29.12.1994	September 30, 2005	ZAM ZAMA BUILDING KARACHI	KARACHI
29.12.1996	September 30, 2005	KHALID BIN WALEED ROAD, KARACHI	KARACHI
29.12.1997	September 30, 2005	AKBER BAZAR, SHEIKHUPURA	SHEIKHUPURA
30.09.1998	September 30, 2005	KHYABAN-E-BADAR, D.H.A. KARACHI	KARACHI
30.09.2005	September 30, 2005	CLIFTON BROADWAY, KARACHI	KARACHI

## Annexure III

As referred to in notes 11.4 and 11.13 to the financial statements

### LOCATION OF REVALUED PROPERTIES AS ON DECEMBER 31, 2007

Date of Purchase	Revaluation Date	Particulars	City Location
30.10.1996	September 30, 2005	BROADWAY CLIFTON KARACHI	KARACHI
30.12.1966	September 30, 2005	PECHS, KARACHI	KARACHI
30-06-2005	September 30, 2005	MONTGOMERY BAZAAR, FAISALABAD	FAISALABAD
31.05.1992	September 30, 2005	QILLA GUJAR SINGH BRANCH	VEHARI
31.07.1996	September 30, 2005	CIVIC CENTRE, HYDERABAD	HYDERABAD
31.08.1998	September 30, 2005	NEW CHALI-BRANCH KARACHI	KARACHI
29.07.1975	September 30, 2005	PREMISES AT MIRPUR A.K	AZAD KASHMIR
24.10.1984	September 30, 2005	UPPER CHATTER, MUZAFFARABAD A.K.	AZAD KASHMIR
19.08.2005	September 30, 2005	QUAID-E-AZAM ROAD	CHINIOT
27.06.2005	September 30, 2005	KOTWALI ROAD	FAISALABAD
09.03.2005	September 30, 2005	OPEN PLOT, BATH, ISLAND, CLIFTON	KARACHI
30.12.1966	September 30, 2005	BANGLOW NO. 44-D, PECHS	KARACHI
17.07.1975	September 30, 2005	MWT GK-7 MA JINNAH ROAD	KARACHI
29.01.1981	September 30, 2005	PLOT KHYBER BLOCK ALLAMA IQBAL TOWN	LAHORE
11.08.1993	September 30, 2005	PLOT # 8-A, KASHMIR EGERTON ROAD	LAHORE
29.08.1994	September 30, 2005	POONCH ROAD, SAMANABAD	LAHORE
18.12.1998	September 30, 2005	199-A UPPER MALL, LAHORE	LAHORE
07.05.1990	September 30, 2005	PLOT AT SMALL INDUSTRIAL AREA SITE SAHIWAL	MULTAN
12.11.1995	September 30, 2005	PLOT 14, PHASE VII, STAGE 1, HAYATABAD	PESHAWAR
17.08.1994	September 30, 2005	PLOT 19, PHASE VII, HAYATABAD TOWNSHIP	PESHAWAR
14.11.1997	September 30, 2005	PLOT 16B/1, PHASE V, HAYATABAD	PESHAWAR
23.06.1999	September 30, 2005	B-7 FRUIT & VEGETABLE COMPLEX, HAZAR GANJI	QUETTA

## **Financial Statements**

for the period ended December 31, 2007

## **ABL Asset Management Company Limited**

(Subsidiary of Allied Bank Limited)

# Auditors' Report to the Members

We have audited the annexed balance sheet of ABL ASSET MANAGEMENT COMPANY LIMITED (the Company) as at December 31, 2007 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the period from October 12, 2007 to December 31, 2007 and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion :
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies as mentioned in Note. 4 to the financial statements with which we concur;
  - ii) the expenditure incurred during the period was for the purpose of the Company's business; and
  - iii) the investments made and the expenditure incurred during the period were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required, and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2007 and of the profit, its cash flows and changes in equity for the period from October 12, 2007 to December 31, 2007; and
- d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

M. YOUSUF ADIL SALEEM & CO.  
Chartered Accountants  
Karachi

Date: February 22, 2008

# Directors' Report

The Board of Directors of ABL Asset Management Company Limited (a wholly owned subsidiary of Allied Bank Limited-ABL) is pleased to present the company's first audited Financial Statements for the period from October 12, 2007 to December 31, 2007.

The formation of ABL Asset Management Company Limited by ABL to undertake asset management and investment advisory services was a strategic decision to devote concentrated resources for fruition of the fund management expertise in an institutionalized manner with a pursuit of professional excellence for consolidating its endeavors.

ABL Asset Management Company Limited was incorporated under Companies Ordinance 1984 (XLVII of 1984) as an un-listed public company on October 12, 2007, with a paid-up capital of Rs. 500 million. The company was issued license to undertake "Asset Management Services" on December 07, 2007 under the recently introduced NBFC and Notified Entities Regulation, 2007, under which it can manage both closed and open ended funds.

In the capacity of holding company ABL holds 49,999,993 shares of ABL AMCL whereas 7 shares are held by director in the proportion of one share each.

Keeping in view the nature of the business, the management of ABL AMCL initially focused on hiring quality people, implementing best practices and systems, and establishing the desired infrastructure. In this respect, senior level management has been hired in the field of Research, Accounts, Information Technology, Operations, Administration and Human Resource.

The Company, thus, now comprises of dedicated professionals who have excelled in their respective careers and offers a unique mix of experience and vigor review so that a collective and focused effort can be made towards ameliorating shareholders value.

During the period from October 12, 2007 to December 31, 2007 total income of the company stood at Rs. 6.59 million whereas expenditure during the period under review amounted to Rs. 3.638 million which was mainly related to the incorporation of the company.

Profit before tax stood at Rs. 2.953 million whereas tax provision amounted to Rs. 1.034 million and therefore profit after tax amounted to Rs. 1.919 million translating into earning per share of Rs. 0.04

The summary of the financial results for the period from October 12, 2007 to December 31, 2007.

Rupees in '000	December 31, 2007
<b>INCOME</b>	
Income from Bank Deposits	6,590
<b>OPERATING EXPENSES</b>	
Administrative Expense	3,638
Profit before taxation	2,953
Taxation	1,034
Profit for the period	1,919
Appropriation of Profit	-
Un-appropriated profit	1,919
Earnings per share – Basic and Diluted (Rupees)	0.04

With the passion to excel and the backing of Allied Bank Limited, ABL AMCL is poised to Insha-Allah capitalize on the nascent fund management sector in Pakistan and to be one of the leading asset management company of Pakistan.

ABL AMCL's is Insha-Allah targeting launch of at least one open end income fund by 2Q08, and an open end equity fund by 3Q08 subject to regulatory approvals.

Despite recent political and economic uncertainties, we feel that the mutual fund industry is poised to further grow as the country still has one of the lowest penetration rates for mutual funds in the emerging markets.

ABL AMCL would Insha-Allah continue to emphasize on maximizing its sponsors value and are adamant for seizing all emerging opportunities.

We would like to express our gratitude to our valued sponsors (ABL), Securities and Exchange Commission of Pakistan, State Bank of Pakistan and the auditors for the consistent guidance and assistance.

The Board also wished to place on record its deep appreciation for the staff for their unswerving commitment and hard work.

Karachi  
February 22, 2008

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# Balance Sheet

as at December 31, 2007

Rupees	Note	December 31, 2007
<b>ASSETS</b>		
Non-current assets		
Tangible fixed assets	5	3,219,839
Current assets		
Other receivables	6	2,950,523
Cash and bank balances	7	502,809,344
		505,759,867
<b>Total Assets</b>		<b>508,979,706</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital		
Authorized		500,000,000
Issued, subscribed and paid-up	8	500,000,000
Revenue reserves		
Unappropriated profit		1,919,372
<b>Total Equity</b>		<b>501,919,372</b>
Non-current liabilities		
Deferred tax liability on accelerated tax depreciation		14,877
Current liabilities		
Accrued and other liabilities	9	6,390,814
Provision for taxation - net of advance tax		654,643
<b>Total Liabilities</b>		<b>7,060,334</b>
<b>Total Equity &amp; Liabilities</b>		<b>508,979,706</b>

The annexed notes from 1 to 18 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

# Profit and Loss Account

for the period from October 12, 2007 to December 31, 2007

Rupees	Note	For the period from October 12, 2007 to December 31, 2007
<b>INCOME</b>		
Income from bank deposits		6,590,410
<b>OPERATING EXPENSES</b>		
Administrative expenses	10	3,637,530
Profit before taxation		2,952,880
Taxation	11	1,033,508
Profit for the period		1,919,508
<b>Earnings per share - Basic and Diluted</b>	12	0.04

The annexed notes from 1 to 18 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

# Cash Flow Statement

for the period from October 12, 2007 to December 31, 2007

Rupees	For the period from October 12, 2007 to December 31, 2007
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Profit before taxation	2,952,880
Adjustment for:	
Depreciation	79,867
Operating profit before working capital changes	3,032,747
Increase in current assets	
Other receivables	(2,950,523)
Increase in current liabilities	
Accrued and other liabilities	6,390,814
Cash generated from operations	6,473,038
Taxes paid	(363,988)
Net cash flows from operating activities	6,109,050
	A
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Acquisition of tangible fixed assets	(3,299,706)
Net cash used in investing activities	(3,299,706)
	B
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from issue of share capital	500,000,000
Net cash flows from financing activities	500,000,000
	C
<b>Net increase in cash and cash equivalents (A+B+C)</b>	<b>502,809,344</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>-</b>
<b>Cash and cash equivalents at end of the period</b>	<b>502,809,344</b>

The annexed notes from 1 to 18 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR



# Statement of Changes in Equity

for the period from October 12, 2007 to December 31, 2007

Rupees	Issued, subscribed and paid-up capital	Unappropriated profit	Total
Issue of share capital	500,000,000	-	500,000,000
Profit for the period	-	1,919,372	1,919,372
Balance as at December 31, 2007	500,000,000	1,919,372	501,919,372

The annexed notes from 1 to 18 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

# Notes to the Financial Statements

## for the period from October 12, 2007 to December 31, 2007

### 1. LEGAL STATUS AND OPERATION

- 1.1 ABL Asset Management Company Limited (the company) was incorporated in Pakistan as a limited liability company on October 12, 2007 under the Companies Ordinance, 1984. The company has obtained license on December 07, 2007 from the Securities and Exchange Commission of Pakistan (SECP) to carry out asset management services as a Non-Banking Finance Company (NBFC) under Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 as amended through S.R.O.113[1] 2007 (amended NBFC Rules). The company has received certificate of commencement of business on December 31, 2007. The registered office of the company is situated at 11-B Lalazar, M.T. Khan Road, Karachi.

The company is a wholly owned subsidiary of Allied Bank Limited.

- 1.2 Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Pakistani Rupees, which is the company's functional and presentation currency.

### 2. STATEMENT OF COMPLIANCE

- 2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan, the requirements of the Companies Ordinance, 1984, amended NBFC Rules and the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (the Regulations). Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) as are notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, amended NBFC Rules, the Regulations or directives issued by the SECP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, amended NBFC Rules, the Regulations or the requirements of the said directives take precedence.

- 2.2 Interpretations to existing standards in issue not yet adopted

The Company has not applied the following interpretations to existing standards that have been issued by the International Accounting Standards Board (IASB), but are not yet effective.

	Effective for annual periods beginning on or after
IFRIC 11 IFRS 2-Group and Treasury Share	March 1, 2007
IFRIC 12 Service Concession Agreement	January 1, 2009
IFRIC 14 IAS- 19 The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	January 1, 2009

The management expects that the above interpretations to existing standards will have no significant impact on the Company's financial statements in the period of initial application.

- 2.3 Critical 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 the management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the company's financial statements are as follows:

- i) Provision for taxation (notes 4.5 and 11)
- ii) Provision for depreciation (notes 4.1 and 5)

### 3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### 4.1 Tangible fixed assets

These are stated at cost less accumulated depreciation and impairment, if any. Depreciation is charged over the estimated useful life of the asset on a systematic basis to income applying the straight line method at the rates specified in note 5.1 to the financial statements. Depreciation is charged from the month of addition to the month prior to the month of disposal.

The company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If such indication exists the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed the estimated recoverable amount, assets are written down to the recoverable amount.

Normal repairs and maintenance are charged to profit and loss account as and when incurred. Major renewals and improvements are capitalised. Gains and losses on sale or retirement of tangible fixed assets are included in income currently.

Capital work-in-progress is stated at cost accumulated to the balance sheet date. These will be transferred to specific asset as and when these assets are available for use.

##### 4.2 Staff retirement benefits - defined contribution plan

The company operates unapproved provident fund for its permanent employees. Equal monthly contributions to the fund are made both by the company and its employees @ 8.33% of the basic salary per month.

##### 4.3 Financial assets and liabilities

###### 4.3.1 Recognition and de-recognition

Financial assets and financial liabilities are recognised at the time when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the company loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expires.

###### 4.3.2 Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### 4.4 Revenue recognition

Profit on term and PLS deposits is recognised on accrual basis.

##### 4.5 Taxation

###### Current

Provision for the current taxation is based on taxable income for the period at applicable rates of taxation, after taking into account available tax credits, tax rebates and tax adjustments, if any.

###### Deferred

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

Deferred income tax asset is recognized for all deductible temporary differences and unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

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

# Notes to the Financial Statements

for the period from October 12, 2007 to December 31, 2007

Rupees	Note	December 31, 2007
<b>5. TANGIBLE FIXED ASSETS</b>		
Operating property, plant and equipment	5.1	1,656,339
Capital work-in-progress - advance for purchase of vehicle		1,563,500
		<b>3,219,839</b>

## 5.1 Operating property, plant and equipment

Rupees	Cost			Accumulated depreciation			Written down value As at December 31, 2007	Depreciation rate per annum %
	As at October 12, 2007	Addition during the period	As at December 31, 2007	As at October 12, 2007	Charge for the period	As at December 31, 2007		
Furniture and fixtures	-	100,177	100,177	-	1,406	1,406	98,771	10
Computer equipment	-	114,529	114,529	-	2,386	2,386	112,143	25
Motor Vehicle	-	1,521,500	1,521,500	-	76,075	76,075	1,445,425	20
	-	1,736,206	1,736,206	-	79,867	79,867	1,656,339	

Rupees	Note	December 31, 2007
<b>6. OTHER RECEIVABLES</b>		
- considered good		
Interest accrued on bank deposits	6.1	2,950,523

6.1 The balance is receivable from Allied Bank Limited, parent company.

## 7. CASH AND BANK BALANCES

With bank		
- PLS deposit accounts	7.1 & 7.2	54,788,551
- Term deposits receipts	7.1 & 7.2	448,000,000
		502,788,551
Cash in hand		20,793
		<b>502,809,344</b>

7.1 The rate of return on bank deposits ranges from 1% to 8% per annum.

7.2 PLS and term deposits are held with Allied Bank Limited, parent company.

## 8. SHARE CAPITAL

December 31, 2007	December 31, 2007
Authorized	
Number of shares	Rupees
50,000,000 Ordinary shares of Rs. 10 each	500,000,000
Issued, subscribed and paid-up	
50,000,000 Ordinary shares of Rs. 10 each fully paid in cash	500,000,000

8.1 Allied Bank Limited, parent company holds 50,000,000 ordinary shares of Rs. 10 each.

Rupees		December 31, 2007
<b>9. ACCRUED AND OTHER LIABILITIES</b>		
Due to Allied Bank Limited, parent company		5,739,988
Auditors' remuneration payable		100,000
Provident Fund payable		99,960
Withholding tax payable		2,700
Other payables		448,166
		<b>6,390,814</b>

Rupees	Note	For the period from October 12, 2007 to December 31, 2007
<b>10. ADMINISTRATIVE EXPENSES</b>		
Chief Executive / Director's remuneration	13	1,030,180
Rent, rates and taxes		5,295
Legal and professional charges		545,000
Registration fee		1,264,500
Processing fee		100,000
License fee		200,000
Communication		89,658
Printing and stationery		87,765
Auditors' Remuneration		100,000
Depreciation	5.1	79,867
Traveling and conveyance		39,690
Entertainment		52,693
Books and Periodicals		17,757
Meeting fee		25,000
Other		125
		<b>3,637,530</b>
<b>11. TAXATION</b>		
Current		1,018,631
Deferred		14,877
	11.1	<b>1,033,508</b>

11.1 The relationship between tax expense and accounting profit is not required as there is no difference between these figures.

Rupees	For the period from October 12, 2007 to December 31, 2007
<b>12. EARNINGS PER SHARE - BASIC AND DILUTED</b>	
There is no dilutive effect on the basic earnings per share of the company which is based on;	
Profit for the period	1,919,372
	No. of shares
Number of ordinary shares outstanding during the period	50,000,000
	Rupees
Earnings per share	0.04

# Notes to the Financial Statements

for the period from October 12, 2007 to December 31, 2007

Rupees	For the period from October 12, 2007 to December 31, 2007
<b>13. TRANSACTIONS WITH RELATED PARTIES</b>	
Allied Bank Limited - parent company	
Term deposit receipts placed during the period	896,000,000
Term deposit receipts matured during the period	448,000,000
PLS deposits deposited during the period	553,663,399
PLS deposits withdrawn during the period	498,874,848
Income from bank deposits received during the period	3,639,887
Key Management Personnel	
Chief Executive	
Remuneration	980,200
Provident fund contribution	49,980

The Chief Executive/ Director of the company is provided with free use of company owned and maintained vehicle.

13.1 The receivable and payable balances from related parties are disclosed in note 6,7 and 9.

## 14. FINANCIAL RISK MANAGEMENT POLICIES

### 14.1 Liquidity Risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The company believes that it is not exposed to any significant level of liquidity risk.

### 14.2 Interest Rate Risk

Interest rate risk is the risk that the value of the financial instruments will fluctuate due to changes in the interest rates. The Company's exposure to interest rate risk on its financial assets and liabilities are summarized as follows:

Rupees	Rate %	December 31, 2007			Total
		Upto one year	Exposed to interest rate risk Over one year	Not exposed to interest rate risk	
<b>Financial Assets</b>					
Interest accrued on bank deposits		-	-	2,950,523	2,950,523
Cash and bank balances	1-8	502,788,551	-	20,793	502,809,344
		502,788,551	-	2,971,316	505,759,867
<b>Financial Liabilities</b>					
Accrued and other liabilities		-	-	6,390,814	6,390,814
		-	-	6,390,814	6,390,814

### 14.3 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. All the financial assets of the company except Rs. 20,793 are exposed to credit risk. The company controls credit risk by monitoring credit exposure, limiting transactions with specific counter parties, obtaining collaterals and continually assessing the credit worthiness of counter parties.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of all the financial assets and liabilities reflected in the financial statements approximate their fair values.

16. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to remain as a going concern and continue to provide returns for shareholders and benefits for other stakeholders.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

17. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on February 22, 2008 by the Board of Directors of the company.

18. GENERAL

18.1 Corresponding figures are not available as this is the first period of company's operation.

CHIEF EXECUTIVE

DIRECTOR

# Pattern of Shareholding

Allied Bank Limited

No. of Shareholders	Shareholdings		Total Shares Held
	From	To	
8318	1	100	332,449
8445	101	500	1,642,373
1586	501	1000	1,084,047
1488	1001	5000	3,308,820
238	5001	10000	1,665,597
133	10001	15000	1,607,142
45	15001	20000	796,842
19	20001	25000	430,311
10	25001	30000	277,684
9	30001	35000	291,443
5	35001	40000	189,572
4	40001	45000	175,992
11	45001	50000	537,796
7	50001	55000	374,617
2	55001	60000	112,900
2	60001	65000	122,024
1	65001	70000	68,600
2	70001	75000	147,800
3	75001	80000	235,800
3	80001	85000	249,729
1	85001	90000	85,500
2	90001	95000	182,474
4	95001	100000	395,832
2	100001	105000	207,700
1	125001	130000	128,300
2	130001	135000	262,414
1	135001	140000	139,569
1	155001	160000	155,018
1	175001	180000	175,840
1	180001	185000	185,000
2	185001	190000	376,000
2	195001	200000	400,000
1	270001	275000	271,000
2	280001	285000	564,526
1	300001	305000	301,300
1	360001	365000	362,650
1	390001	395000	394,634
1	395001	400000	398,600
1	425001	430000	428,622
1	445001	450000	446,040
1	460001	465000	465,000
1	495001	500000	500,000
1	545001	550000	550,000
1	560001	565000	564,900
1	645001	650000	649,700
1	725001	725000	723,300
1	750001	755000	750,380
1	800001	805000	800,400
1	825001	830000	827,275
1	1015001	1020000	1,018,080
1	1155001	1160000	1,156,900
1	1190001	1195000	1,194,140
1	1245001	1250000	1,245,600
1	1250001	1255000	1,253,522
1	1295001	1300000	1,298,100
1	1420001	1425000	1,423,032
1	1460001	1465000	1,463,729
1	1490001	1495000	1,493,169
1	1630001	1635000	1,634,000
1	2345001	2350000	2,349,780
1	4225001	4230000	4,228,753
1	5545001	5550000	5,549,146
3	6430001	6435000	19,301,189
1	6805001	6810000	6,806,275
1	7525001	7530000	7,528,735
1	12805001	12810000	12,809,300
1	15160001	15165000	15,163,852
1	19495001	19500000	19,500,000
1	47415001	47420000	47,416,124
1	93835001	93840000	93,840,000
1	95240001	95245000	95,240,760
1	170375001	170380000	170,379,240
20394			538,636,938



## DETAILED PATTERN OF SHAREHOLDING

	No. of Shareholders	Share Held	Percentage
1. Associated Companies, undertaking and related parties.			
M/s Ibrahim Agencies (Pvt.) Limited.	1	47,473,652	8.81
Ibrahim Fibres Limited.	1	170,379,240	31.63
	2	217,852,892	40.45
2. NIT and ICP			
National Bank of Pakistan, Trustee Dept.	1	2,886,761	0.54
IDBP (ICP Unit )	1	7,569	0.00
	2	2,894,330	0.54
3. Directors, Chief Executive Officer, and their spouses			
Mohammed Naeem Mukhtar	1	96,494,282	17.91
Mrs. Ghazala Naeem	1	282,526	0.05
Mohammed Waseem Mukhtar	1	95,333,169	17.70
Mrs. Bina Sheikh	1	42,879	0.01
Sheikh Mukhtar Ahmed	1	428,622	0.08
Mrs. Iqbal Begum	1	362,650	0.07
Abdul Aziz Khan	1	10,049	0.00
Jalees Ahmed	1	6,541	0.00
Tasneem M. Noorani	1	3,000	0.00
Mubashir A. Akhtar	1	3,000	0.00
Mohammad Aftab Manzoor	1	2,500	0.00
Pervaiz Iqbal Butt	1	2,500	0.00
	12	192,971,718	35.83
4. Shares held by the Executives of the Bank	44	147,465	0.03
5. Public Sector Companies and Corporations (other than those covered in Insurance Companies and Banks)	Nil	Nil	Nil
6. Banks, DFIs, Financial Institutions, NBFIs.			
State Bank of Pakistan	1	54,222,399	10.07
NIB Bank Limited	1	446,040	0.08
Bank Alfalah Limited	1	15,000	0.00
National Bank of Pakistan	1	68,808	0.01
Escorts Investment Bank Ltd - CFS	1	264,300	0.05
MCB Bank Limited.	1	723,300	0.13
Soneri Bank Limited	1	10,000	0.00
First Credit & Investment Bank Ltd.	1	49,600	0.01
First Dawood Investment Bank Limited (A)	1	10,670	0.00
J S Bank Limited - CFS	1	73,300	0.01
Orix Investment Bank Pakistan Limited	1	11,000	0.00
Security Investment Bank Limited	1	46,400	0.01
Arif Habib Bank Limited	1	1,298,100	0.24
Trust Leasing Corporation Ltd.	1	96	0.00
Al-Faisal Investment Bank	1	28	0.00
	15	57,239,041	10.63
7. Insurance Companies			
Pakistan Re-insurance Co. Ltd.	1	90,974	0.02
State Life Insurance Corp. of Pakistan	1	139,569	0.03
Orient Insurance Co. Ltd.	1	192	0.00
Gulf Insurance Co. Ltd.	1	342	0.00
EFU Life Assurance Ltd.	1	14,640	0.00
Century Insurance Co. Ltd.	1	15,000	0.00
The Crescent Star Insurance Company Ltd.	1	90	0.00
Progressive Insurance Company Limited	1	1,200	0.00
New Jublee Insurance Co. Ltd.	1	50,000	0.01
New Jublee Life Insurance Co. Ltd.	1	50,000	0.01
IGI Insurance Ltd.	1	82,400	0.02
	11	444,407	0.08

# Pattern of Shareholding

## DETAILED PATTERN OF SHAREHOLDING

	No. of Shareholders	Share Held	Percentage
<b>8. Modarabas and Mutual Funds</b>			
First Al-Noor Modaraba	1	2,500	0.00
HBL Income Fund	1	8,000	0.00
HBL Stock Fund	1	19,800	0.00
Pakistan Stock Market Fund	1	2,349,780	0.44
Trustee Pak Strategic Alloc. Fund	1	1,245,600	0.23
Pakistan Capital Market Fund	1	649,700	0.12
Pakistan Premier Fund Ltd.	1	1,018,080	0.19
PICIC Investment Fund	1	750,380	0.14
AKD Index Tracker Fund	1	85,500	0.02
First Tawakkal Modaraba	1	166	0.00
Modaraba Al-Mali.	1	57	0.00
NAFA Cash Fund	1	1,000	0.00
MCB Dynamic Cash Fund	1	46,800	0.01
MCB Dynamic Stock Fund	1	301,300	0.06
PICIC Growth Fund	1	1,634,000	0.30
Pak Libya Holding Co. ( Pvt. ) Limited	1	271,000	0.05
KASB Stock Market Fund	1	91,500	0.02
AMZ Plus Stock Fund	1	55,000	0.01
UTP Growth Fund	1	1,156,900	0.21
UTP Large Capital Fund.	1	564,900	0.10
NAFA Stock Fund	1	200,000	0.04
NAFA Multi Asset Fund	1	100,000	0.02
Unit Trust of Pakistan	1	550,000	0.10
Atlas Income Fund	1	131,000	0.02
Trustee and Opportunity Fund	1	398,600	0.07
Safeway Mutual Fund Ltd.	1	40,000	0.01
	<b>23</b>	<b>11,671,563</b>	<b>2.16</b>
Shareholders holding 10% (and above) (Excluding Directors and associated companies)	Nil	Nil	Nil
<b>Foreign Investors</b>			
Habib Bank AG Zurich, Switzerland	1	19,800	0.00
Habib Bank AG Zurich, London	1	185,000	0.03
The Honkong & Shanghai Banking Corp. Ltd.	1	800,400	0.15
ABN Amro Bank N.V. London Branch.	1	394,634	0.07
The Northern Trust Company	1	22,900	0.00
Aeris International S. A.	1	128,300	0.02
Deutsche Bank London Global Equities	1	175,840	0.03
State Street Bank and Trust Co.	1	61,400	0.01
J.P.MORGAN WHITEFRIARS INC.	1	16,500	0.00
Goldman Sachs & Co. [148-9]	1	4,100	0.00
MELLON Bank N.A.	1	56,100	0.01
Ashiq Ali Kanji	1	9,387	0.01
Masood Kazmi	1	2,400	0.00
S.MUNEER-UR-ZAMAN	1	558	0.00
Amanullah Hashmi	1	22	0.00
S.Faiz Hussain	1	22	0.00
Mohammad Tahir Butt	1	1,800	0.00
	<b>17</b>	<b>1,879,163</b>	<b>0.36</b>
<b>General Public - Individuals</b>	<b>20,265</b>	<b>40,458,460</b>	<b>7.51</b>
Federal Government of Pakistan	1	7,528,735	1.40
Securities & Exchange Commission of Pakistan	1	18	0.00
Others	1	5,549,146	1.03
	<b>3</b>	<b>13,077,899</b>	<b>2.43</b>
<b>Grand Total</b>	<b>20,394</b>	<b>538,636,938</b>	<b>100</b>

Note: One Director had sold 30,000 shares and purchased 4000 shares and two Directors have purchased 2500 shares each. Apart from these, there have been no trades in the shares of the Bank, carried out by its other directors, CEO, CFO, Company Secretary and their spouses and minor children.

**62nd Annual General Meeting**

I/We \_\_\_\_\_  
of \_\_\_\_\_  
being a shareholder of the Allied Bank Limited do hereby appoint \_\_\_\_\_  
of \_\_\_\_\_ also a shareholder of \_\_\_\_\_  
to be my/our proxy and to attend, act and vote for me/us on my/our behalf at the 62nd Annual General Meeting of the Bank  
to be held on \_\_\_\_\_ and at any adjournment thereof in the same manner as I/we myself/ourselves would  
vote if personally present at such meeting.

Signed this \_\_\_\_\_ date of \_\_\_\_\_ 2008.

AFFIX  
Revenue  
Stamp of Rs. 5/-

Witness:

1. Signature \_\_\_\_\_  
Name \_\_\_\_\_  
Address \_\_\_\_\_  
CNIC # \_\_\_\_\_

Signature: \_\_\_\_\_  
The signature should agree with  
the specimen registered with the  
Company

Folio No. \_\_\_\_\_

Witness:

2. Signature \_\_\_\_\_  
Name \_\_\_\_\_  
Address \_\_\_\_\_  
CNIC # \_\_\_\_\_

CDC A/c No. \_\_\_\_\_

Sub A/c No. \_\_\_\_\_

No. of shares held \_\_\_\_\_

Distinctive Numbers: \_\_\_\_\_

From \_\_\_\_\_ to \_\_\_\_\_

**IMPORTANT:**

1. A member entitled to attend and vote at a meeting is entitled to appoint another member as a proxy to attend, speak and vote for him / her.
2. An instrument of proxy applicable for the meeting is being provided with the notice sent to members. Further copies of the instrument of proxy, if required may be obtained from the Registered Office of the Bank during normal office hours.
3. An instrument of Proxy and a Power of Attorney or other authority (if any) under which it is signed, or notarized copy of such Power of Attorney must be valid and deposited at the Registered Office of the Bank not less than 48 hours before the time of the Meeting.
4. In case of proxy for an individual beneficial owner of CDC, attested copies of beneficial owner's NIC or passport, Account and Participant's I.D. numbers must be deposited along with the Form of Proxy. In case of Proxy for corporate members, he / she should bring the usual documents required for such purpose.
5. Members are requested to notify immediately changes, if any, in their registered address to Bank's Share Registrar M/S Technology Trade (Pvt) Limited, 241-C, Block-2, PECHS, Karachi before book closure so that entitlement if any, be dispatched at the correct address.

AFFIX  
CORRECT  
POSTAGE

## Allied Bank Limited

Head Office / Registered Office  
8-Kashmir / Egerton Road, Lahore.  
Phone: +92 42 111 110 110  
Website: [www.abl.com.pk](http://www.abl.com.pk)