

In The Name
of **ALLAH**
The Most Gracious,
The Most Merciful

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Corporate Information

Board of Directors

H.E. Sheikh Hamdan Bin Mubarak Al Nahayan	Chairman
Mr. Abdulla Khalil Al Mutawa	Director
Mr. Abdulla Nasser Hawaileel Al-Mansoori	Director
Mr. Khalid Mana Saeed Al Otaiba	Director
Mr. Ikram Ul-Majeed Sehgal	Director
Mr. Nadeem Iqbal Sheikh	Director
Mr. Sirajuddin Aziz	Chief Executive Officer

Board Advisory Committee

Mr. Khalid Mana Saeed Al Otaiba	Director
Mr. Abdulla Khalil Al Mutawa	Director
Mr. Bashir A. Tahir	Member
Mr. Ganpat Singhvi	Member
Mr. M. Iftikhar Shabbir	Secretary

Board Audit Committee

Mr. Abdulla Khalil Al Mutawa	Director
Mr. Khalid Mana Saeed Al Otaiba	Director
Mr. Bashir A. Tahir	Member
Mr. Ganpat Singhvi	Member
Mr. M. Iqbal Saifi	Secretary

Board Credit And Finance Committee

Mr. Abdullah Khalil Al Mutawa	Director
Mr. Khalid Mana Saeed Al Otaiba	Director
Mr. Ganpat Singhvi	Member
Mr. Bashir A. Tahir	Member
Mr. M. Iftikhar Shabbir	Secretary

Board Risk Management Committee

Mr. Khalid Mana Saeed Al Otaiba	Director
Mr. Abdullah Khalil Al Mutawa	Director
Mr. Ganpat Singhvi	Member
Mr. Bashir A. Tahir	Member
Mr. Haroon Khalid	Secretary

Central Management Committee

Mr. Sirajuddin Aziz	Chairman
Mr. Parvez A. Shahid	Co-Chairman
Mr. Mohammad Yousuf	Member
Mr. Shakil Sadiq	Member
Mr. Shahid M. Murtaza	Member
Mr. Nadeemul Haq	Member
Mr. Bakhtiar Khawaja	Member
Mr. Adil Rashid	Member
Mr. Ijaz Farooq	Member
Mr. Arfa Waheed Malik	Member
Mr. Adnan Anwar Khan	Member
Mr. Ashfaq A. Qureshi	Secretary

Company Secretary

Mr. Hamid Ashraf

Chief Financial Officer

Mr. Zahid Ali H. Jamall

Auditors

KPMG Taseer Hadi & Co.,
Chartered Accountants

Registered / Head Office

B. A. Building
I. I. Chundrigar Road
Karachi.

Website

www.bankalfalah.com

Notice of the 16th Annual General Meeting

NOTICE is hereby given that the 16th Annual General Meeting of Bank Alfalah Limited will be held on Tuesday, 25th March, 2008 at 11:00 AM at Ballroom "A" of Pearl Continental Hotel, Karachi, to transact the following business:

ORDINARY BUSINESS:

1. To confirm the Minutes of the 15th Annual General Meeting held on 26th March 2007.
2. To receive, consider and adopt the audited Annual Accounts and Consolidated Accounts of the Bank for the year ended December 31, 2007 together with Directors' Report and Auditors' Report thereon, including post-facto approval of remuneration paid to non-executive directors for attending Board Committees meetings reported at Notes 27 and 36 of the Annual Accounts, as required under SBP Prudential Regulations.
3. To approve as recommended by the Board of Directors 23% bonus shares and 15% cash dividend.
4. To appoint Auditors of the Bank for the year 2008 and fix their remuneration.

SPECIAL BUSINESS:

5. To consider and approve increase in the authorized capital of the Bank from Rs 8,000,000,000/- (Rupees eight billion) to Rs 15,000,000,000/- (Rupees fifteen billion) and pass the following special resolution:

"RESOLVED THAT the authorized Capital of the Bank be and is hereby increased from Rs 8,000,000,000/- (Rupees Eight Billion) to Rs 15,000,000,000/- (Rupees Fifteen Billion).

FURTHER RESOLVED THAT Clause V of the Memorandum of Association and Article 3 of the Articles of Association be and is hereby amended/alterd by substituting the figures and words "**Rs 8,000,000,000/-** divided into **800,000,000** shares" with the figures and words "**Rs 15,000,000,000/-** divided into **1,500,000,000** shares."

6. To approve/ratify subscription of 7,449,270 right shares @ Rs 10/- each of Alfalah GHP Investment Management Limited, an associate company, as approved by the Board of Directors, and pass the following special resolution:

"RESOLVED THAT subscription by the Bank of 7,449,270 right shares @ Rs 10/- each of Alfalah GHP Investment Management Limited, an associate company of the Bank, be and is hereby approved/ratified."

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

Karachi
Dated: 3rd March 2008

By Order of the Board
Company Secretary

Notice of the 16th Annual General Meeting

NOTES:

1. The Share Transfer Books of the Bank will remain closed from 19th March 2008 to 25th March 2008 (both days inclusive) for entitlement of bonus shares and cash dividend to those members whose names appear on the register of members as at close of business on 18th March 2008.
2. Statement of material facts under Section 160(1)(b) of the Companies Ordinance, 1984 pertaining to Special Business is being sent to the members with the Notice.
3. A member entitled to attend, and vote at the Meeting is entitled to appoint another member as a proxy to attend, speak and vote on his/her behalf. A corporation being a member may appoint as its proxy any of its official or any other person whether a member of the Bank or otherwise.
4. 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 Share Registrar of the Bank, F.D. Registrar Services (SMC-Pvt) Limited, 1700-A, 17th Floor, Saima Trade Tower, I.I.Chundrigar Road, Karachi, not less than 48 hours before the time of the Meeting.
5. Those shareholders, whose shares are deposited with Central Depository Company of Pakistan Ltd. (CDC) are requested to bring their original Computerized National Identity Card (CNIC) alongwith participant's ID number and their account/sub-account numbers in CDC to facilitate identification at the time of Annual General Meeting. In case of Proxy, attested copies of proxy's CNIC or passport, Account and Participant's I.D. numbers must be deposited alongwith the Form of Proxy with out Share Registrar as per paragraph No.4 above. In case of Proxy for corporate members, the Board of Directors' Resolution/Power of Attorney with specimen signature of the nominee shall be produced at the time of the meeting (unless it has been provided earlier to the Share Registrar).
6. Shareholders are requested to notify change in their address, if any, to our Share Registrar, F.D. Registrar Services (SMC-Pvt) Limited.

Statement of material facts under Section 160(1)(b) of the Companies Ordinance, 1984 pertaining to Special Business

This statement sets out the material facts concerning the Special Business (given at agenda items No.5 and 6) to be transacted at the 16th Annual General Meeting of the members of Bank Alfalah Limited to be held on 25th March 2008.

Increase in authorized capital (Agenda No.5)

The present authorized capital of the Bank is Rs 8,000,000,000/- divided into 800,000,000 ordinary shares, and the paid-up capital is Rs 6,500,000,000/-. The Directors of the Bank are of the view that this leaves little room for induction of additional capital. It is, therefore, proposed that the authorized capital of the Bank be increased to Rs 15,000,000,000 (Rupees Fifteen Billion) so that additional capital induction may be undertaken in future for strengthening the Bank's competitive ability within Pakistan and helping the Bank in establishing its presence in other locations outside Pakistan. The increase in authorized capital will also enable the Bank to meet SBP's future requirement of capital adequacy.

The Directors are not interested in the above Special Business.

Subscription of right shares of Alfalah GHP Investment Management Limited (Agenda No.6)

The Bank had made strategic equity investment in Alfalah GHP Investment Management Limited (Alfalah GHP) prior to the amendments made to Section 208 of the Companies Ordinance, 1984 by the Finance Act, 2007 and the SRO 819(1)/2007 issued by the Securities & Exchange Commission of Pakistan (SECP) vide Notification dated August 13, 2007. In October 2007 Alfalah GHP offered to the Bank 7,449,270 right shares as per its entitlement at the face value of Rs 10/- each. The investment by way of subscription of right shares was made by the Bank in November 2007 with the approval of the Board of Directors dated October 28, 2007.

Information as required by Notification No.SRO 865(1)/2000 dated December 6, 2000 issued by SECP is given below:

Investment in Alfalah GHP Investment Management Limited

Name of Investee company	: Alfalah GHP Investment Management Limited Other major shareholders of the Company are M/s MAB Investment Inc., British Virgin Islands (39.50%) and GHP Financial Services, Switzerland (14.36%). The principal activity of the Company is to act as the asset management company, investment advisor/fund managers and to constitute, float and manage open-ended schemes and closed ended-funds.
Nature of Investment	: Subscription of right shares offered by the Investee company
Amount of Investment	: Rs 74,492,700/-

Statement of material facts under Section 160(1)(b) of the Companies Ordinance, 1984 pertaining to Special Business

Average market price	:	Not Applicable
Break-up value of shares - Dec 2007	:	Rs 9.37
Break-up value of shares - Dec 2006	:	Rs 3.68
Purchase price	:	Rs 10 per share
Earning per share - 2007	:	Rs 1.20 per share
Earning per share - 2006	:	Rs (2.76) per share
Earning per share - 2005	:	Rs (2.90) per share
Source of Funds	:	Funds available out of normal banking deposits
Period of Investment	:	Strategic Investment
Purpose of Investment	:	Subscription of right shares will provide the Company with the adequate liquidity to invest in profitable avenues to generate profit in future. This will also help in reducing accumulated losses of the Company. Further the Company's financial position will be strengthened which will be helpful to the Company to launch new product in future.
Benefits to the Company and Shareholders	:	The Bank will earn dividend income from the distribution of profit.
Interest of directors and their relatives	:	None

Directors' Report to the Shareholders

The Board of Directors is pleased to present the audited financial statements of the Bank for the year 2007.

Profit before provision and Taxation

Provisions

Profit before Taxation

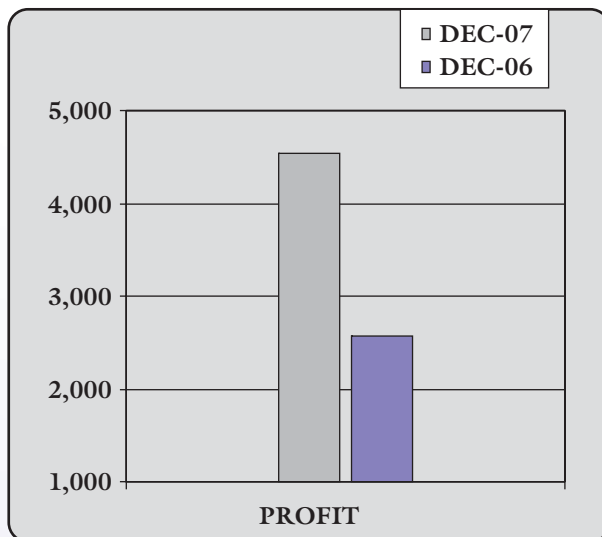
Taxation

Profit After Taxation

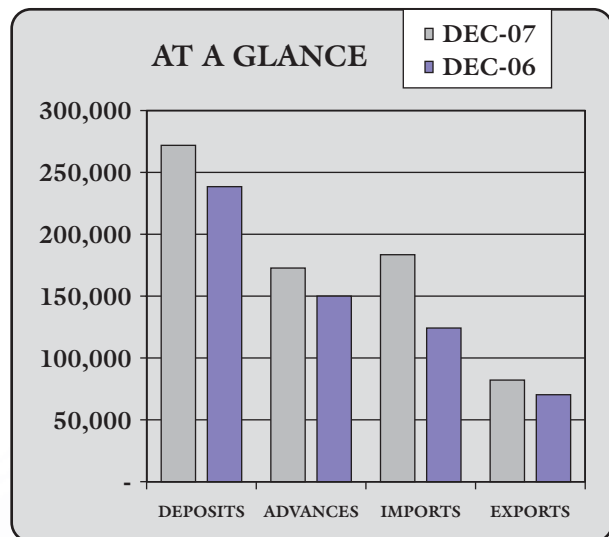
Earnings per share

2007	2006
(Rupees in '000)	
6,906,419	3,263,635
(2,370,867)	(697,690)
4,535,552	2,565,945
(1,405,323)	(803,254)
3,130,229	1,762,691
Rs. 4.82	Rs. 2.91

Profit Before Tax



Rs. In Million



Dividend & Bonus Shares

The directors recommend cash dividend of 15 percent and a bonus issue of 23 percent subject to approval of the Shareholders.

Operating Results

During the year the bank's profit before provisions and tax stood at Rs. 6,906.419 million compared to Rs. 3,263.635 million the previous year registering an increase of 111.62%. This increase in profit is primarily attributable to overall increase in business volumes and includes capital gain on sale of shares of Warid Telcom (Pvt) Limited amounting to Rs.1.789 billion.

We continue to strengthen our presence in the market place and as of year end 2007, we have a network of 231 branches that includes 32 Islamic Banking branches, seven foreign branches five in Bangladesh and two in Afghanistan and one offshore banking unit in Bahrain.

Economic Overview

Pakistan's economy continues to gain traction as it experiences the longest spell of its strongest growth in years. The outcomes of the recently concluded fiscal year indicate that Pakistan's upbeat economic momentum remains on track. Economic growth accelerates to 7.0 percent in 2006-07 at the back of robust growth in agriculture, manufacturing and services. Economic growth has been notably stable and resilient. With economic growth at 7.0 percent in 2006-07, Pakistan's real GDP has grown at an average rate of 7.0 percent per annum during the last five years (2003-07) and over 7.5 percent in the last four years (2004-07) in running.

Directors' Report to the Shareholders

Economic outlook/forecast for the current financial year 2007-08 on the basis of healthy macro-economic Indicators remain extremely favorable. Building on the same positive trajectory as last year, real GDP growth is expected to increase to 7.2 % in 2007-08.

Credit Rating

PACRA, a premier rating agency of the country, has rated the Bank 'AA' (double A), Entity Rating for Long Term and A1+ (A one plus) for the Short Term. These ratings denote a very low expectation of credit risk, strong capacity for timely payment of financial commitments in the long term and by highest capacity for timely repayment in the short term, respectively. Further, the unsecured subordinated debt (Term Finance Certificates) of the Bank has been awarded a credit rating of AA- (double A minus).

Corporate Governance

1. The Bank has implemented the requirements of the Code of Corporate Governance relevant for the year ended December 31, 2007. A prescribed statement by the management together with the Auditors' Review Report thereon is annexed.
2. Statement under clause XIX of the Code:
 - a) The financial statements prepared by the management of the Bank, present fairly, the state of affairs, the result of its operations, cash flows and changes in equity.
 - b) Proper books of accounts of the bank have been maintained.
 - c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
 - d) International Accounting Standards, as applicable to banks in Pakistan, have been followed in preparation of financial statements.
 - e) The system of internal control is sound in design and has been effectively implemented and monitored.
 - f) There are no doubts about the Bank's ability to continue as a going concern.
 - g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations duly adopted by the State Bank of Pakistan vide BSD Circular No. 5 dated June 13, 2002.
 - h) Summarized key operating and financial data of last eight years is annexed to the audited accounts.
 - i) Book value of investments by Staff Provident Fund and Staff Gratuity Fund as at December 31, 2007 is:

Staff Provident Fund	Rs.830.840 million
Staff Gratuity Fund	Rs.299.576 million

- j) The number of Board meetings held during 2007 were 4 and attended by directors as under:

	No. of Meetings attended
1. H. E. Hamdan Bin Mubarak Al Nahayan	4
2. Mr. Abdulla Nasser Hawaileel Al Mansoori	3
3. Mr. Abdulla Khalil Al Mutawa	4
4. Mr. Khalid Mana Saeed Al Otaiba	4
5. Mr. Ikram Ul-Majeed Sehgal	3
6. Mr.Nadeem Iqbal Sheikh	4
7. Mr.Sirajuddin Aziz*	1
8. Mr.Mohammad Saleem Akhtar*	3

* Due to resignation/ retirement of Mr.Mohammad Saleem Akhtar, Present Chief Executive Officer, Mr.Sirajuddin Aziz has also been appointed as Director to fill the casual vacancy.

- k) The pattern of shareholding is attached with this report.

Directors' Report to the Shareholders

Risk Management

In compliance with the requirements of the State Bank of Pakistan, Bank has in place an approved integrated risk management framework for managing credit risk, market risk, liquidity risk and operational risk as evidenced by its Board approved "Risk Management and Internal Control" manual and a dedicated Risk Management Division (RMD) has been created with the Head RMD reporting directly to the Chief Executive Officer. Risk Management Division has been structured to address Credit, Market and Operational risk and a team of suitable personnel have been hired.

The Board of Directors through its sub-committee called 'Board Risk Management Committee' (BRMC) oversees the overall risk of our Bank. The Risk Management Division (RMD) is the organizational arm performing the functions of identifying, measuring, monitoring and controlling the various risks and assists the BRMC and the various sub-committees in conversion of policies into action. As part of its mandate the Central Management Committee (CMC) is entrusted with overseeing the operational risk of the Bank.

The Bank has established a Treasury Middle Office to effectively monitor day-to-day trading activities of the dealing room. An independent risk review function exists at our Bank through our internal audit division that reports directly to the Board Audit Committee.

We are committed to embracing Risk Management and Basel II implementation at our bank not just as a regulatory compliance exercise but as means to adopt best international practices to enhance stakeholders' value.

Corporate Social Responsibility

The bank as a responsible corporate citizen endeavors to fulfill its social obligations through effective contribution towards well being of society as a whole. Donations of Rs. 36.173 million have been made during the year mainly to the education and health services organizations

Subsidiary Company

Bank Alfalah Limited has 76% shareholding in Alfalah Securities (Private) Limited.

Future Plans

In 2008, we plan to open 49 more branches all over Pakistan.

Acknowledgement

The Board would like to acknowledge the support of State Bank of Pakistan, Ministry of Finance and other regulatory authorities for their invaluable support, which greatly facilitated our work. The Board would like to place on record the meritorious services of Mr. Mohammad Saleem Akhtar, under whose guidance and leadership the bank progressed to its current status, within the comity of banks, in a short span of ten years. The Board would also like to record its appreciation for devotion, hard work and professionalism of the senior management, officers and staff of the Bank.

SIRAJUDDIN AZIZ

Director & Chief Executive Officer
February 24, 2008
Abu Dhabi

Eight Year Financial Summary

		2000	2001	2002	2003	2004	2005	2006	2007
OPERATIONAL RESULTS									
Total Income		2,531	3,700	5,246	7,425	7,140	14,515	24,416	31,822
Operating Expenses		511	744	1,184	1,803	2,679	4,344	5,918	8,289
Profit before Income Tax and Provision		304	510	948	3,593	2,026	2,966	3,264	6,906
Profit before Income Tax		400	524	895	3,506	1,654	2,563	2,566	4,536
Profit after Taxation		215	311	446	2,123	1,092	1,702	1,763	3,130
BALANCE SHEET									
Shareholders' Equity		901	1,362	1,616	3,753	4,369	6,738	10,573	13,767
Total Assets		28,855	40,098	65,167	98,952	154,835	248,314	275,686	328,895
Advances - net of provision		15,242	19,131	28,319	49,216	88,931	118,864	149,999	171,199
Investments - net of provision		4,875	11,397	24,470	28,904	35,503	57,416	56,502	88,492
Deposits and other accounts		20,482	30,207	51,685	76,698	129,715	222,345	239,509	273,174
OTHERS									
Imports		13,858	26,658	33,879	46,807	78,472	116,210	119,937	184,305
Exports		16,756	25,261	33,057	44,273	57,317	71,847	70,844	79,090
RATIOS									
Capital Adequacy	%	8.35	9.56	8.70	8.45	8.16	8.66	9.48	9.85*
Profit before Tax ratio (PBT/Gross mark up income)	%	17.70	15.45	19.67	86.92	29.43	20.93	12.11	17.59
Gross spread ratio (Net mark up income/gross mark up income)	%	23.78	25.85	31.62	49.71	56.69	41.17	28.12	35.54
Income/Expense ratio	Times	4.95	5.07	4.43	4.12	2.67	3.34	4.13	3.84
Return on Average Equity (ROE)	%	23.94	27.49	29.95	79.08	26.89	30.65	20.37	25.72
Return on Average Assets (ROA)	%	0.89	0.90	0.85	2.59	0.86	0.84	0.67	1.04
Advances/Deposits Ratio	%	74.42	63.33	54.79	64.17	68.56	53.46	62.63	62.67
Cash Dividends	%	35	-	25	25	-	12	-	-
Stock Dividend	%	-	-	33.33	100.00	25.00	-	33.33	30.00
Book value per share excluding revaluation of Assets	Rs.	15.01	18.15	16.16	18.77	17.48	22.46	21.15	21.18
Book value per share including revaluation of Assets	Rs.	28.64	28.80	36.53	23.79	21.05	24.88	24.48	24.95
Basic Earnings per share	Rs.	3.59	3.65	2.23	8.49	3.90	3.92	2.91	4.82
No. of Employees (other than outsourced)	No.	695	959	1,504	2,133	3,352	5,218	6,543	7,371

* Not yet certified

Statement of Compliance with the Best Practices of Corporate Governance to the Members

The Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan to manage a company in compliance with best practices, has been made applicable on banks by the State Bank of Pakistan in June 2002.

The Board of Directors has adopted the Code of Corporate Governance and necessary actions have been initiated for compliance with all applicable and relevant clauses. The bank applies the principles contained in the Code in the following manner:

- i) Except for the Chief Executive Officer, all the other directors are non-executive directors.
- ii) None of the directors of the bank are serving as a director in ten or more listed companies.
- iii) The resident Directors of the bank are registered as Tax payers and to the best of our knowledge, none of the Directors have defaulted in payment of any loan to a banking company, a development financial institution (DFI) or a non banking financial institution (NBFI) or being a member of Stock Exchange, has been declared as a defaulter by that Stock Exchange.
- iv) None of the Directors or their spouses is engaged in the business of Stock Exchange.
- v) "Statement of Ethics and Business Practices" are signed by the directors and employees of the bank.
- vi) The Board has already adopted its vision/mission statement, overall corporate strategy and significant policies.
- vii) All powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer are approved by the Board.
- viii) The meetings of the Board were presided over by the Chairman. The Board of Directors have met four times in the year and written notices on the Board meeting, 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 to all concerned.
- ix) Directors are aware of the relevant laws applicable to the bank, its policies and procedures and provisions of the Memorandum and Articles of Association to manage the affairs of the bank on behalf of the shareholders. Further, orientation of Directors was conducted to appraise them of their duties and responsibilities.
- x) There was no new appointment of CFO, Company Secretary or Head of Internal Audit after the implementation of Corporate Governance.
- xi) An effective internal audit department has already been established.
- xii) The Directors' Report for this year has been prepared keeping in view the requirements of the Code and fully describes the salient matters required to be disclosed.
- xiii) The financial statements of the bank have been duly endorsed by the Chief Executive Officer and the Chief Financial Officer.

Statement of Compliance with the Best Practices of Corporate Governance to the Members

- xiv) The bank has complied with all the applicable corporate and financial reporting requirements.
- xv) The Directors, CEO and executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
- xvi) The Board has formed an audit committee. It comprises four members, two of which are non-executive directors of the bank.
- xvii) Audit Committee met seven times during the year 2007.
- xviii) The statutory auditors of the bank have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan 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.
- xix) The Statement of Compliance with best practices of corporate governance is being published and circulated along with the annual report of the bank.
- xx) On 25th October 2007 the Board of Directors appointed the new CEO of the Bank in place of the previous CEO who had resigned / retired. The present CEO was also appointed by the Board as Director to fill the casual vacancy in the office of Director due to the resignation/ retirement of the previous CEO and Director.

For and on behalf of the Board

Sirajuddin Aziz
Director & Chief Executive Officer
February 24, 2008
Abu Dhabi

Review Report to the Members on Statement of Compliance With Best Practices of Code of Corporate Governance

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 Bank Alfalah Limited to comply with listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges 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 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 31 December 2007.

KPMG Taseer Hadi & Co.

Chartered Accountants

February 24, 2008

Karachi

Statement on Internal Controls

This Statement of Internal Controls is based on an ongoing process designed to identify the significant risks in achieving the bank's policies, aims and objectives and to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been continuously in place for the year ended December 31, 2007.

It is the responsibility of the bank's management to establish and maintain an adequate and effective system of internal control and every endeavour is made to implement sound control procedures and to maintain a suitable control environment. In this connection the bank has a systems and procedures manual in place which documents policies, procedures and controls for each area of the bank's business, including financial reporting. The Board of Directors have also instituted an effective Internal Audit Division which not only monitors compliance with these policies, procedures and controls and reports significant deviations regularly to the Board Audit Committee but also regularly reviews the adequacy of the internal control system. The observations and weaknesses pointed out by the external auditors are also addressed promptly and necessary steps are taken by the management to eliminate such weaknesses.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the bank's business strategies and policies. It can therefore only provide reasonable and not absolute assurance against material misstatement or loss. In the view of the management, the bank's system of internal control is considered adequate and sound in design and is being effectively implemented and monitored.

For and on behalf of the Board

Sirajuddin Aziz

Director & Chief Executive Officer

February 24, 2008

Abu Dhabi

Auditors' Report to the Members

We have audited the annexed balance sheet of Bank Alfalah Limited as at 31 December 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 33 branches which have been audited by us and 7 branches audited by auditors abroad 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 the case of loans and advances covered more than 60% 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;
- (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 31 December 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.

KPMG Taseer Hadi & Co.
Chartered Accountants
February 24, 2008
Karachi

Balance Sheet

As at 31 December 2007

	Note	2007	2006
(Rupees in '000)			
ASSETS			
Cash and balances with treasury banks	6	29,436,378	27,859,360
Balances with other banks	7	18,380,738	12,731,952
Lendings to financial institutions	8	3,452,059	12,456,653
Investments	9	88,491,564	56,502,210
Advances	10	171,198,992	149,999,325
Operating fixed assets	11	11,922,324	10,502,990
Deferred tax assets		-	-
Other assets	12	6,013,097	5,633,051
		328,895,152	275,685,541
LIABILITIES			
Bills payable	13	4,138,243	3,091,135
Borrowings	14	21,230,697	8,394,130
Deposits and other accounts	15	273,173,841	239,509,391
Sub-ordinated loans	16	3,220,858	3,222,106
Liabilities against assets subject to finance lease		-	-
Deferred tax liabilities	17	1,379,809	1,921,338
Other liabilities	18	9,531,860	7,305,496
		312,675,308	263,443,596
NET ASSETS			
		16,219,844	12,241,945
REPRESENTED BY			
Share capital	19	6,500,000	5,000,000
Reserves		2,414,833	2,749,533
Unappropriated profit		4,851,840	2,823,072
		13,766,673	10,572,605
Surplus on revaluation of assets - net of tax	20	2,453,171	1,669,340
		16,219,844	12,241,945
CONTINGENCIES AND COMMITMENTS			
	21		

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

Profit and Loss Account

For the year ended December 31, 2007

	Note	2007		2006	
		(Rupees in '000)			
Mark-up / Return / Interest Earned	23	25,783,871	21,191,470		
Mark-up / Return / Interest Expensed	24	16,620,963	15,232,886		
Net Mark-up / Interest Income		9,162,908	5,958,584		
Provision against loans and advances	10.4	(2,370,867)	(697,690)		
Provision for diminution in value of investments		-	-		
Bad debts written off directly	10.5	(5,844)	(1,537)		
		(2,376,711)	(699,227)		
Net Mark-up / Interest Income after provisions		6,786,197	5,259,357		
NON MARK-UP / INTEREST INCOME					
Fee, commission and brokerage income		2,429,599	1,804,998		
Dividend income		64,722	37,393		
Income from dealing in foreign currencies		474,510	386,997		
Gain on sale of securities	25	2,053,192	180,751		
Unrealized loss on revaluation of investments classified as held for trading		(14,929)	(27,599)		
Other income	26	1,031,372	842,099		
Total Non-Mark-up / Interest Income		6,038,466	3,224,639		
		12,824,663	8,483,996		
NON MARK-UP / INTEREST EXPENSES					
Administrative expenses	27	8,272,587	5,874,745		
Provisions against off-balance sheet obligations	18.2	6,959	-		
Other charges	28	9,565	43,306		
Total Non-Mark-up / Interest Expenses		8,289,111	5,918,051		
		4,535,552	2,565,945		
Extra ordinary / unusual items		-	-		
PROFIT BEFORE TAXATION		4,535,552	2,565,945		
Taxation	29				
- Current		1,726,810	476,226		
- Prior years		-	(100,874)		
- Deferred		(321,487)	427,902		
		1,405,323	803,254		
PROFIT AFTER TAXATION		3,130,229	1,762,691		
Unappropriated profit brought forward		2,823,072	1,886,845		
Transferred from surplus on revaluation of fixed assets - net of tax		24,585	26,074		
Profit available for appropriation		5,977,886	3,675,610		
(Rupees)					
(Restated)					
Basic / Diluted earnings per share	30	4.82	2.91		

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

Cash Flow Statement

For the year ended December 31, 2007

Note	2007		2006	
	(Rupees in '000)			
CASH FLOWS FROM OPERATING ACTIVITIES				
	4,535,552	2,565,945		
Profit before taxation	(64,722)	(37,393)		
Less: Dividend income	4,470,830	2,528,552		
Adjustments:				
Depreciation	956,947	691,836		
Amortisation	39,628	16,660		
Provision against loans and advances (net)	2,370,867	697,690		
Unrealized loss on revaluation of investments classified as held for trading	14,929	27,599		
Bad debts written-off directly	5,844	1,537		
(Gain) on sale of operating fixed assets	(13,928)	(12,999)		
Provision for gratuity	90,289	62,797		
	3,464,576	1,485,120		
	7,935,406	4,013,672		
(Increase) / decrease in operating assets				
Lendings to financial institutions	7,412,388	16,393,628		
Held-for-trading securities	289,045	(126,374)		
Advances	(23,576,378)	(31,834,542)		
Other assets - net of provision against other assets	(819,316)	(1,476,332)		
	(16,694,261)	(17,043,620)		
Increase / (decrease) in operating liabilities				
Bills payable	1,047,108	(641,989)		
Borrowings	12,836,567	2,549,741		
Deposits and other accounts	33,664,450	17,164,324		
Other liabilities	1,465,491	2,085,830		
	49,013,616	21,157,906		
	40,254,761	8,127,958		
Gratuity paid	(90,289)	(62,797)		
Income tax paid	(519,147)	(212,799)		
Net cash from operating activities	39,645,325	7,852,362		
CASH FLOWS FROM INVESTING ACTIVITIES				
Net investments in available-for-sale securities	(25,815,042)	(16,767,427)		
Net investments in held-to-maturity securities	(4,335,842)	17,846,558		
Investment in associated companies	(1,554,071)	(637,660)		
Investment in subsidiary company	-	(22,400)		
Dividend income received	57,201	36,510		
Investments in operating fixed assets	(2,430,028)	(2,501,170)		
Proceeds from sale of operating fixed assets	28,049	28,360		
Net cash used in investing activities	(34,049,733)	(2,017,229)		
CASH FLOWS FROM FINANCING ACTIVITIES				
Redemption of sub-ordinated loans	(1,248)	(1,249)		
Proceeds from issue of right shares	-	2,000,000		
Net cash (used in) / from financing activities	(1,248)	1,998,751		
Exchange difference on translation of the net investments in foreign branches	39,254	45,777		
Increase in cash and cash equivalents	5,633,598	7,879,661		
Cash and cash equivalents at beginning of the year	43,181,100	35,301,439		
Cash and cash equivalents at end of the year	48,814,698	43,181,100		

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

Statement Changes in Equity

For the year ended December 31, 2007

	Share Capital	Share Premium	Statutory Reserve	Reserve for issue of Bonus Shares	Exchange Translation Reserve	Unappropriated Profit	Total
(Rupees in ' 000)							
Balance as at 01 January 2006	3,000,000	500,000	1,349,191	-	2,027	1,886,845	6,738,063
Changes in equity for 2006							
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	26,074	26,074
Exchange differences on translation of net investment in foreign branches	-	-	-	-	45,777	-	45,777
Profit after taxation for the year ended 31 December 2006	-	-	-	-	-	1,762,691	1,762,691
Total recognized income and expense for the year	-	-	-	-	45,777	1,788,765	1,834,542
Transfer to statutory reserve	-	-	352,538	-	-	(352,538)	-
Issue of bonus shares	1,000,000	(500,000)	-	-	-	(500,000)	-
Issue of right shares	1,000,000	1,000,000	-	-	-	-	2,000,000
Balance at 31 December 2006	5,000,000	1,000,000	1,701,729	-	47,804	2,823,072	10,572,605
Changes in equity for 2007							
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	24,585	24,585
Exchange differences on translation of net investment in foreign branches	-	-	-	-	39,254	-	39,254
Profit after taxation for the year ended 31 December 2007	-	-	-	-	-	3,130,229	3,130,229
Total recognized income and expense for the year	-	-	-	-	39,254	3,154,814	3,194,068
Transfer to statutory reserve	-	-	626,046	-	-	(626,046)	-
Issue of bonus shares	1,500,000	(1,000,000)	-	-	-	(500,000)	-
Balance at 31 December 2007	6,500,000	-	2,327,775	-	87,058	4,851,840	13,766,673

The annexed notes 1 to 44 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

Notes to the Financial Statements

For the year ended December 31, 2007

1. STATUS AND NATURE OF BUSINESS

Bank Alfalah Limited (the Bank) is a banking company incorporated in Pakistan on 21 June 1992 as a public limited company under the Companies Ordinance, 1984. It commenced its banking operations on 01 November 1992. The Bank's registered office is at B.A. Building, I. I. Chundrigar Road, Karachi and is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through 191 conventional banking branches (2006: 166 branches), 7 overseas branches (2006: 5), 32 Islamic banking branches (2006: 23 branches) and 1 offshore banking unit (2006: 1).

2. BASIS OF PRESENTATION

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

The financial results of the Islamic banking branches have been consolidated in these financial statements for reporting purpose, after eliminating material inter branch transaction / balances, key financial figures of the Islamic Banking branches are disclosed in Annexure II to these financial statements.

2.1 Basis of measurement

These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts, trading and available for sale investments and derivative financial instruments are measured at fair value.

The financial statements are presented in Pakistan Rupees, which is the Bank's functional and presentation currency. The amounts are rounded to nearest thousand.

2.2 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the 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 Bank'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 Bank's financial statements or where judgment was exercised in application of accounting policies are as follows:

i) Classification of investments

Held for trading

In classifying investments as 'held-for-trading' the Bank has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.

Held to maturity

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

Notes to the Financial Statements

Available for sale

The investments which are not classified as 'held for trading' or 'held to maturity' are classified as available for sale.

ii) **Provision against non performing loans and advances**

The Bank reviews its loan portfolio to assess amount of non-performing loans and advances and provision required there-against on quarterly basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower and the requirements of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Bank follows, the general provision requirement set out in Prudential Regulations. These provisions change due to the change in requirements and the effect is disclosed in note 10.

iii) **Impairment of available for sale equity investments**

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

iv) **Income taxes**

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax laws and the decisions of Appellate Authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Bank's future taxable profits are taken into account.

During the year, a new schedule has been introduced for taxation of banks in Pakistan. According to the provisions of this schedule, provision for doubtful loans and advances falling under the category of "doubtful" or "loss" will be allowed as a deduction in the year in which the provision is made. The schedule is applicable for the financial year ending 31 December 2008. Currently, provisions for loans and advances are allowed as a deduction when they are written off. The schedule does not contain transitory provisions with respect to provisions made before the applicability of the new schedule. The matter of introduction of such transitory provisions has been taken up with Federal Board of Revenue by Pakistan Banks Association and based on discussions to date the Bank's management is confident that such provisions will be made in the new schedule. Accordingly, the deferred tax calculations assume that such transitory rules will be made and the Bank would be able to get the benefit of the asset so recognised.

v) **Fixed assets, depreciation and amortisation**

The Bank carries its land and buildings at their respective fair values. The fair values are determined by independent valuation experts and such valuations are carried out with sufficient regularity.

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Bank. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors.

vi) **Staff Retirement Benefits**

Certain actuarial assumptions have been adopted and disclosed in these financial statements (note 34) for the actuarial valuations of staff retirement benefits plans. Actuarial assumptions are the Bank's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may effect the liability / assets under these plans in those years.

Notes to the Financial Statements

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 issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the directives issued by State Bank of Pakistan (SBP). In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.

The Securities and Exchange Commission of Pakistan (SECP) has approved and notified the adoption of International Accounting Standard 39 - Financial Instruments; Recognition and Measurement and International Accounting Standard 40 - Investment Property. The requirements of these standards have not been followed in preparation of these financial statements as the State Bank of Pakistan has deferred the implementation of these standards, vide its BSD Circular No.10 dated 26 August 2002, for banks in Pakistan 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 and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

In addition, Securities and Exchange Commission of Pakistan has notified the Islamic Financial Accounting Standard (IFAS) 1 - Murabaha and IFAS 2 - Ijara issued by the Institute of Chartered Accountants of Pakistan. IFAS 1 was effective for financial periods beginning on or after 01 January 2006 and IFAS 2 is effective for financial periods beginning on or after 01 July 2007. These standards have not been adopted by stand alone Islamic branches of conventional banks pending resolution of certain issues e.g. invoicing of goods, recording of inventories, concurrent application with other approved accounting standards in place for conventional banks, etc. Pakistan Banks Association and Modaraba Association of Pakistan have taken up the issue with SBP and Securities and Exchange Commission of Pakistan.

During the year, amendments to IAS 1 - Presentation of Financial Statements relating to capital disclosures became effective and have resulted in certain additional disclosures. International Financial Reporting Standard (IFRS) 2 - Share Based Payment, IFRS 3 - Business Combinations, IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, IFRS 6 - Exploration for and Extraction of Mineral Resources, IFRIC 8 - Scope of IFRS 2 Share Based Payment and IFRIC 10 - Interim Financial Reporting and impairment became effective during the year. The application of these standards and interpretations did not have any material effect on the Bank's financial statements.

3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2008:

- Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 01 January 2009). The objective of revising IAS 1 is to aggregate information in the financial statements on the basis of shared characteristics. The changes affect the presentation of owner changes in equity and of comprehensive income. It introduces a requirement to include in a complete set of financial statements a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.
- Revised IAS 23 - Borrowing costs (effective from 01 January 2009). Revised IAS 23 removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The application of the standard is not likely to have an effect on Bank's financial statements.
- IFRIC 9 - Reassessment of embedded derivatives. The IFRIC is effective during the year and will be applied together with application of IAS 39.

Notes to the Financial Statements

- IFRIC 11 - IFRS 2 - Group and Treasury Share Transactions (effective for annual periods beginning on or after 01 March 2007). IFRIC 11 requires that a share based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as equity settled share based payment regardless of how the equity instruments are obtained. IFRIC 11 is not expected to have any material impact on the Bank's financial statements.
- IFRIC 12 - Service Concession Arrangements (effective for annual periods beginning on or after 01 January 2008). IFRIC 12 provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private concession arrangements. IFRIC 12 is not relevant to the Bank's operations.
- IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 01 July 2008). IFRIC 13 addresses the accounting by entities that operates, or otherwise participate in, customer loyalty programmes for their customers.
- IFRIC 14 IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after 01 January 2008). IFRIC 14 clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on minimum funding requirements (MFR) for such asset.

4. DISCONTINUING OPERATION

On 28 October 2005, the Board of Directors of the Bank approved a plan to segregate its business of Islamic Banking into a separate entity. The segregation reflects Bank's plan to remain competitive with ever increasing competition in the local market and become the premier Islamic bank. Resultantly, in order to achieve this objective the Board feels that the Islamic Banking Division should be converted into a wholly owned subsidiary of the Bank. As of 31 December 2007, the Islamic Banking Division's assets were Rs. 26,577 million (2006: Rs. 23,496 million) and its liabilities were Rs.24,641 million (2006: Rs. 21,622 million). During 2007, Islamic Banking Division earned revenue of Rs. 1,897.925 million (2006: Rs. 1,362.884 million), incurred expenses of Rs. 1,793.879 million (2006: Rs. 1,215.086 million) and earned a pre-tax profit of Rs. 104.046 million (2006: Rs. 147.798 million) with a related tax expense including current and deferred tax of Rs. 31.162 million (2006: Rs. 53.299 million). During 2007, Islamic Banking Division's cash inflow from operating activities was Rs. 705.195 million (2006: Rs. 4,012.995 million), cash outflow from investing activities was Rs. 2,417.173 million (2006: Rs. 681.337 million) and cash inflow from financing activities was Rs. Nil (2006: Rs. Nil).

As the approval from State Bank of Pakistan is pending, therefore the active program to complete the plan has not been finalised. Accordingly, it has not been classified and disclosed as Discontinued Operations in accordance with IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents comprises cash and balances with treasury bank, balances with other banks and call lendings for the purpose of the cash flow statement.

5.2 Revenue recognition

Advances and investments

Mark-up income on loans and advances, debt securities investments and profit on murabaha and musharika financing are recognised on a time proportion basis taking into account effective yield on the instrument. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortised through the profit and loss account over the remaining maturity, using the effective yield method.

Dividend income is recognized at the time when the Bank's right to receive the dividend has been established.

Notes to the Financial Statements

Lease financing

Financing method is used in accounting for income from lease and ijarah financing. Under this method, the unrealised 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 the lease. Gains / losses on termination of leased contracts, documentation charges, front end fee and other lease income are recognized as income when they are realised.

Lease income and mark-up / return on non-performing advances are suspended, where necessary, in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan and recognised on receipt basis.

Fee, commission and brokerage

Fee, commission and brokerage income except income from guarantees are accounted for on receipt basis. Commission on guarantees is recognised on time proportion basis.

5.3 Advances

Loans and advances

Loans and advances including financing under murabaha and musharika and net investment in finance lease / ijarah are stated net of provisions against non-performing advances. Specific and general provisions against Pakistan operations are made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time. The net provision made / reversed during the year is charged to profit and loss account and accumulated provision is netted-off against advances. Provisions pertaining to overseas advances are made in accordance with the requirements of regulatory authorities of the respective countries. Advances are written off when there are no realistic prospects of recovery.

Finance lease receivables

Leases / ijarah financing where the Bank transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. A receivable is recognised at an amount equal to the present value of the lease payments, including any guaranteed residual value. Finance lease receivables are included in advances to customers.

5.4 Investments

The Bank classifies Investments into 'held to maturity' , 'held for trading' or 'available for sale' categories in accordance with the requirements of Prudential Regulation issued by State Bank of Pakistan.

The investments of the Bank are classified in the following categories:

Held for trading

These are investments, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Held to maturity

These are investments with fixed or determinable payments and fixed maturities and the Bank has the positive intent and ability to hold them till maturity.

Available for sale

These are investments, other than those in subsidiaries and associates, which do not fall under the 'held for trading' and 'held to maturity' categories.

Notes to the Financial Statements

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

On derecognition or impairment in quoted available for sale investments, the cumulative gain or loss previously reported as surplus / (deficit) on revaluation of assets below equity is included in the profit and loss account for the period.

Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange, other than investments classified as held to maturity and investments in subsidiaries and associates are valued at market value. Investments classified as held to maturity are carried at amortised cost.

The surplus / deficit arising as a result of revaluation at market value on 'held for trading' portfolio is taken to profit and loss account and that relating to the 'available for sale' portfolio is kept in a separate account, which is shown in the balance sheet below shareholders equity.

Unquoted equity securities, excluding investments in subsidiaries and associates are valued at the lower of cost and break-up value. 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 subsidiaries and associates are carried at cost, less impairment loss, if any.

The carrying values of investments are reviewed for impairment at each balance sheet date. When any such indication exists where the carrying values exceed the estimated recoverable amounts, provision for impairment is made through the profit and loss account.

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

Gains or losses on disposals during the year are taken to profit and loss account.

5.5 Sale and repurchase agreements

The Bank enters into purchase / (sale) of investments under agreements to resell / (repurchase) investments at a certain date in the future at a fixed price. Investments purchased subject to commitment to resale them at the future dates (reverse repo) are not recognized, as the Bank does not obtain control over the assets. The amounts paid are recognized in lendings to financial institutions.

Investments sold under repurchase agreements (repo) continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for investments. The proceeds from the sale of the investments are reported in borrowings.

The difference between the purchase / (sale) and resale / (repurchase) consideration is recognized on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

5.6 Operating fixed assets

Tangible Assets

Fixed assets except office premises are shown at cost less accumulated depreciation and impairment loss, if any. Office premises (which includes land and buildings) is stated at cost / revalued amount less accumulated depreciation.

Depreciation is charged to income applying the straight-line method using the rates specified in note 11.2 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on additions is charged from the date on which the assets are available for use and ceases on the date on which they are disposed off.

Notes to the Financial Statements

Maintenance and normal repairs are charged to income as and when incurred. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

The surplus on revaluation of fixed assets (net of deferred taxation) to the extent of the incremental depreciation charged on the revalued assets is transferred to unappropriated profits. Gain and losses on disposal of fixed assets are taken to the profit and loss account except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profits. Valuations are carried out by professionally qualified valuers, with sufficient regularity, to ensure that carrying amounts do not differ materially from their fair values.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. The useful lives and amortization method are reviewed and adjusted, if appropriate at each balance sheet date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment loss, if any.

5.7 Capital work in progress

Capital work in progress is stated at cost less impairment losses, if any.

5.8 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using the tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

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

Deferred tax liability is not recognised in respect of taxable temporary differences associated with exchange translation reserves of foreign branches, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5.9 Employee benefits

Defined Benefit Plan

The Bank operates an approved funded gratuity scheme covering eligible employees whose period of employment with the Bank is five years or more. Contributions to the fund are made on the basis of actuarial recommendations. Projected Unit Credit Method has been used for the actuarial valuations. The results of current valuation are summarized in Note 34. Actuarial gains / losses in excess of 10 percent of actuarial liabilities or plan assets are recognized over the average lives of employees.

Notes to the Financial Statements

Defined Contribution Plan

The Bank operates a recognised provident fund scheme for all its permanent employees to which equal monthly contributions are made both by the Bank and employees at the rate of 8.33 percent of basic salary.

5.10 Borrowings / deposits and their cost

- a) Borrowings / deposits are recorded at the proceeds received.
- b) Borrowing / deposit costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method.

5.11 Foreign currency translation

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.

Transactions and Balances

Transactions in foreign currencies are translated to Pakistani rupees at the exchange rates ruling on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised into profit and loss account.

Forward contracts other than contracts with the State Bank of Pakistan relating to foreign currency deposits are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contract.

Forward purchase contracts with the State Bank of Pakistan relating to foreign currency deposits are valued at the spot rate prevailing on the balance sheet date. The forward cover fee payable on such contracts is amortized over the term of the contracts.

Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the exchange rates ruling on the balance sheet date.

Foreign Operations

Assets and liabilities of foreign operations are translated into rupees at the exchange rate prevailing at the balance sheet date. The results of foreign operations are translated at average rate of exchange for the year. Translation gains and losses arising on revaluations of net investment in foreign operations are taken to Exchange Translation Reserve in the equity under "Exchange Translation Reserve" which are recognised into profit and loss account on disposal.

5.12 Segment Reporting

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

Business segments

Trading and sales

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

Notes to the Financial Statements

Retail Banking

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

Commercial banking

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

Corporate finance

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

Geographical segments

The Bank operates in three geographical regions being:

- Pakistan
- Asia Pacific (including South Asia)
- Middle East

5.13 Provisions

Provision for guarantee claims and other off balance sheet obligations is recognised when intimated and reasonable certainty exists for the Bank to settle the obligation. Expected recoveries are recognised by debiting the customer's account. Charge to profit and loss account is stated net-of expected recoveries.

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

5.14 Derivative Financial Instruments

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

5.15 Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

5.16 Off-setting

Financial assets and financial liabilities are only off-set and the net amount reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Bank intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

Notes to the Financial Statements

5.17 Impairment

The carrying amount of Bank's assets other than the deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

5.18 Dividend and appropriation to reserves

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

5.19 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

		Note	2007	2006
(Rupees in '000)				
6.	CASH AND BALANCES WITH TREASURY BANKS			
	In hand			
	Local currency (including in transit Rs.94.960 million)		4,797,473	3,387,226
	Foreign currency (including in transit Rs. 104.904 million)		1,837,649	1,469,879
	With State Bank of Pakistan in			
	Local currency current account	6.1	16,566,799	16,077,606
	Foreign currency current account	6.2	1,036,674	939,560
	Foreign currency deposit account	6.3	929,357	2,318,183
	With other central banks in			
	Foreign currency current account	6.4	1,413,622	1,515,185
	Foreign currency deposit account	6.5	1,509,628	986,329
	With National Bank of Pakistan in			
	Local currency current account		1,323,806	1,151,358
	National Prize Bonds		21,370	14,034
			<u>29,436,378</u>	<u>27,859,360</u>

- 6.1 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in the current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by SBP.
- 6.2 Cash reserve of 5% is required to be maintained with State Bank Pakistan on deposits held under the New Foreign Currency Accounts Scheme vide BSD Circular No. 9 dated 03 December 2007.
- 6.3 Special cash reserve of 5% is required to be maintained with State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme vide BSD Circular No.9 dated 03 December 2007. Profit rates on these deposits are fixed by SBP on a monthly basis. It carries profit ranging between 3.71% to 4.72% (2006: 3.63% to 4.39%) per annum.

Notes to the Financial Statements

- 6.4 This includes an amount of USD 5.009 million (2006: USD 5.009 million) placed with Da Afghan Bank of Afghanistan to comply with the capital requirements of the country's regulatory authority.
- 6.5 This includes an amount of USD 15.880 million (2006: USD 15.880 million) placed with Central Bank of Bangladesh to meet the minimum capital requirement for Bangladesh operations at varying interest rates ranging from 4.92% to 5.07% per annum (2006: 4.22% to 5.07% per annum).

	Note	2007	2006
(Rupees in '000)			
7. BALANCES WITH OTHER BANKS			
In Pakistan			
On current account		422,132	258,503
On deposit account	7.1	1,780,101	3,388,276
Outside Pakistan			
On current account		3,262,949	2,544,191
On deposit account	7.2	12,915,556	6,540,982
		<u>18,380,738</u>	<u>12,731,952</u>

- 7.1 This represents funds deposited with various banks at profit rates ranging from 7.80% to 8.95% per annum (2006: 7.8% to 8% per annum).
- 7.2 This represents placements of funds generated through foreign currency deposits scheme (FE-25), at interest rates ranging from 3.50% to 7.00% per annum (2006: 3.15% to 5.36% per annum) with maturities upto July 2008.

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings		997,582	2,589,788
Repurchase agreement lendings (Reverse Repo)	8.1 & 8.3	2,454,477	9,866,865
		<u>3,452,059</u>	<u>12,456,653</u>

- 8.1 These represent short term lendings to financial institutions against investment securities at interest rates ranging from 9.50% to 9.95% per annum (2006: 8.42% to 9.25% per annum) with maturities upto January 2008.

8.2 PARTICULARS OF LENDINGS TO FINANCIAL INSTITUTIONS

In local currency	2,454,477	12,456,653
In foreign currencies	997,582	-
	<u>3,452,059</u>	<u>12,456,653</u>

8.3 SECURITIES HELD AS COLLATERAL AGAINST LENDINGS TO FINANCIAL INSTITUTIONS

	2007			2006		
	Held by Bank	Further Given as collateral	Total	Held by Bank	Further Given as collateral	Total
-----Rupees in '000-----						
Market Treasury Bills	954,477	-	954,477	8,576,865	-	8,576,865
Pakistan Investment Bonds	1,500,000	-	1,500,000	1,290,000	-	1,290,000
	<u>2,454,477</u>	<u>-</u>	<u>2,454,477</u>	<u>9,866,865</u>	<u>-</u>	<u>9,866,865</u>

Notes to the Financial Statements

9. INVESTMENTS

9.1 INVESTMENTS BY TYPES:

Note	2007			2006		
	Held by Bank	Given as collateral	Total	Held by Bank	Given as collateral	Total
-----Rupees in '000-----						
Held-for-trading securities						
	550,932	-	550,932	839,977	-	839,977
Fully paid up ordinary shares / units - Listed						
Available-for-sale securities						
Market Treasury Bills	32,763,607	14,683,909	47,447,516	19,981,883	1,681,213	21,663,096
Pakistan Investment Bonds	375,592	58,791	434,383	1,859,240	-	1,859,240
Fully paid up ordinary shares / units - Listed	2,289,220	-	2,289,220	615,886	-	615,886
Fully paid up ordinary shares / units - Unlisted	129,821	-	129,821	129,821	-	129,821
Term Finance Certificates	1,073,805	-	1,073,805	1,291,660	-	1,291,660
	36,632,045	14,742,700	51,374,745	23,878,490	1,681,213	25,559,703
Held-to-maturity securities						
Government Bonds	85,341	-	85,341	85,341	-	85,341
Pakistan Investment Bonds	6,855,500	-	6,855,500	8,085,321	-	8,085,321
Market Treasury Bills	21,453,797	-	21,453,797	17,197,812	-	17,197,812
Term Finance Certificates	1,413,401	-	1,413,401	1,975,432	-	1,975,432
Sukook Bonds	2,562,207	-	2,562,207	690,498	-	690,498
9.8	32,370,246	-	32,370,246	28,034,404	-	28,034,404
Associates						
Warid Telecom (Private) Limited	2,679,578	-	2,679,578	2,000,000	-	2,000,000
Wateen Telecom (Private) Limited	417,474	-	417,474	417,474	-	417,474
Alfalah Insurance Limited	68,990	-	68,990	68,990	-	68,990
Alfalah GHP Value Fund	100,000	-	100,000	100,000	-	100,000
Alfalah GHP Income Multiplier Fund	550,000	-	550,000	-	-	-
Alfalah GHP Islamic Fund	250,000	-	250,000	-	-	-
Alfalah GHP Investment Management Limited	130,493	-	130,493	-	-	-
	4,196,535	-	4,196,535	2,586,464	-	2,586,464
Subsidiaries						
Alfalah Securities (Private) Limited	76,000	-	76,000	76,000	-	76,000
Alfalah GHP Investment Management Limited	-	-	-	56,000	-	56,000
	76,000	-	76,000	132,000	-	132,000
Investments at cost	73,825,758	14,742,700	88,568,458	55,471,335	1,681,213	57,152,548
Less: Provision for diminution in value of investments	-	-	-	-	-	-
Investments (net of provisions)	73,825,758	14,742,700	88,568,458	55,471,335	1,681,213	57,152,548
(Deficit) on revaluation of held-for-trading securities	9.16	(21,530)	(21,530)	(6,601)	-	(6,601)
(Deficit) on revaluation of available-for-sale investments	20.2	(21,148)	(55,364)	(63,548)	(816)	(64,364)
(Deficit) on revaluation of securities - associate	20.3	-	-	(579,373)	-	(579,373)
Total investments at market value	73,783,080	14,708,484	88,491,564	54,821,813	1,680,397	56,502,210

Notes to the Financial Statements

	Note	2007		2006	
		(Rupees in '000)			
9.2 INVESTMENTS BY SEGMENTS:					
Federal Government Securities:					
-Market Treasury Bills	9.3	68,901,313		38,860,908	
-Pakistan Investment Bonds	9.4	7,289,883		9,944,561	
-Government Bonds	9.5	85,341		85,341	
-Sukook Bonds	9.6	1,747,208		500,000	
		<u>78,023,745</u>		<u>49,390,810</u>	
Fully Paid up Ordinary Shares/Units:					
-Listed companies	9.9	2,840,152		1,455,863	
-Un-listed companies	9.10	129,821		129,821	
		<u>2,969,973</u>		<u>1,585,684</u>	
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:					
-Listed TFCs	9.11	1,098,805		1,329,160	
-Un-listed TFCs	9.12	1,388,401		1,937,932	
		<u>2,487,206</u>		<u>3,267,092</u>	
Investment in subsidiary companies	9.13	76,000		132,000	
Investment in associated companies	9.14	4,196,535		2,586,464	
Sukook Bonds	9.7	814,999		190,498	
Total investments at cost		<u>88,568,458</u>		<u>57,152,548</u>	
(Deficit) / Surplus on revaluation of held-for-trading securities	9.16	(21,530)		(6,601)	
(Deficit) on revaluation of available-for-sale securities	20.2	(55,364)		(64,364)	
(Deficit) on revaluation of securities - associate	20.3	-		(579,373)	
Total investments at market value		<u>88,491,564</u>		<u>56,502,210</u>	

- 9.3 Market Treasury Bills are for the periods of six months and one year. The effective rates of profit on Market Treasury Bills range between 8.93% to 9.39% per annum (2006: 8.48% to 8.79% per annum) with maturities upto August 2008 (2006: July 2007).
- 9.4 Pakistan Investment Bonds are for periods of three, five, ten and fifteen years. The rates of profit range from 7% to 14% per annum (2006: 6% to 14% per annum) with maturities from March 2008 to June 2019 (2006: January 2007 to June 2019). These also include PIBs having face value of Rs. 35 million (2006: Rs. 35 million) pledged with the National Bank of Pakistan as security to facilitate Telegraphic Transfer discounting facility.
- 9.5 This represents bonds issued by the Federal Government to settle the dues of Heavy Mechanical Complex at the rate of 6% per annum (2006: 6% per annum) redeemable on maturity in March 2009.
- 9.6 This represents bonds issued by Water and Power Development Authority (WAPDA) for a period of ten years. The rates of profit ranges between 9.76% to 10.34 % per annum (2006: 9.36% to 11.23% per annum).
- 9.7 This represents bonds issued by Sitara Chemicals (Private) Limited, Orix Leasing Pakistan Limited, Security Leasing Corporation Limited and Kohat Cement Limited. The rates of profit ranges between 10.77% to 12.04% per annum (2006: KIBOR + 1.65% per annum) with maturity upto 2012.
- 9.8 The market value of securities classified as 'held to maturity' amounted to Rs. 31,661 million (2006: Rs. 27,063 million) as at 31 December 2007.

Notes to the Financial Statements

9.9 Particulars of investments in listed companies / funds include the following:

2007	2006		2007	2006
(Number of shares certificates / units)			(Rupees in '000)	
MUTUAL FUNDS				
152,973	-	Askari Asset Allocation Fund	15,000	-
181,325	-	UTP A30+ Fund	10,000	-
47,996	-	United Stock Advantage Fund	5,000	-
1,026,592	465,640	Pakistan Capital Market Fund	9,882	4,881
3,033,125	2,637,500	Pakistan Premier Fund Limited	36,554	36,555
486,251	-	AKD Opportunity Fund	30,000	-
2,500,000	2,500,000	Meezan Balanced Fund	25,000	25,000
400,000	400,000	Pakistan Strategic Allocation Fund	4,000	4,000
332,869	104,144	AMZ Plus Income Fund	35,000	10,000
450,000	217,000	PICIC Growth Fund	16,672	9,229
1,923,869	2,854,794	United Money Market Fund	200,000	300,000
108,892	-	KASB Stock Market Fund	5,000	-
951,203	-	JS Income Fund (formerly UTP - Income Fund)	100,000	-
1,918,281	-	Pakistan Income Fund	100,000	-
96,052	-	Atlas Income Fund	50,000	-
476,872	-	Askari Income Fund	50,000	-
9,587,084	-	NAFA Cash Fund	100,000	-
478,790	-	KASB Liquid Fund	50,000	-
238,962	-	Dawood Money Market Fund	25,000	-
1,917,972	-	Reliance Income Fund	100,000	-
956,676	-	MCB Dynamic Cash Fund	93,094	-
480,307	-	IGI Income Fund	50,000	-
623,690	-	First Habib Income Fund	65,000	-
15,000,000	-	Pak Oman Advantage Fund (Pre IPO)	150,000	-
993,246	-	Pak Oman Bank of Punjab Advantage Plus Fund	50,000	-
956,124	-	AKD Income Fund	50,000	-
501,000	-	UTP - Capital Protected Fund II	50,000	-
1,000,000	-	United Islamic Income Fund	100,000	-
972,919	-	Meezan Islamic Income Fund	50,000	-
INSURANCE				
-	90,000	Adamjee Insurance Company Limited	-	15,032
INVESTMENT COMPANIES & BANKS				
2,525,000	3,509,602	Askari Bank Limited (formerly Askari Commercial Bank Limited)	188,621	304,139
660,000	75,800	National Bank of Pakistan	165,490	17,710
1,000,000	85,000	Pakistan Industrial Credit and Investment Corporation	75,860	6,219
15,000	101,600	Allied Bank Limited	2,115	9,408
-	636,250	The Bank of Punjab	-	59,547
-	600,000	Soneri Bank Limited	-	27,271
-	400,000	United Bank Limited	-	49,580
15,000	-	Arif Habib Securities Limited	2,739	-
2,382,187	-	Mybank Limited	52,715	-
195,000	-	Habib Bank Limited	50,009	-
121,000	-	The Bank of Khyber	1,786	-

Notes to the Financial Statements

2007	2006		2007	2006
(Number of shares certificates / units)			(Rupees in '000)	
		CEMENT		
-	695,000	D.G.Khan Cement Limited (Preference Shares)	-	7,660
-	759,500	D.G.Khan Cement Limited	-	54,104
60,000	797,300	Lucky Cement Limited	7,255	63,446
-	605,000	Maple Leaf Cement Factory Limited	-	13,980
2,794,000	200,000	Fauji Cement Company Limited	49,906	3,952
249,700	182,500	Fecto Cement Limited	14,488	12,324
86,825	323,000	Kohat Cement Company Limited	4,153	17,766
		FUEL, ENERGY, OIL & GAS		
175,000	924,000	The Hub Power Company Limited	5,825	30,853
52,000	25,000	Pakistan State Oil Company Limited	22,292	7,069
173,000	85,000	Pakistan Oilfields Limited	59,620	28,972
175,000	-	Pakistan Petroleum Limited	44,523	-
1,934,000	3,402,000	Kohinoor Energy Limited Oil and Gas Development Company Limited	62,889	108,001
1,922,700	660,000	Attock Refinery Limited	236,880	80,257
24,000	-		6,364	-
		AUTOMOBILE ASSEMBLERS		
450,500	316,500	Dewan Farooque Motors Limited	12,977	10,847
		TEXTILE		
25,000	452,100	Nishat Mills Limited	2,689	39,377
-	50,000	Nishat (Chunian) Limited	-	3,353
1,318,710	-	Hira Textile Mills Limited	16,484	-
		TECHNOLOGY & COMMUNICATION		
-	150,000	Pakistan Telecommunication Company Limited	-	6,917
100,000	-	Telecard Limited	1,121	-
2,000,000	-	Worldcall Telecom Limited	36,710	-
400,000	-	TRG Pakistan Limited	5,142	-
		CHEMICALS & FERTILIZERS		
-	500,000	ICI Pakistan Limited	-	88,414
500,000	-	Fauji Fertilizer Bin Qasim Limited	22,918	-
75,000	-	Engro Chemical Pakistan Limited	21,093	-
386,500	-	Fauji Fertilizer Company Limited	42,286	-
			2,840,152	1,455,863

Notes to the Financial Statements

9.10 Investments in unlisted companies

2007	2006		2007	2006
(Number of shares)			(Rupees in '000)	
572,531	572,531	Pakistan Export Finance Guarantee Agency Limited Chief Executive : Mr. S.M. Zaeem Break-up value: Rs. 5.684 Period of financial statements : 31 December 2006	5,725	5,725
16	16	Society for Worldwide Interbank Financial Telecommunication Chief Executive : Mr. Lazaro Campos Break-up value: Rs. 159.52 Period of financial statements : 31 December 2006	4,096	4,096
7,000,000	7,000,000	Al-Hamra Hills (Private) Limited Chief Executive : Mr. Habib Rafiq Break-up value: Rs. 9.76 Period of financial statements : 30 June 2007	70,000	70,000
5,000,000	5,000,000	Al-Hamra Avenue (Private) Limited Chief Executive : Mr. Habib Rafiq Break-up value: Rs. 10 Period of financial statements : 30 June 2007	50,000	50,000
			129,821	129,821

9.11 Particulars of Term Finance Certificates - Quoted, Secured

Askari Bank Limited (2nd Issue)
(formerly Askari Commercial Bank Limited)
20,000 (2006: 20,000) units of Rs.5,000 each
Mark up: 6 Months KIBOR (Ask Side) + 150 basis points per annum
(no floor no cap)
Redemption: Bullet payment at maturity
Maturity: 8 years from date of disbursement i.e. 31 October 2013
Rating: AA- (PACRA)
Chief Executive : Mr. Shaharyar Ahmad

Standard Chartered Bank (Pakistan) Limited - (3rd Issue)
(formerly Union Bank Limited)
10,000 (2006: 10,000) units of Rs.5,000 each
Mark up: 6 Months KIBOR + 200 basis points prevailing one
working day prior to the beginning of each semi annual period.
Redemption: A nominal amount i.e. 0.16 percent of the Issue
Amount will be re-paid equally in each of the redemption periods
during the first 4 years.
Maturity: 7 years from the date of issue.
Rating: AAA (PACRA)
Chief Executive : Mr. Badar Kazmi

99,920

99,960

49,970

49,990

Notes to the Financial Statements

Bank Al Habib Limited

9,350 (2006: 9,350) certificates of Rs.5,000 each
 Mark up: The average 6 month KIBOR + 1.50 percent per annum with a floor of 3.50 percent and a cap of 10.00 percent per annum

Redemption: The TFC is structured to redeem 0.25 percent of principal semi-annually in the first 78 months and the remaining principal in three semi-annual installments of 33.25 percent respectively starting from the 84th month.

Maturity: June 2012

Rating: AA- (PACRA)

Chief Executive : Mr. Abbas D. Habib

2007

2006

(Rupees in '000)

46,693

46,713

**ABN Amro (Pakistan) Limited
 (formerly Prime Commercial Bank Limited)**

578 (2006: 6,578) units of Rs.5,000 each
 Mark up: 6 month KIBOR (Ask Side) + 190 basis points (no floor no cap)

Redemption: Redemption after a grace period of 54 months in 4 equal installments

Maturity: 8 years from the date of disbursement i.e. February 2012.

Rating: A (PACRA)

Chief Executive : Mr. Naved A.Khan

2,887

32,870

**Trust Investment Bank Limited
 (formerly Trust Leasing Corporation Limited)**

11,136 (2006: 11,136) certificates of Rs.5,000 each
 Mark up: 3.00 percent + KIBOR (6 months ask side) with a floor of 6.00 percent per annum and a cap of 10.00 percent per annum

Redemption: Principal repayment in 10 equal semi-annual installments; profit payable on semi-annual basis.

Maturity: July 2009

Rating: AA (PACRA)

Chief Executive : Mr. Javaid Bashir Sheikh

22,272

33,408

First Dawood Investment Bank Limited

Nil (2006: 2,000) certificates of Rs.5,000 each
 Mark up: On SBP discount rate + 1.75 percent per annum with a floor of 12.25 percent and a cap of 16.25 percent per annum
 Redemption: Bullet payment at maturity; the issuer has a Call Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue. The investor has a Put Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue.

Maturity: September 2007

Rating: AA- (PACRA)

Chief Executive : Mr. Rafiq Dawood

-

10,289

Allied Bank Limited

7,686 (2006 :67,686) certificates of Rs.5,000 each
 Mark up: Six months KIBOR + 1.90 percent per annum with no floor & cap

Redemption: The instrument is structured to redeem 0.24% of principal in the first 72 months and the remaining principal in 4 equal semi-annual installments of 24.94% each of the Issue amount respectively starting from the 78th month.

Maturity: September 2014

Rating: A+ (JCR - VIS)

Chief Executive : Mr. Aftab Manzoor

38,415

338,430

Notes to the Financial Statements

Pakistan Mobile Communication (Private) Limited

80,000 (2006: 80,000) units of Rs.5,000 each
 Mark up: 6 Months KIBOR (Ask Side) + 285 basis points per annum
 Redemption: 6 monthly installments of principal amount after
 4 years of grace period
 Maturity: 7 years from date of issue.
 Rating: AA- (PACRA)
 Chief Executive : Mr. Zuhair A. Khaliq

2007

2006

(Rupees in '000)

399,760

400,000

ORIX Leasing Pakistan Limited

37,000 (2006:37,000) certificates of Rs.5,000 each
 Mark up: Six months KIBOR + 1.50 per annum with no floor & cap
 Redemption: The instrument is structured to redeem 0.08% of
 principal in the first 24 months in 4 equal semi-annual installments
 and the remaining 99.22% of the principal would be redeemed during
 the last 36 months in six equal semi-annual installments
 Maturity: September 2012
 Rating: AA+ (PACRA)
 Chief Executive : Mr. Humayun Murad

184,963

185,000

Jahangir Siddiqui & Company Limited

10,000 (2006:10,000) certificates of Rs.5,000 each
 Mark up: Six months KIBOR + 2.50% with a floor of 6.0%
 per annum and ceiling of 16% per annum
 Redemption: The instrument is structured to redeem 0.18% of
 principal in the first 54 months 49.91% in the 60th month and the
 remaining 49.91% in the last six months
 Maturity: September 2011
 Rating: AA+ (PACRA)
 Chief Executive : Mr. Munaf Ibrahim

49,980

50,000

Azgard Nine Limited

10,000 (2006: 10,000) certificates of Rs.5,000 each
 Mark up: Six month KIBOR + 1.75 percent per annum
 Redemption: Eight equal semi-annual installments commencing from
 eighteenth month of the issue date; the issuer has a Call Option
 exercisable at profit payment date to redeem in full or in part the
 outstanding issue amount of the TFCs
 Maturity: August 2009
 Rating: AA- (PACRA)
 Chief Executive : Mr. Ahmed H. Shaikh

25,000

37,500

Financial Receivables Securitization Company Limited

15,792 (2006:9,000) certificates of Rs.5,000 each
 Mark up: Six months KIBOR + 2.00 p.a. with a floor of 8.0%
 per annum and cap of 16% per annum
 Redemption: Principal redemption will be carried out in 12 and
 8 equal semi-annual installments in arrears, with a grace period of
 1 year and 3 years for Class A TFCs and Class B TFCs respectively.
 Maturity: January 2014
 Rating: AA- (PACRA)
 Chief Executive : Mr. S. M. Nasir Raza

78,945

45,000

Pak Arab Fertilizers Limited - Pre-IPO

20,000 (2006:Nil) certificates of Rs.5,000 each
 Mark up: Six months KIBOR + 1.50 percent per annum
 Redemption: Principal redemption in 6 stepped-up semi-annual
 installments starting from the issue date; the issuer may call the TFC in
 part or full on any profit payment date subject to 30 days prior notice.
 Maturity: 5 years from the issue date
 Rating: AA (PACRA)
 Chief Executive : Mr. Fawad Ahmed Mocha

100,000

-

1,098,805**1,329,160**

Notes to the Financial Statements

9.12 Particular of Term Finance Certificates - Unquoted, Secured

Gulshan Spinning Mills Limited

10,000 (2006: 10,000) certificates of Rs. 5,000 each
 Mark up: Six months KIBOR (Average, Ask Side) + 1.80 percent per annum with a cap of 15 percent per annum
 Redemption: Seven equal semi-annual installments commencing June 2006
 Maturity: June 2009
 Chief Executive : Mr. Naseer Ahmed

28,544

42,822

Paramount Spinning Mills Limited

16,000 (2006: 16,000) certificates of Rs.5,000 each
 Mark up: Six months KIBOR (Average, Ask Side) + 1.80 percent per annum with a cap of 15 percent per annum
 Redemption: Seven equal semi-annual installments commencing June 2006
 Maturity: September 2009
 Chief Executive : Mr. Tanveer Ahmad

45,687

68,530

Pakistan International Airlines Corporation

100,000 (2006: 100,000) certificates of Rs.5,000 each
 Mark up: SBP discount rate + 0.5 percent per annum with a floor of 8 percent per annum and a cap of 12.50 percent per annum
 Redemption: First four equal semi-annual installments commencing August 2003 amounting to Rs.5,000 each. Next six equal semi-annual installments commencing August 2005 amounting to Rs.12,499,500 each, subsequent six equal semi-annual installments commencing August 2008 amounting to Rs.70,830,500 each; the issuer has a Call Option exercisable any time at 24th, 48th and 72nd month to redeem in full or part with a premium.
 Maturity: February 2011
 Chief Executive : Mr. Zafar A.Khan

437,482

462,482

Crescent Leasing Corporation Limited (2nd Issue)

10,000 (2006: 10,000) certificates of Rs.5,000 each
 Mark up: Six months KIBOR (Average, Ask Side) + 1.75 percent per annum
 Redemption: Ten equal semi-annual installments commencing January 2005; the issuer has a Call Option exercisable at any time from the beginning of the nineteenth month till the end of the sixtieth month from the issue date only on a profit payment date subject to a 30 day notice period
 Maturity: July 2009
 Chief Executive : Mr. Syed Shahnawaz Ahmed Rizvi

20,000

30,000

Pakistan Mobile Communication (Private) Limited

50,000 (2006: 50,000) certificates of Rs.5,000 each
 Mark up: Simple average of last three 6 month Treasury Bills cut-off rate +2.25 percent per annum with a floor of 6.00 percent per annum and a cap of 12.00 percent per annum
 Redemption: Five equal semi-annual installments commencing September 2006; the issuer has a call option exercisable any time from the first principal repayment date (i.e. starting from the 36th month) onwards on a coupon date subject to 30 days notice period to repay in whole or in part.
 Maturity: September 2008
 Chief Executive : Mr. Zuhair A. Khaliq

100,378

200,908

2007

2006

(Rupees in '000)

Notes to the Financial Statements

Pakistan Mobile Communication (Private) Limited (2nd Issue)
30,000 (2006: 30,000) certificates of Rs.5,000 each
Mark up: Six month KIBOR (Average, Ask Side) + 1.60 percent per annum with a floor of 4.95 percent per annum and a cap of 12.00 percent per annum
Redemption: Five equal semi-annual installments commencing March 2007; the issuer has a Call Option exercisable any time from the 36th month to 54th month on a coupon date subject to 30 days notice period to repay in whole or in part
Maturity: September 2009
Chief Executive : Mr. Zuhair A. Khaliq

2007

2006

(Rupees in '000)

90,000

150,000

Dominion Fertilizers (Private) Limited
500 (2006: 500) units of Rs.1,000,000 each
Mark up: 6 Months KIBOR (Ask Side) + 325 basis point per annum (no floor & no cap)
Redemption: Redemption after a grace period of one year in 24 equal quarterly installments. The issuer has a Call Option exercisable from six months from the date of disbursement at any mark-up payment date subject to a prepayment amount of at least PKR 500 million or in multiples thereof in its entirety
Maturity: 7 years from the date of disbursement i.e. July 2013.
Chief Executive : Mr. Ahmed Hummayun Shaikh

479,167

500,000

Bosicor Pakistan Limited
20,000 (2006: 20,000) certificates of Rs.5,000 each
Mark up: Six month KIBOR (average ask side) + 5.5 percent per annum with a floor of 9.00 percent per annum and a cap of 13.00 percent per annum payable semi-annually
Redemption: Seven equal semi-annual installments commencing August 2006; the issuer has a Call Option exercisable at any time from the 1st principal repayment date (i.e. starting from the 24th month) onwards on a coupon date subject to a 60 days notice period to repay in whole or in part.
Maturity: August 2009
Chief Executive : Mr. M. Wasi Khan

57,143

85,714

Security Leasing Corporation Limited
Nil (2006: 10,000) certificates of Rs.5,000 each
Mark up: Six month KIBOR (Average, Ask Side) + 190 basis point per annum.
Redemption: Ten equal semi-annual installments commencing January 2005; the issuer has a Call Option exercisable at any time from the beginning of the nineteenth month till the end of the sixtieth month from the issue date only on profit payment date subject to a 30 days notice period.
Maturity: April 2008
Chief Executive : Mohammad Khalid Ali

-

37,500

Security Leasing Corporation Limited (2nd Issue)
Nil (2006: 20,000) units of Rs.5,000 each
Mark up: 6 Months KIBOR (Ask Side) + 165 basis point per annum (no floor & no cap)
Redemption: Ten equal quarterly installments commencing from the 9th month of the issue; the issuer has a Call Option exercisable at any mark-up payment date after a period of 12 months from the issue date to redeem in full or in part the issue amount outstanding of the PPTFCs subject to a 90 days notice to the Investors.
Maturity: 3 years from date of disbursement i.e. June 2008.
Chief Executive : Mohammad Khalid Ali

-

59,976

Notes to the Financial Statements

Reliance Exports (Private) Limited

Nil (2006: 30) units of Rs.10,000,000 each

Mark up: 6 Months KIBOR (Ask Side) + 250 basis point per annum
(no floor & no cap)

Redemption: Redemption after a grace period of one year in stepped-up installments. The issuer has a Call Option exercisable at any mark-up payment date to redeem in full or in part the Issue amount outstanding of the PPTFCs subject to a 60 days notice to the Investors.

Maturity: 7 years from the date of disbursement i.e. July 2012.

Chief Executive : Mr. Fawad Ahmed Mukhtar

2007

2006

(Rupees in '000)

-

300,000

Jahangir Siddiqui & Company Limited

20,000 (2006:Nil) certificates of Rs.5,000 each

Mark up: Six months KIBOR (Ask side) + 1.70 percent per annum

Redemption: The instrument is structured to redeem 0.20% of principal in the first 60 months and remaining principal in two equal semi-annual installments of 49.90% each of the issue amount respectively from 60th month; the issuer has a call option exercisable in full at any time after 1 year on a coupon date.

Maturity: July 2013

Chief Executive : Mr. Munaf Ibrahim

100,000

-

Kunjah Textiles Mills Limited

6,000 (2006: Nil) certificates of Rs.5,000 each

Mark-up: six months KIBOR + 3.00 percent per annum

Redemption: 10 equal semi-annual installments commencing from the 24th months from first draw down

Maturity: April 2014

Chief Executive: Mr. Shafaq Hussain

30,000

-

1,388,4011,937,932**9.13 Particulars of investments in subsidiary companies**

The paid up value of these ordinary shares is Rs.10.

2007	2006			
(Number of shares certificates / units)				
7,600,000	7,600,000	Alfalsh Securities (Private) Limited	76,000	76,000
		Percentage of holding : 76%		
		Break-up value: Rs. 11.02		
		Date of audited financial statements :		
		31 December 2007		
		Chief Executive : Mr. Mohammad		
		Shoaib Memon		
-	5,600,000	Alfalsh GHP Investment	-	56,000
		Management Limited		
		Percentage of holding : (2006: 56%)		
		Break-up value: Rs. 8.97		
		Date of audited financial statements :		
		31 December 2007		
		Chief Executive : Mr. Aziz Anis Dhedhi		
			<u>76,000</u>	<u>132,000</u>

Notes to the Financial Statements

9.14 Particulars of investments in associated companies

The paid up value of these shares / units is Rs.10 except where stated.

2007	2006		2007	2006
(Number of shares)			(Rupees in '000)	
267,957,279	199,999,500	Warid Telecom (Private) Limited Percentage of holding : 8.76% Break-up value: Rs. 7.74 Date of audited financial statements : 30 June 2007 Chief Executive : Mr. Marwan Zawaydeh	2,679,578	2,000,000
41,747,460	41,747,460	Wateen Telecom (Private) Limited Percentage of holding : 20% Break-up value: Rs. 12.76 Date of audited financial statements : 30 June 2007 Chief Executive : Mr. Tariq Malik	417,474	417,474
6,899,000	6,899,000	Alfalah Insurance Limited Percentage of holding : 30% Break-up value: Rs. 10.93 Date of un-audited financial statements : 31 December 2007 Chief Executive : Mr. Nasar us Samad Qureshi	68,990	68,990
2,413,487	2,000,000	Alfalah GHP Value Fund Percentage of holding : 22.70% Break-up value: Rs. 53.02 Date of audited financial statements : 31 December 2007 Investment Adviser - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	100,000	100,000
10,752,548	-	Alfalah GHP Income Multiplier Fund Percentage of holding : 14.87% Break-up value: Rs. 52.59 Date of audited financial statements : 31 December 2007 Investment Adviser - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	550,000	-
5,000,000	-	Alfalah GHP Islamic Fund Percentage of holding : 75.08% Break-up value: Rs. 52.34 Date of audited financial statements : 31 December 2007 Investment Adviser - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	250,000	-
13,049,070	-	Alfalah GHP Investment Management Limited Percentage of holding : 40.22% Break-up value: Rs. 8.97 Date of audited financial statements : 31 December 2007 Chief Executive : Mr. Aziz Anis Dhedhi	130,493	-
			4,196,535	2,586,464

Notes to the Financial Statements

9.15 Quality of available for sale securities

	Market value		Cost		Long/Medium Term Credit Rating	Rated by
	2007	2006	2007	2006		
-----Rupees in '000-----						
Market Treasury Bills	47,367,696	21,649,928	47,447,516	21,663,096	(Unrated - Government Securities)	
Pakistan Investment Bonds	433,347	1,842,473	434,383	1,859,240	(Unrated - Government Securities)	
Term Finance Certificates						
Bank Al-Habib Limited	44,205	45,026	46,693	46,713	AA-	PACRA
Trust Investment Bank Limited (formerly Trust Leasing Corporation Limited)	22,123	33,652	22,272	33,408	AA	PACRA
First Dawood Investment Bank Limited	-	10,065	-	10,289	AA-	PACRA
ABN Amro Pakistan Limited (formerly Prime Commercial Bank Limited)	2,981	32,808	2,887	32,870	A	PACRA
Askari Bank Limited (2nd Issue) (formerly Askari Commercial Bank Limited)	104,267	99,060	99,920	99,960	AA-	PACRA
Standard Chartered Bank (Pakistan) Limited (formerly Union Bank Limited)	50,969	50,810	49,970	49,990	AAA	PACRA
Pakistan Mobile Communication (Private) Limited	421,067	402,400	399,760	400,000	AA-	PACRA
ORIX Leasing Pakistan Limited	189,735	185,000	184,963	185,000	AA+	PACRA
Allied Bank Limited	40,942	338,667	38,415	338,430	A+	JCRVIS
Jahangir Siddiqui & Company Limited	50,395	50,000	49,980	50,000	AA+	PACRA
Financial Receivables Securitization Company Limited	79,868	45,000	78,945	45,000	AA-	PACRA
Pak Arab Fertilizers Limited	100,000	-	100,000	-	AA	JCRVIS
	1,106,552	1,292,488	1,073,805	1,291,660		
Shares in Listed Companies / Certificates / Units						
AMZ Plus Income Fund	35,094	11,065	35,000	10,000	A (f)	JCRVIS
Askari Asset Allocation Fund	15,250	-	15,000	-	-----	(Unrated)-----
UTP A30 + Fund	9,870	-	10,000	-	-----	(Unrated)-----
United Stock Advantage Fund	5,504	-	5,000	-	-----	(Unrated)-----
AKD Opportunity Fund	30,464	-	30,000	-	-----	(Unrated)-----
KASB Stock Market Fund	6,181	-	5,000	-	-----	(Unrated)-----
Askari Bank Limited (formerly Askari Commercial Bank Limited)	199,500	157,425	138,490	118,923	AA	PACRA
The Bank of Punjab	-	51,258	-	45,697	AA	PACRA
D.G.Khan Cement Limited (Preference Shares)	-	6,497	-	7,660	-----	(Unrated)-----
Dewan Farooque Motors Limited	5,857	4,906	12,977	10,847	A	PACRA
Fecto Cement Limited	6,168	4,918	14,488	12,324	-----	(Unrated)-----
The Hub Power Company Limited	-	18,198	-	24,279	-----	(Unrated)-----
ICI Pakistan Limited	-	57,750	-	88,414	-----	(Unrated)-----
Kohat Cement Company Limited	4,454	10,271	4,153	17,766	A-	PACRA
Kohinoor Energy Limited	61,502	84,710	62,889	108,001	-----	(Unrated)-----
Meezan Balanced Fund	21,000	21,500	25,000	25,000	5 Star	PACRA
Nishat (Chunian) Limited	-	1,908	-	3,353	-----	(Unrated)-----
Nishat Mills Limited	-	39,694	-	39,377	A+	PACRA
Pakistan Capital Market Fund	13,079	5,332	9,882	4,881	3 Star	PACRA
Pakistan Premier Fund Limited	36,549	34,288	36,554	36,555	4 Star	PACRA
Pakistan Strategic Allocation Fund	3,640	3,400	4,000	4,000	4 Star	PACRA
PICIC Growth Fund	12,825	6,109	16,672	9,229	MFR 2 Star	JCRVIS
Oil & Gas Development Company Limited	119,450	-	122,699	-	AAA	JCRVIS
Fauji Fertilizer Company Limited	45,897	-	42,286	-	-----	(Unrated)-----
Mybank Limited	45,925	-	47,128	-	A	PACRA
National Bank of Pakistan	116,075	-	126,564	-	AAA	JCRVIS
Hira Textiles Limited	10,484	-	16,484	-	-----	(Unrated)-----
Pakistan Industrial Credit and Investment Corporation	58,750	-	75,860	-	MFR 3 Star	JCRVIS
United Islamic Income Fund	101,580	-	100,000	-	-----	(Unrated)-----
Meezan Islamic Income Fund	50,747	-	50,000	-	5 Star	PACRA

Notes to the Financial Statements

	Market value		Cost		Long/Medium Term Credit Rated by Rating
	2007	2006	2007	2006	
-----Rupees in '000-----					
JS Income Fund (formerly UTP - Income Fund)	100,694	-	100,000	-	----- (Unrated) -----
Pakistan Income Fund	100,729	-	100,000	-	4 Star PACRA
Atlas Income Fund	50,097	-	50,000	-	5 Star PACRA
Askari Income Fund	50,401	-	50,000	-	A (f) JCRVIS
NAFA Cash Fund	100,776	-	100,000	-	A (f) JCRVIS
KASB Liquid Fund	50,244	-	50,000	-	----- (Unrated) -----
United Money Market Fund	198,543	-	200,000	-	A+ (f) JCRVIS
Dawood Money Market Fund	24,314	-	25,000	-	5 Star PACRA
Reliance Income Fund	100,387	-	100,000	-	----- (Unrated) -----
MCB Dynamic Cash Fund	100,171	-	93,094	-	----- (Unrated) -----
IGI Income Fund	50,403	-	50,000	-	----- (Unrated) -----
First Habib Income Fund	65,344	-	65,000	-	----- (Unrated) -----
Pak Oman Advantage Fund	123,750	-	150,000	-	AA-(f) JCRVIS
Pak Oman Bank of Punjab Advantage Plus Fund	50,387	-	50,000	-	A-(f) JCRVIS
AKD Income Fund	50,321	-	50,000	-	----- (Unrated) -----
UTP - Capital Protected Fund II	49,559	-	50,000	-	----- (Unrated) -----
United Bank Limited	-	61,400	-	49,580	A-1+ JCRVIS
	2,281,965	580,629	2,289,220	615,886	
Shares in Un-listed Companies					
Pakistan Export Finance Guarantee Agency Limited			5,725	5,725	----- (Unrated) -----
Society for Worldwide Interbank Financial Telecommunication			4,096	4,096	----- (Unrated) -----
Al-Hamra Hills (Private) Limited			70,000	70,000	----- (Unrated) -----
Al-Hamra Avenue (Private) Limited			50,000	50,000	----- (Unrated) -----
			129,821	129,821	
	51,189,560	25,365,518	51,374,745	25,559,703	

9.16 Unrealized (loss) / gain on revaluation of investments classified as held for trading - net

Investee Companies	Unrealised gain / (loss)		Cost	
	2007	2006	2007	2006
-----Rupees in '000-----				
Fully paid up ordinary shares / units - Listed				
Allied Bank Limited	(163)	92	2,115	9,408
Askari Bank Limited				
(formerly Askari Commercial Bank Limited)	2,238	25,691	50,131	185,216
Adamjee Insurance Company Limited	-	(1,487)	-	15,032
The Bank of Punjab	-	(689)	-	13,850
DG Khan Cement Limited	-	(6,293)	-	54,104
Fauji Cement Company Limited	(8,276)	(932)	49,906	3,952
The Hub Power Company Limited	(487)	176	5,825	6,574
Lucky Cement Limited	(265)	(15,687)	7,255	63,446
Maple Leaf Cement Factory Limited	-	(3,453)	-	13,980
National Bank of Pakistan	(1,782)	(712)	38,926	17,710
Nishat Mills Limited	(59)	-	2,689	-
Oil and Gas Development Company Limited	(3,964)	(4,555)	114,181	80,257
Pakistan Oilfields Limited	(1,769)	757	59,620	28,972
Pakistan Industrial Credit and Investment Corporation	-	(911)	-	6,219
Pakistan Petroleum Limited	(1,639)	-	44,523	-
Pakistan State Oil Company Limited	(1,149)	281	22,292	7,069
Pakistan Telecommunication Limited	-	(272)	-	6,917
Soneri Bank Limited	-	1,319	-	27,271
United Money Market Fund	-	74	-	300,000
Telecard Limited	(36)	-	1,121	-
Fauji Fertilizer Bin Qasim Limited	(1,893)	-	22,918	-
Attock Refinery Limited	(333)	-	6,364	-
Arif Habib Securities Limited	(141)	-	2,739	-
Mybank Limited	5,541	-	5,587	-
Engro Chemical Pakistan Limited	(1,162)	-	21,093	-
Worldcall Telecom Limited	(3,510)	-	36,710	-
Habib Bank Limited	(3,229)	-	50,009	-
The Bank of Khyber	90	-	1,786	-
TRG Pakistan Limited	458	-	5,142	-
	(21,530)	(6,601)	550,932	839,977

Notes to the Financial Statements

		Note	2007	2006
(Rupees in '000)				
10. ADVANCES				
Loans, cash credits, running finances, etc.				
In Pakistan			145,107,469	128,054,207
Outside Pakistan			7,598,767	3,552,842
			<u>152,706,236</u>	<u>131,607,049</u>
Net investment in finance lease				
In Pakistan	10.2		15,824,501	14,289,817
Outside Pakistan			-	-
			<u>15,824,501</u>	<u>14,289,817</u>
Bills discounted and purchased (excluding treasury bills)				
Payable in Pakistan			1,579,472	1,687,954
Payable outside Pakistan			5,568,601	4,650,961
			<u>7,148,073</u>	<u>6,338,915</u>
			<u>175,678,810</u>	<u>152,235,781</u>
Provision against advances				
Specific provision against non-performing advances	10.4		(3,380,409)	(1,175,568)
General provision against consumer financings			(1,099,409)	(1,060,888)
			<u>(4,479,818)</u>	<u>(2,236,456)</u>
			<u>171,198,992</u>	<u>149,999,325</u>
10.1 Particulars of advances - gross of provisions				
10.1.1 In local currency			158,930,913	142,225,318
In foreign currencies			16,747,897	10,010,463
			<u>175,678,810</u>	<u>152,235,781</u>
10.1.2 Short Term (upto one year)			111,020,472	87,544,463
Long Term (over one year)			64,658,338	64,691,318
			<u>175,678,810</u>	<u>152,235,781</u>

10.2 Net investment in Finance Lease / Ijarah Financing

	2007				2006			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
----- (Rupees in '000) -----								
Lease rentals receivable	3,434,078	10,851,635	200,081	14,485,794	3,184,213	10,144,088	47,765	13,376,066
Residual value	1,001,268	3,110,044	44,121	4,155,433	373,072	2,908,808	11,966	3,293,846
Minimum lease payments	4,435,346	13,961,679	244,202	18,641,227	3,557,285	13,052,896	59,731	16,669,912
Financial charges for future periods	(778,696)	(1,978,564)	(59,466)	(2,816,726)	(559,656)	(1,812,439)	(8,000)	(2,380,095)
Present value of minimum lease payments	3,656,650	11,983,115	184,736	15,824,501	2,997,629	11,240,457	51,731	14,289,817

Notes to the Financial Statements

10.3 Advances include Rs.4.705 billion (2006: Rs.2.31 billion) which have been placed under non-performing status as detailed below:-

Category of Classification	2007								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	------(Rupees in '000)-----								
Other Assets Especially Mentioned (Agri Financing)	110,759	-	110,759	-	-	-	-	-	-
Substandard	1,026,754	36,255	1,063,009	243,543	1,813	245,356	243,543	1,813	245,356
Doubtful	593,233	-	593,233	282,801	-	282,801	282,801	-	282,801
Loss	2,885,788	52,296	2,938,084	2,830,217	22,035	2,852,252	2,830,217	22,035	2,852,252
	<u>4,616,534</u>	<u>88,551</u>	<u>4,705,085</u>	<u>3,356,561</u>	<u>23,848</u>	<u>3,380,409</u>	<u>3,356,561</u>	<u>23,848</u>	<u>3,380,409</u>
	2006								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	------(Rupees in '000)-----								
Other Assets Especially Mentioned (Agri Financing)	60,158	-	60,158	-	-	-	-	-	-
Substandard	489,955	-	489,955	87,025	-	87,025	87,025	-	87,025
Doubtful	503,524	-	503,524	143,706	-	143,706	143,706	-	143,706
Loss	1,209,360	45,671	1,255,031	923,979	20,858	944,837	923,979	20,858	944,837
	<u>2,262,997</u>	<u>45,671</u>	<u>2,308,668</u>	<u>1,154,710</u>	<u>20,858</u>	<u>1,175,568</u>	<u>1,154,710</u>	<u>20,858</u>	<u>1,175,568</u>

10.4 Particulars of provision against non-performing advances

Note	2007			2006		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----					
Opening balance	1,175,568	1,060,888	2,236,456	707,369	845,612	1,552,981
Exchange adjustment and other movement	(1,662)	(2,887)	(4,549)	70	(1,650)	(1,580)
Charge for the year	2,559,795	154,726	2,714,521	652,227	217,069	869,296
Reversals / recoveries	(230,336)	(113,318)	(343,654)	(171,463)	(143)	(171,606)
	<u>2,329,459</u>	<u>41,408</u>	<u>2,370,867</u>	<u>480,764</u>	<u>216,926</u>	<u>697,690</u>
Amounts written off	10.5.1 (122,956)	-	(122,956)	(12,635)	-	(12,635)
Closing balance	<u>3,380,409</u>	<u>1,099,409</u>	<u>4,479,818</u>	<u>1,175,568</u>	<u>1,060,888</u>	<u>2,236,456</u>

To comply with the requirements of BSD Circular No. 7 dated 12 October 2007 issued by the State Bank of Pakistan - SBP, the Bank changed the method of estimation of provision against non-performing loans and advances, previously the provisions against non-performing loans were made after considering the benefits of Forced Sales Valuations - FSV on mortgaged / charged assets. The benefits of FSV against provisioning requirements has now been completely withdrawn, except for Housing and Agriculture loans. The benefits of FSV for housing loans shall be reduced by 50% each year and will be completely withdrawn in the third year.

Had the provision against non-performing loans and advances been determined in accordance with the previous requirements of the State Bank of Pakistan by considering the benefit of FSV, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation would have been higher by Rs. 1,070 million.

10.4.1 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan. General provision for overseas branches are maintained in accordance with the guidelines of the authorities in the respective countries.

10.4.2 Particulars of provisions against non-performing advances

	2007			2006		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----					
In local currency	3,356,561	1,033,919	4,390,480	1,154,710	1,020,511	2,175,221
In foreign currencies	23,848	65,490	89,338	20,858	40,377	61,235
	<u>3,380,409</u>	<u>1,099,409</u>	<u>4,479,818</u>	<u>1,175,568</u>	<u>1,060,888</u>	<u>2,236,456</u>

Notes to the Financial Statements

	Note	ANNUAL REPORT 2007	
		2007	2006
10.5 Particulars of write-offs		(Rupees in '000)	
10.5.1 Against provisions		122,956	12,635
Directly charged to Profit & Loss account		5,844	1,537
		<u>128,800</u>	<u>14,172</u>
10.5.2 Write Offs of Rs. 500,000 and above		122,218	11,991
Write Offs of Below Rs. 500,000		6,582	2,181
		<u>128,800</u>	<u>14,172</u>

10.6 Details of loans written-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 or above allowed to a person(s) during the year ended 31 December 2007 is given at Annexure-I.

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

Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons

Balance at beginning of year	209,064	153,675
Loans granted during the year	602,724	316,729
Repayments	(591,895)	(261,340)
Balance at end of year	<u>219,893</u>	<u>209,064</u>

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

Balance at beginning of year	3,100,908	31,969
Loans granted during the year	-	3,086,143
Repayments	(3,092,612)	(17,204)
Balance at end of year	<u>8,296</u>	<u>3,100,908</u>

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

Balance at beginning of year	97,325	224,565
Loans granted during the year	38,802,460	30,616,678
Repayments	(38,724,721)	(30,743,918)
Balance at end of year	<u>175,064</u>	<u>97,325</u>

	<u>403,253</u>	<u>3,407,297</u>
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11. OPERATING FIXED ASSETS

Capital work-in-progress	11.1	1,742,554	1,370,175
Property and equipment	11.2	10,063,094	9,093,909
Intangible assets	11.8	116,676	38,906
		<u>11,922,324</u>	<u>10,502,990</u>

11.1 Capital work-in-progress

Civil works	748,484	740,641
Equipment / intangibles	518,096	108,477
Advances to suppliers and contractors	306,124	410,988
Others	169,850	110,069
	<u>1,742,554</u>	<u>1,370,175</u>

Notes to the Financial Statements

11.2 Property and equipment

Description	2007									
	Cost / revaluation at January 1, 2007	Additions / (disposals) / *adjustments	Revaluation surplus	Cost/ Revaluation as at December 31, 2007	Accumulated depreciation at January 1, 2007	Depreciation for the year/ (on disposal) / *adjustments	Accumulated depreciation on Revaluation as at Dec 31, 2007	Accumulated depreciation at December 31, 2007	Net Book Value at December 31, 2007	Rate of depreciation % per annum
----- (Rupees in '000) -----										
Office premises	3,605,728	392,156	-	3,985,401	-	47,530	-	47,364	3,938,037	2.5%-5.5%
Revaluation	3,041,000	*(12,483)	-	3,041,000	-	*(166)	-	37,823	3,003,177	2.5%-5.5%
	6,646,728	392,156	-	7,026,401	-	85,353	-	85,187	6,941,214	
		*(12,483)				*(166)				
Lease hold improvements	702,109	382,065	-	1,044,085	291,180	172,365	-	449,883	594,202	20%
		(10,374)				(9,540)				
		*(29,715)				*(4,122)				
Furniture and Fixtures	513,487	245,478	-	756,143	152,884	73,989	-	221,931	534,212	10% - 25%
		(10,003)				(4,410)				
		* 7,181				* (532)				
Office equipment	2,395,310	838,380	-	3,188,905	976,238	538,478	-	1,486,113	1,702,792	20% - 25%
		(22,318)				(17,101)				
		*(22,467)				*(11,502)				
Vehicles	465,454	126,985	-	563,093	208,877	86,762	-	272,419	290,674	25%
		(25,462)				(22,985)				
		* (3,884)				* (235)				
	10,723,088	1,985,064	-	12,578,627	1,629,179	956,947	-	2,515,533	10,063,094	
		(68,157)				(54,036)				
		*(61,368)				*(16,557)				
----- (Rupees in '000) -----										
Description	2006									
	Cost / revaluation at January 1, 2006	Additions / (disposals) / *adjustments	Revaluation surplus	Cost/ Revaluation as at December 31, 2006	Accumulated depreciation at January 1, 2006	Depreciation for the year/ (on disposal) / *adjustments	Accumulated depreciation on Revaluation as at Dec 31, 2006	Accumulated depreciation at December 31, 2006	Net Book Value at December 31, 2006	Rate of depreciation % per annum
----- (Rupees in '000) -----										
Office premises	2,849,274	778,636	-	3,605,728	51,330	39,151	(83,070)	-	3,605,728	2.5%-5.5%
Revaluation	1,138,799	*(22,182)	1,902,201	3,041,000	80,226	*(7,411)	(120,339)	-	3,041,000	2.5%-5.5%
	3,988,073	778,636	1,902,201	6,646,728	131,556	79,264	(203,409)	-	6,646,728	
		*(22,182)				*(7,411)				
Lease hold improvements	481,899	224,655	-	702,109	177,669	112,536	-	291,180	410,929	20%
		(1,754)				(313)				
		*(2,691)				* 1,288				
Furniture and fixtures	376,545	135,717	-	513,487	107,269	47,113	-	152,884	360,603	10%-25%
		(1,866)				(903)				
		* 3,091				* (595)				
Office equipment	1,534,854	885,405	-	2,395,310	619,516	366,401	-	976,238	1,419,072	20%-25%
		(7,535)				(5,508)				
		*(17,414)				* (4,171)				
Vehicles	361,582	148,923	-	465,454	155,426	86,522	-	208,877	256,577	25%
		(42,833)				(31,903)				
		* (2,218)				* (1,168)				
	6,742,953	2,173,336	1,902,201	10,723,088	1,191,436	691,836	(203,409)	1,629,179	9,093,909	
		(53,988)				(38,627)				
		*(41,414)				*(12,057)				

Notes to the Financial Statements

- 11.3 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 437.352 million (2006: Rs. 303.419 million).
- 11.4 The fair value of property and equipment as per management estimate is not materially different from the carrying amount.
- 11.5 Office premises have been revalued on 31 December 2006 on the basis of market value by Harvester Services (Private) Limited, engineers, surveyors, inspectors valuers, loss assessors. Had there been no revaluation, the figures would have been as follows:

	Cost as at December 31, 2007	Accumulated depreciation as at December 31, 2007	Book value as at December 31, 2007
Office premises	<u>3,985,401</u>	<u>47,364</u>	<u>3,938,037</u>

- 11.6 The above balance of owned operating assets represents the value of assets subsequent to revaluation on 30 December 1999, 31 December 2003 and 31 December 2006 which had resulted in surplus of Rs. 830.950 million, Rs. 516.802 million and Rs. 2,106 million respectively and additions thereafter at cost.
- 11.7 As at 31 December 2007, un-depreciated balance of revaluation surplus included in the carrying value of fixed assets, amounted to Rs. 3,003 million (2006: Rs.3,041 million).

11.8 Intangible assets

	2007							Rate of amortization %
	COST			AMORTIZATION			Book value at closing 2007	
	Opening Balance 2007	Additions/ (Deletions)/ * Adjustment	Closing Balance 2007	Opening Balance 2007	Amortization (Deletion) / * Adjustment	Closing Balance 2007		
	------(Rupees in '000)-----							
Computer softwares	90,193	111,671	209,605	51,287	39,628	92,929	116,676	20%
	-	* 7,741	-	-	* 2,014	-	-	
2006	<u>64,302</u>	<u>25,891</u>	<u>90,193</u>	<u>34,627</u>	<u>16,660</u>	<u>51,287</u>	<u>38,906</u>	<u>20%</u>

Notes to the Financial Statements

11.9 Details of disposal of fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or above

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of Disposal	Particulars of purchaser
------(Rupees in '000)-----						
Leasehold Improvements						
Civil, Electric and Plumbing works	755	71	684	671	Insurance Claim Settled	Alfalsh Insurance Limited
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	<u>665</u>	<u>515</u>	<u>150</u>	<u>-</u>	Various	Various
Furniture and Fixtures						
Partitions	321	15	306	300	Insurance Claim Settled	Alfalsh Insurance Limited
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	<u>9,682</u>	<u>4,395</u>	<u>5,287</u>	<u>4,770</u>	Various	Various
Office Equipment						
Diesel Generator	1,750	1,750	-	550	Negotiation	Master Repairs
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	<u>20,568</u>	<u>15,351</u>	<u>5,217</u>	<u>6,814</u>	Various	Various
Vehicles						
Vehicle	791	506	285	615	Auction	Argosy Enterprises
Vehicle	555	96	459	505	Auction	Mr. Haroon Ali
Vehicle	1,003	633	370	-	As per Bank's policy	Family Members of Deceased Employee Mr. Tajammul Farooq
Vehicle	1,172	1,172	-	671	Auction	Mr. Imran Sheikh
Vehicle	555	129	426	488	Auction	Mr. Irfan Shakeel
Vehicle	555	147	408	512	Auction	Mr. Saleem Aziz
Vehicle	1,549	1,456	93	631	Auction	Ms. Shamama Irfan
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	<u>19,282</u>	<u>18,846</u>	<u>436</u>	<u>11,522</u>	Various	Various

Notes to the Financial Statements

	Note	2007		2006	
		(Rupees in '000)			
12. OTHER ASSETS					
Income / mark-up accrued in local currency		4,058,539		3,407,048	
Income / mark-up accrued in foreign currency		368,151		162,588	
Advances, deposits, advance rent and other prepayments		2,080,789		1,596,153	
Advance taxation		-		446,791	
Unrealized gain on forward foreign exchange contracts		26,506		25,002	
Asset acquired in satisfaction of claims		48,884		-	
Branch Adjustment		32,919		-	
Dividend receivable		8,464		943	
Prepaid exchange risk fee		2,111		5,277	
Stationery and stamps on hand		70,926		66,771	
Receivable against issue of rights		-		160	
Receivable from brokers		27		200,497	
		<u>6,697,316</u>		<u>5,911,230</u>	
Mark up held in suspense account		(674,545)		(268,505)	
Less: Provision held against other assets		(9,674)		(9,674)	
		<u>6,013,097</u>		<u>5,633,051</u>	
13. BILLS PAYABLE					
In Pakistan		4,090,688		3,059,519	
Outside Pakistan		47,555		31,616	
		<u>4,138,243</u>		<u>3,091,135</u>	
14. BORROWINGS					
In Pakistan		20,602,695		8,286,053	
Outside Pakistan		628,002		108,077	
		<u>21,230,697</u>		<u>8,394,130</u>	
14.1 Particulars of borrowings with respect to currencies					
In local currency		20,602,695		8,286,053	
In foreign currencies		628,002		108,077	
		<u>21,230,697</u>		<u>8,394,130</u>	
14.2 Details of borrowings secured / unsecured					
<i>Secured</i>					
Borrowings from State Bank of Pakistan under:					
Export refinance scheme	14.3	4,793,196		5,950,216	
Long Term Finance for Export Oriented Projects Scheme (LTF-EOP)	14.4	725,551		663,053	
Repurchase agreement borrowings	14.5	14,683,908		1,672,784	
		<u>20,202,655</u>		<u>8,286,053</u>	
<i>Unsecured</i>					
Call borrowings		490,471		-	
Overdrawn nostro accounts		537,571		108,077	
		<u>1,028,042</u>		<u>108,077</u>	
		<u>21,230,697</u>		<u>8,394,130</u>	
14.3					
This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility is 6.5% per annum (2006: 6.5% per annum) payable on a quarterly basis.					
14.4					
This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility is 5% per annum (2006: 5% per annum) payable on a quarterly basis.					
14.5					
This represents repurchase agreement borrowings from other banks at rates ranging from 9.10% to 9.95% per annum (2006: 8.72% to 9.10% per annum) maturing by January 2008.					

Notes to the Financial Statements

		ANNUAL REPORT 2007	
		2007	2006
		(Rupees in '000)	
15. DEPOSITS AND OTHER ACCOUNTS	Note		
Customers			
Fixed deposits		85,520,839	88,851,222
Savings deposits		107,879,576	78,893,481
Current accounts - non-remunerative		67,604,689	58,234,013
Others		3,267,104	3,616,936
		264,272,208	229,595,652
Financial institutions			
Remunerative deposits		8,759,047	9,892,433
Non-remunerative deposits		142,586	21,306
		8,901,633	9,913,739
		273,173,841	239,509,391
15.1 Particulars of deposits			
In local currency		234,413,970	214,824,044
In foreign currencies		38,759,871	24,685,347
		273,173,841	239,509,391
16. SUB-ORDINATED LOANS			
Term Finance Certificates I - Quoted, Unsecured		648,700	648,960
Mark up	Base Rate + 1.33% (Base Rate is defined as the cut-off yield on the last successful auction of the 5 year Pakistan Investment Bonds (PIB) conducted by SBP with a floor of 10% per annum and a cap of 15% per annum)		
Subordination	The TFCs are subordinated to all other indebtedness of the Bank including deposits.		
Issue Date	June 2002		
Rating	AA-		
Tenor	Six years		
Redemption	2 equal semi-annual installments commencing 66th month after the issue date.		
Maturity	December 2008		
Term Finance Certificates II - Quoted, Unsecured		1,248,560	1,249,040
Mark up	Base rate + 1.50% (Base Rate is defined as the simple average (average of the KIBOR Rate quoted by banks for that day) of the ask rate of the six months Karachi Interbank Offer rate (KIBOR) prevailing on the first day of the start of each half yearly period for mark up due at the end of that period)		
Subordination	The TFCs are subordinated as to the payment of principal & profit. In case of occurrence of default, the TFC holder will rank below the senior unsecured creditors and depositors and other creditors of the Bank.		
Issue Date	December 2004		
Rating	AA-		
Tenor	Eight years		
Redemption	3 equal semi-installments commencing 84th month after the issue date.		
Maturity	December 2012		

Notes to the Financial Statements

		ANNUAL REPORT 2007	
		2007	2006
		(Rupees in '000)	
Term Finance Certificates III - Quoted, Unsecured		1,323,598	1,324,106
Mark up	Base rate + 1.50% (Base Rate is defined as the simple average of the ask rate of the six months KIBOR prevailing on the first day of the start of each half yearly period and mark up due at the end of that period)		
Subordination	The TFCs are subordinated as to the payment of principal & profit to all other indebtedness of the bank.		
Issue Date	November 2005		
Rating	AA-		
Tenor	Eight years		
Redemption	3 equal semi-installments commencing 84th month after the issue date.		
Maturity	November 2013		
		3,220,858	3,222,106
17. DEFERRED TAX LIABILITIES			
Deferred credits arising due to			
Write offs / reversals of provision for bad debts		914,405	688,974
Difference between accounting book value of leased assets and lease liabilities		935,251	665,463
Excess of accounting net book value over tax written down value of fixed assets		982,878	837,272
Surplus on revaluation of operating fixed assets		712,315	1,130,553
		3,544,849	3,322,262
Deferred debits arising due to			
Provision for doubtful debts		(2,136,740)	(1,187,667)
Deficit on revaluation of securities		(28,300)	(213,257)
		(2,165,040)	(1,400,924)
		1,379,809	1,921,338
18. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		3,130,081	2,733,874
Mark-up / return / interest payable in foreign currency		371,360	205,197
Unearned commission and income on bills discounted		147,231	119,971
Accrued expenses		388,155	158,506
Current taxation		760,873	-
Payable against redemption of credit card reward points		177,557	136,224
Branch adjustment account		-	296,512
Security deposits against lease		4,189,049	3,318,786
Exchange difference payable to SBP		34,840	8
Payable to brokers	18.1	1,011	49,162
Provision against off-balance sheet obligations	18.2	6,959	-
Others		324,744	287,256
		9,531,860	7,305,496

Notes to the Financial Statements

		Note	2007	2006
(Rupees in '000)				
18.1	This represents amounts payable to brokers against purchase of shares.			
18.2	Provision against off-balance sheet obligations			
	Opening balance		-	-
	Charge for the year		6,959	-
	Closing balance		<u>6,959</u>	<u>-</u>
19.	SHARE CAPITAL			
19.1	Authorized Capital			
	2007	2006		
	(Number of shares)			
	<u>800,000,000</u>	<u>800,000,000</u>	<u>8,000,000</u>	<u>8,000,000</u>
	Ordinary shares of Rs. 10/- each			
19.2	Issued, subscribed and paid up Ordinary Shares of Rs.10 each			
	<u>225,000,000</u>	<u>225,000,000</u>	<u>2,250,000</u>	<u>2,250,000</u>
	<u>425,000,000</u>	<u>275,000,000</u>	<u>4,250,000</u>	<u>2,750,000</u>
	<u>650,000,000</u>	<u>500,000,000</u>	<u>6,500,000</u>	<u>5,000,000</u>
	Fully paid in cash			
	Issued as bonus shares			
19.3	The right shares include 8,000 shares, representing rights relating to applications rejected and missing from the offer for sale of shares. These right shares will be offered to those applicants who were allotted/offered shares in accordance with the directives / guidance of the Securities and Exchange Commission of Pakistan. These shares are subject to all corporate actions applicable to all other ordinary shares.			
20.	SURPLUS ON REVALUATION OF ASSETS - NET OF TAX		2007	2006
(Rupees in '000)				
	Surplus / (deficit) arising on revaluation of:			
	- Fixed assets	20.1	2,480,235	2,099,820
	- Available-for-sale securities	20.2	(27,064)	(53,887)
	- Investment in associate	20.3	-	(376,593)
			<u>2,453,171</u>	<u>1,669,340</u>
20.1	Surplus on revaluation of fixed assets			
	Surplus on revaluation of fixed assets at 01 January		3,230,373	1,164,876
	Surplus on revaluation of fixed assets recognized during the year		-	2,105,611
	Transferred to retained earnings in respect of incremental depreciation charged during the year		(24,585)	(26,074)
	Related deferred tax liability in respect of incremental depreciation charged during the year		(13,238)	(14,040)
			<u>(37,823)</u>	<u>(40,114)</u>
			3,192,550	3,230,373
	Related deferred tax liability on surplus as at 01 January		1,130,553	407,630
	Deferred tax liability (reversed) / recognized		(405,000)	736,963
	Related deferred tax liability in respect of incremental depreciation charged during the year		(13,238)	(14,040)
			<u>(418,238)</u>	<u>722,923</u>
			712,315	1,130,553
			<u>2,480,235</u>	<u>2,099,820</u>

Notes to the Financial Statements

	Note	2007	2006
		(Rupees in '000)	
20.2 Surplus / (deficit) on revaluation of available-for-sale securities			
Government securities		(80,856)	(29,935)
Quoted shares		(7,255)	(35,257)
Term Finance Certificates - quoted		32,747	828
		<u>(55,364)</u>	<u>(64,364)</u>
Related deferred tax asset		28,300	10,477
		<u>(27,064)</u>	<u>(53,887)</u>
20.3 (Deficit) on revaluation of securities - associates			
Investment in associate	20.3.1	-	(579,373)
Related deferred tax asset		-	202,780
		<u>-</u>	<u>(376,593)</u>
20.3.1 This represents deficit on revaluation of investment in Warid Telecom (Private) Limited. The State Bank of Pakistan has allowed the Bank to reverse the deficit in "Surplus / Deficit on revaluation of securities" account.			
21. CONTINGENCIES AND COMMITMENTS			
21.1 Direct credit substitutes			
i) Government		1,292,972	1,060,022
ii) Banking companies & other financial institutions		180,164	50,077
iii) Others		2,413,750	1,607,806
		<u>3,886,886</u>	<u>2,717,905</u>
21.2 Transaction-related contingent liabilities			
i) Government		13,045,987	11,477,550
ii) Banking companies & other financial institutions		446,639	617,392
iii) Others		11,627,301	5,603,788
		<u>25,119,927</u>	<u>17,698,730</u>
21.3 Trade-related contingent liabilities			
Letters of credit		38,533,186	27,080,933
Acceptances		8,558,681	5,261,893
21.4 Other contingencies			
Claims against Bank not acknowledged as debts		728,489	643,384
21.5 Commitments in respect of forward lendings			
Forward repurchase agreement lendings		-	922,102
Commitments to extend credit		6,014,000	6,106,000
21.6 Commitments in respect of forward exchange contracts			
Purchase		11,653,723	4,303,574
Sale		12,625,977	4,810,836

Notes to the Financial Statements

	2007	2006
	(Rupees in '000)	
21.7 Commitments for the acquisition of operating fixed assets	492,230	520,565
21.8 Commitments in respect of repo transactions		
Repurchase	14,827,466	1,777,650
Resale	2,455,815	9,924,099

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

Forward Exchange Contracts:

Forward exchange contract is a product offered to customer backed by international trading contract. These customers used this product to hedge themselves from unfavorable movements in foreign currencies.

In order to mitigate this risk of adverse exchange rate movements the Bank hedges its exposure by taking forward position in inter bank market. In addition to this, the exposure is also managed by matching the maturities and fixing the counter parties, dealers, intra-day and overnight limits.

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.

23. MARK-UP / RETURN / INTEREST EARNED

	2007	2006
	(Rupees in '000)	
a) On loans and advances to:		
i) customers	17,894,187	14,336,612
ii) financial institutions	337,311	96,517
b) On investments in:		
i) held for trading securities	-	10,605
ii) available for sale securities	3,246,017	2,513,194
iii) held to maturity securities	2,596,391	3,020,932
c) On deposits with financial institutions	1,154,110	740,026
d) On securities purchased under resale agreements	555,855	473,584
	<u>25,783,871</u>	<u>21,191,470</u>

23.1 These include mark-up earned of Rs. 1,755.553 million (2006: Rs. 1,265.267 million) of Islamic Banking Division.

24. MARK-UP / RETURN / INTEREST EXPENSED

Deposits	15,235,243	13,476,973
Securities sold under repurchase agreements	589,210	1,032,832
Other short term borrowings	419,803	369,911
Term Finance Certificates	376,707	353,170
	<u>16,620,963</u>	<u>15,232,886</u>

Notes to the Financial Statements

	Note	2007		2006	
		(Rupees in '000)			
25. GAIN / (LOSS) ON SALE OF SECURITIES					
Market Treasury Bills		-		(1,324)	
Pakistan Investment Bonds		-		(86)	
Listed shares		264,678		182,161	
Un-listed shares	25.1	1,788,514		-	
		<u>2,053,192</u>		<u>180,751</u>	
25.1 As per the agreement entered into between Singapore Telecommunication Limited (Singtel) and shareholders of Warid Telecom (Private) Limited, the Bank sold 48,816,474 shares out of its total holding of 316,773,753 shares at a price of USD 37.671 million.					
26. OTHER INCOME					
Net profit on sale of property and equipment		13,928		12,999	
Postage, telex service charges etc.		1,017,444		829,100	
		<u>1,031,372</u>		<u>842,099</u>	
27. ADMINISTRATIVE EXPENSES					
Non executive director fee & allowances		4,937		-	
Salaries, allowances, etc.		3,531,139		2,267,122	
Charge for defined benefit plan	34.7	90,289		62,797	
Contribution to defined contribution plan	35	114,015		79,535	
Brokerage & commission		535,532		458,167	
Rent, taxes, insurance, electricity, etc.		912,361		731,401	
Legal and professional charges		154,295		66,161	
Communications		305,767		263,925	
Repairs and maintenance		399,100		266,002	
Stationery and printing		135,175		138,420	
Advertisement and publicity		476,878		357,832	
Donations	27.1	36,173		3,625	
Auditors' remuneration	27.2	6,262		5,124	
Depreciation	11.2	956,947		691,836	
Amortization of intangible assets	11.8	39,628		16,660	
Entertainment, vehicle running expenses, traveling & subscription		329,514		279,415	
Others		244,575		186,723	
		<u>8,272,587</u>		<u>5,874,745</u>	
27.1 Donations					
Kashmir Education Foundation		1,500		1,500	
Zindagi Trust		500		-	
Lahore Businessmen association for Rehabilitation for disabled (LBARD)		500		-	
Shalimar Hospital, Lahore		2,000		-	
Government College University, Faisalabad		10,000		-	
Bahauddin Zakaria University, Multan		10,000		-	
Pakistan Society for the Rehabilitation of the disabled (PSRD)		2,000		-	
Marie Adelaide Leprosy Center, Larkana		850		-	
Chief Advisor's Relief and Welfare Fund - Bangladesh		8,823		-	
The Citizen Foundation		-		1,500	
Dar-ul-Khusnood, Karachi		-		25	
Patient Welfare Association, Jinnah Hospital, Lahore		-		500	
Murshid Hospital & Health Care Center, Karachi		-		100	
		<u>36,173</u>		<u>3,625</u>	

None of the directors or their spouses had any interest in the donees.

Notes to the Financial Statements

27.2 Auditors' remuneration

Audit fee	3,620	2,940
Half yearly review	750	750
Fee for audit of foreign branches	1,015	889
Special certifications and sundry advisory services	100	150
Out-of-pocket expenses	777	395
	<u>6,262</u>	<u>5,124</u>

28. OTHER CHARGES

Penalties imposed by Central Bank	<u>9,565</u>	<u>43,306</u>
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29. TAXATION

For the year

Current	1,726,810	476,226
Prior years	-	(100,874)
Deferred	(321,487)	427,902
	<u>1,405,323</u>	<u>803,254</u>

The income tax assessments of the Bank have been finalised upto and including tax year 2007. Matters of disagreement exist between the Bank and tax authorities for various assessment years and are pending with the Commissioner of Income Tax (Appeals), Income Tax Appellate Tribunal (ITAT) and High Court of Sindh.

The issues mainly relate to addition of mark-up in suspense to income, taxability of profit on government securities, bad debts written off and disallowance relating to profit and loss expenses. However, adequate provision has been made in the financial statements in this respect.

29.1 Relationship between tax expense and accounting profit

Profit before tax	<u>4,535,552</u>	<u>2,565,945</u>
Tax at the applicable rate of 35% (2006: 35%)	<u>1,587,443</u>	<u>898,081</u>
Effect of:		
- income chargeable to tax at reduced rates	(175,954)	(11,218)
- income exempt from tax	(92,467)	(63,756)
- other differences	86,301	25,147
- prior year provision	-	(45,000)
Tax expense for the year	<u>1,405,323</u>	<u>803,254</u>

30. BASIC / DILUTED EARNINGS PER SHARE

Profit for the year	<u>3,130,229</u>	<u>1,762,691</u>
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(Number of shares in thousand)

Weighted average number of ordinary shares	<u>650,000</u>	<u>606,132</u>
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(Rupees)

Basic / Diluted earnings per share	<u>4.82</u>	<u>2.91</u>
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Notes to the Financial Statements

Note	2007	2006
	(Rupees in '000)	
31. CASH AND CASH EQUIVALENTS		
Cash and balances with treasury banks	29,436,378	27,859,360
Balances with other banks	18,380,738	12,731,952
Call lendings	997,582	2,589,788
	<u>48,814,698</u>	<u>43,181,100</u>

32. CREDIT RATING

PACRA has assigned a long term credit rating of AA [double A] and a short-term credit rating of A1+ (A one plus) to the Bank as at July 2007 (2006: AA [Double A]) for long term and A1+ [A one plus] for short term).

33. STAFF STRENGTH

Permanent
Temporary / On contractual basis
Bank's own staff strength at the end of the year
Outsourced
Total staff strength

2007	2006
(Number of employees)	
5,979	5,266
1,392	1,277
7,371	6,543
1,812	1,536
<u>9,183</u>	<u>8,079</u>

34. DEFINED BENEFIT PLAN**34.1 Principal actuarial assumptions**

The latest actuarial valuation was carried out as at 31 December 2007. Projected unit credit method, using the following significant assumptions, was used for the valuation of the defined benefit plan:

Discount factor used
Expected rate of return on plan assets
Expected rate of salary increase
Normal retirement age

2007	2006
10.00%	10.00%
10.00%	10.00%
10.00%	10.00%
60 Years	60 Years

34.2 Reconciliation of payable to defined benefit plan

Present value of defined benefit obligations
Fair value of plan assets
Net actuarial losses not recognized
Past service cost not yet recognized

2007	2006
(Rupees in '000)	
546,346	366,308
(352,811)	(250,757)
(190,705)	(111,306)
(2,830)	(4,245)
-	-

34.3 Movement in defined benefit obligation

Obligations at the beginning of the year
Current service cost
Interest cost
Benefits paid
Actuarial (gain) / loss on obligation
Obligations at the end of the year

366,308	261,191
66,651	47,911
36,631	26,119
(10,638)	(14,064)
87,394	45,151
<u>546,346</u>	<u>366,308</u>

Notes to the Financial Statements

34.4 Movement in fair value of plan assets

	2007	2006
	(Rupees in '000)	
Fair value at the beginning of the year	250,757	183,665
Expected return on plan assets	25,076	18,366
Contributions	90,289	62,797
Benefits paid	(10,638)	(14,064)
Actuarial gain / (loss) on plan assets	(2,673)	(7)
Fair value at the end of the year	<u>352,811</u>	<u>250,757</u>

34.5 Plan assets consist of the following:

Defence Saving Certificates	46,156	41,963
Preference shares	-	16,445
Term Finance Certificates	65,415	65,765
Pakistan Investment Bonds	23,810	-
Alfalah GHP Value Fund	9,689	10,002
Cash and bank	207,741	116,582
	<u>352,811</u>	<u>250,757</u>

34.6 Movement in payable to defined benefit plan

Opening balance	-	-
Charge for the year	90,289	62,797
Bank's contribution to fund made during the year	(90,289)	(62,797)
Closing balance	-	-

34.7 Charge for defined benefit plan

Current service cost	66,651	47,911
Interest cost	36,631	26,119
Expected return on plan assets	(25,076)	(18,366)
Actuarial losses	10,668	5,718
Past service cost	1,415	1,415
	<u>90,289</u>	<u>62,797</u>

34.8 Actual return on plan assets

	<u>22,403</u>	<u>16,383</u>
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34.9 Historical information

	2007	2006	2005	2004	2003
	----- (Rupees in '000) -----				
Defined benefit obligation	546,346	366,308	261,191	176,786	135,457
Fair value of plan assets	352,811	250,757	183,665	131,193	86,303
Surplus / (deficit)	<u>(193,535)</u>	<u>(115,551)</u>	<u>(77,526)</u>	<u>(45,593)</u>	<u>(49,154)</u>
Experience adjustments on plan liabilities	<u>(87,394)</u>	<u>(45,151)</u>	<u>(29,548)</u>	<u>(15,760)</u>	<u>(21,992)</u>
Experience adjustments on plan assets	<u>(2,673)</u>	<u>(7)</u>	<u>174</u>	<u>14,052</u>	<u>1,276</u>

35. DEFINED CONTRIBUTION PLAN

The Bank operates an approved provident fund scheme for all its permanent employees to which both the Bank and employees contributes @ 8.33% of basic salary in equal monthly contributions.

During the year, the Bank contributed Rs.114.015 million (2006: Rs. 79.535 million) in respect of this fund.

Notes to the Financial Statements

36. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	------(Rupees in '000)-----					
Fee	-	-	4,937	-	-	-
Managerial remuneration	7,470	6,400	-	-	667,719	380,269
Bonus	7,193	4,616	-	-	175,918	72,659
Post employment benefits	1,350	1,066	-	-	75,693	42,488
Rent and house maintenance	2,949	2,560	-	-	160,462	119,917
Utilities	737	640	-	-	51,268	29,321
Medical	-	-	-	-	-	-
Others	-	-	-	-	-	-
	<u>19,699</u>	<u>15,282</u>	<u>4,937</u>	<u>-</u>	<u>1,131,060</u>	<u>644,654</u>
Number of persons	<u>1</u>	<u>1</u>	<u>2</u>	<u>-</u>	<u>511</u>	<u>331</u>

The Chief Executive and certain executives have been provided with the free use of cars and household equipments.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

On-balance sheet financial instruments

	2007		2006	
	Book value	Fair value	Book value	Fair value
	-----Rupees in '000-----			
Assets				
Cash and balances with treasury banks	29,436,378	29,436,378	27,859,360	27,859,360
Balances with other banks	18,380,738	18,380,738	12,731,952	12,731,952
Lendings to financial institutions	3,452,059	3,452,059	12,456,653	12,456,653
Investments	88,491,564	87,782,318	56,502,210	55,571,875
Advances	171,198,992	171,198,992	149,999,325	149,999,325
Other assets	5,779,153	5,779,153	3,518,059	3,518,059
	<u>316,738,884</u>	<u>316,029,638</u>	<u>263,067,559</u>	<u>262,137,224</u>
Liabilities				
Bills payable	4,138,243	4,138,243	3,091,135	3,091,135
Borrowings	21,230,697	21,230,697	8,394,130	8,394,130
Deposits and other accounts	273,173,841	273,173,841	239,509,391	239,509,391
Sub-ordinated loans	3,220,858	3,220,858	3,222,106	3,222,106
Liabilities against assets subject to finance lease	-	-	-	-
Other liabilities	9,531,860	9,531,860	7,305,496	7,305,496
	<u>311,295,499</u>	<u>311,295,499</u>	<u>261,522,258</u>	<u>261,522,258</u>
Off-balance sheet financial instruments				
Forward purchase of foreign exchange	<u>11,653,723</u>	<u>11,782,530</u>	<u>4,303,574</u>	<u>4,331,315</u>
Forward sale of foreign exchange	<u>12,625,977</u>	<u>12,748,699</u>	<u>4,810,836</u>	<u>4,821,648</u>

Notes to the Financial Statements

38. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trading & Sales	Retail Banking	Corporate / Commercial Banking	Total
-----Rupees in '000-----				
2007				
Total income	8,079,827	7,474,429	16,268,081	31,822,337
Total expenses	7,459,954	6,462,015	13,364,816	27,286,785
Net income	619,873	1,012,414	2,903,265	4,535,552
Segment assets	119,491,489	49,700,079	159,703,584	328,895,152
Segment non-performing loans	-	1,708,428	2,996,657	4,705,085
Segment provision required	-	2,139,734	2,340,084	4,479,818
Segment liabilities	18,750,329	66,094,010	227,830,969	312,675,308
Segment return on assets (ROA) (%)	7.96%	17.61%	9.99%	
Segment cost of funds (%)	7.08%	15.20%	8.24%	
2006				
Total income	7,082,839	6,143,236	11,190,034	24,416,109
Total expenses	6,863,416	5,003,226	9,983,522	21,850,164
Net income	219,423	1,140,010	1,206,512	2,565,945
Segment assets	83,022,971	48,170,167	144,492,403	275,685,541
Segment non-performing loans	-	659,196	1,649,472	2,308,668
Segment provision required	-	1,215,502	1,020,954	2,236,456
Segment liabilities	83,494,770	43,026,160	136,922,666	263,443,596
Segment return on assets (ROA) (%)	7.88%	16.08%	9.50%	
Segment cost of funds (%)	7.49%	13.10%	8.28%	

39. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, subsidiary company, associated companies with or without common directors, retirement benefit funds and directors and key management personnel and their close family members.

Banking transactions with the 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).

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to executives is determined in accordance with the terms of their appointment.

The details of transactions with related parties, other than those which have been specifically disclosed elsewhere in the financial statements are as follows:

	2007						Total
	Directors	Key Management Personnel	Group Companies	Associates	Subsidiaries	Strategic Investments	
-----Rupees in '000-----							
39.1 Deposits							
Balance at the beginning of the year	3,905	20,467	16,095	1,047,226	7,142	6	1,094,841
Adjustments	-	-	-	5,750	(5,750)	-	-
Placements during the year	58,035	574,163	2,106,653	144,806,723	535,929	15	148,081,518
Withdrawals during the year	(59,811)	(483,361)	(1,967,166)	(136,157,239)	(529,558)	(3)	(139,197,138)
Balance at end of the year	2,129	111,269	155,582	9,702,460	7,763	18	9,979,221

Notes to the Financial Statements

	2007						Total
	Directors	Key Management Personnel	Group Companies	Associates	Subsidiaries	Strategic Investments	
	----- (Rupees in '000) -----						
39.2 Financing							
Balance at the beginning of the year	-	59,043	-	3,100,908	97,121	183,333	3,440,405
Adjustments	-	-	-	5,444	(5,444)	-	-
Disbursements during the year	-	269,968	-	-	38,802,460	-	39,072,428
Repayments during the year	-	(183,176)	-	(3,094,334)	(38,722,795)	(183,333)	(42,183,638)
Balance at end of the year	-	145,835	-	12,018	171,342	-	329,195
39.3 Investments							
Balance at the beginning of the year	-	-	349,580	2,586,464	132,000	120,000	3,188,044
Adjustments	-	-	-	56,000	(56,000)	-	-
Investment during the year	-	-	49,173	2,042,236	-	-	2,091,409
Withdrawals during the year	-	-	(93,753)	(488,165)	-	-	(581,918)
Balance at end of the year	-	-	305,000	4,196,535	76,000	120,000	4,697,535
39.4 Call borrowings / Repo							
Balance at the beginning of the year	-	-	-	-	-	-	-
Placements during the year	-	-	30,036,692	-	-	-	30,036,692
Withdrawals during the year	-	-	(30,036,692)	-	-	-	(30,036,692)
Balance at end of the year	-	-	-	-	-	-	-
39.5 Call lendings / Reverse Repo							
Balance at the beginning of the year	-	-	920,644	-	-	-	920,644
Placements during the year	-	-	43,298,686	-	-	-	43,298,686
Withdrawals during the year	-	-	(44,219,330)	-	-	-	(44,219,330)
Balance at end of the year	-	-	-	-	-	-	-

39.6 Financing

Running finance

- Subsidiary company
- Other related parties

Long term loans

- Subsidiary company
- Other related parties

39.7 Contingencies and commitments

- Letter of credit and acceptance issued
- Guarantees issued

39.8 Customer accounts

PLS accounts

- Subsidiary company
- Other related parties

Current accounts

- Subsidiary company
- Other related parties

Fixed deposit accounts

- Other related parties

	2007	2006
	(Rupees in '000)	
	166,795	85,306
	12,018	3,100,908
	4,547	11,815
	145,835	242,376
	-	157,048
	6,200	169,200
	-	5,750
	8,694,676	390,387
	7,763	1,392
	291,942	112,750
	984,840	584,562

Notes to the Financial Statements

39.9 With subsidiary companies

	2007	2006
(Rupees in '000)		
Brokerage expense	1,690	2,142
Mark-up income	7,302	14,114
Mark-up expense	-	807
Rent income	2,896	2,866
Finance lease income	545	421
Lease rentals	1,917	3,397
Leases disbursed during the year to subsidiary companies	-	5,953
Receivable against trade of marketable securities	4	37,882
Receivable against others	90	761
Balance held in deposit account	7,763	7,142
Security deposit	862	1,138
Bank charges recovered	178	188

39.10 With associated companies

Commission income from Warid Telecom (Private) Limited	154	12,997
Commission income on letters of credit and letters of guarantee	102	2,447
Insurance premium paid to Alfalah Insurance Limited	55,438	7,467
Mark-up income on advances	238,386	211,865

39.11 With other Related Parties

Contribution to Employees provident fund	114,015	79,535
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39.12 The Key Management Personnel / Directors compensation are as follows:

Salaries and benefits	343,502	236,094
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In addition, the chief executive and other executive officers are provided with Bank maintained car.

40. CAPITAL ADEQUACY

40.1 Capital Management

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

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

In accordance with BSD Circular No. 6 dated 28 October 2005, the State Bank of Pakistan has raised the minimum paid-up capital requirement for locally incorporated banks to Rs. 6 billion (net of losses) to be achieved in a phased manner by 31 December 2009. In addition all banking companies carrying on business in Pakistan are required to maintain capital and unencumbered general reserves the amount of which should at least be equivalent to 8% of the risk weighted assets of the banking company.

The individual banking operation or companies outside Pakistan are directly regulated and supervised by their local banking supervisor. The requirements of those may differ from country to country.

The Bank regulatory capital is divided into two tiers;

Notes to the Financial Statements

- Tier 1 Capital: Share Capital, Reserves excluding foreign exchange translation reserves and unappropriated profit.
- Tier 2 Capital: Qualifying subordinated debt, eligible general reserves against future credit losses, revaluation reserves on fixed assets and exchange translation reserve.

The Book value of investments in subsidiary engaged in banking and financial activities and deficits arising on revaluation of available of sale securities are deducted form tier one capital.

The risk weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of each asset and counter party, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet items with some adjustments in line with the regulatory requirements.

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

40.2 Capital Adequacy Ratio

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

	2007	2006
	(Rupees in '000)	
Regulatory Capital Base		
<i>Tier I Capital</i>		
Shareholders' capital	6,500,000	5,000,000
Reserves	2,327,775	2,701,729
Unappropriated profits	4,851,840	2,823,072
	13,679,615	10,524,801
Less: Adjustments		
- Investments in equity of subsidiary companies engaged in banking and financial activities	76,000	132,000
- Deficit on account of revaluation of investment in associate	-	376,593
- Deficit on account of revaluation of investments classified as AFS	59,811	54,715
	135,811	563,308
<i>Total Tier I Capital</i>	13,543,804	9,961,493
<i>Tier II Capital</i>		
Subordinated debt (upto 50% of total Tier I Capital)	2,322,446	2,702,939
General provisions (subject to 1.25% of total risk weighted assets)	1,099,409	1,060,888
Revaluation reserve (upto 50%)	1,256,491	1,050,324
Foreign exchange translation reserves	87,058	47,804
<i>Total Tier II Capital</i>	4,765,404	4,861,955
<i>Eligible Tier III Capital</i>	-	-
Total regulatory capital (a)	18,309,208	14,823,448

Notes to the Financial Statements

Risk-weighted exposures	Note	2007		2006	
		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
-----Rupees in '000-----					
<i>Credit risk</i>					
Balance sheet items:					
Cash and other liquid assets		51,269,175	5,164,625	53,047,965	7,329,552
Investments	40.3	87,886,162	9,943,273	55,536,833	5,754,218
Loans and advances	40.4	159,710,883	128,277,657	137,444,045	108,985,028
Fixed assets		11,922,324	11,922,324	10,502,990	10,502,990
Other assets		6,013,097	5,913,487	5,633,051	5,043,785
		<u>316,801,641</u>	<u>161,221,366</u>	<u>262,164,884</u>	<u>137,615,573</u>
Off - balance sheet items:					
Loan repayment guarantees & acceptances	40.5	12,606,646	8,831,288	6,586,181	6,586,181
Performance bonds, bid bonds, warranties & similar instruments etc.	40.6	3,816,356	1,833,017	3,138,478	1,242,115
Stand by letters of credit & other stand by facilities	40.7	30,958,445	12,369,451	25,139,511	9,112,710
Outstanding foreign exchange contracts - purchase and sales (both)		<u>24,279,700</u>	<u>271,380</u>	<u>9,114,410</u>	<u>100,136</u>
		<u>71,661,147</u>	<u>23,305,136</u>	<u>43,978,580</u>	<u>17,041,142</u>
Credit risk-weighted exposures			<u><u>184,526,502</u></u>		<u><u>154,656,715</u></u>
<i>Market risk</i>					
General market risk			42,352		66,670
Specific market Risk			42,352		66,670
Capital charge for foreign exchange risk			<u>20,131</u>		<u>9,833</u>
Total capital charge for market risk (b)			<u>104,835</u>		<u>143,173</u>
Market risk weighted exposure (b x 12.5)			<u><u>1,310,438</u></u>		<u><u>1,789,663</u></u>
Total risk-weighted exposures (c)			<u><u>185,836,940</u></u>		<u><u>156,446,378</u></u>
Capital adequacy ratio (a / c x 100)			<u>9.85</u>		<u>9.48</u>

40.3 Investments exclude investment in equity of subsidiary companies amounting to Rs. 76.000 million (2006: Rs. 132.000 million) and held-for-trading portfolio amounting to Rs. 529.402 million (2006: Rs. 833.377 million). The held-for-trading portfolio is subject to market risk and is included in the computation of capital charge for market risk.

40.4 Advances secured against government securities / own deposits and cash margins amounting to Rs. 12,587.518 million (2006: Rs. 13,616.168 million) have been deducted from gross advances. Advances are gross of general reserve for consumer financing amounting to Rs. 1,099.409 million (2006: Rs. 1,060.888 million). This reserve has been added to supplementary capital.

Notes to the Financial Statements

- 40.5 Cash margins / government securities amounting to Rs. 2,608.655 million (2006: Rs. 1,927.011 million) and expired instruments amounting to Rs. 492.436 million (2006: Rs. 99.458 million) have been deducted from loan repayment guarantees.
- 40.6 Cash margins / government securities amounting to Rs. 12,684.627 million (2006: Rs. 10,845.067 million) and expired instruments amounting to Rs. 4,397.859 million (2006: Rs. 2,782.718 million) have been deducted from performance bonds etc.
- 40.7 Cash margins / government securities amounting to Rs. 5,361.447 million (2006: Rs. 1,183.529 million) and expired instruments amounting to Rs. 2,992.124 million (2006: Rs. 1,057.508 million) have been deducted from stand by letters of credit.

41. RISK MANAGEMENT

The Bank has in place an approved integrated risk management framework for managing credit risk, market risk, liquidity risk and operational risk as evidenced by its Board approved "Risk Management and Internal Control" manual.

Following is the governance structure and important policies on Risk Management of the Bank:

- The Board of Directors through its sub-committee called 'Board Risk Management Committee' (BRMC) oversees the overall risk of the Bank.
- RMD is the organizational arm performing the functions of identifying, measuring, monitoring and controlling the various risks and assists the Apex level committee and the various sub-committees in conversion of policies into action.
- As part of its mandate the Central Management Committee (CMC) is entrusted with overseeing the operational risk of the bank.
- The Bank has established a Treasury Middle Office to effectively monitor day-to-day trading activities of the dealing room. The middle-office directly reports to Head of RMD.
- An independent risk review function exists at the bank through by internal audit division that reports directly to the Board Audit Committee.
- The Bank has completed the Basel-II GAP analysis process and is now preparing for the proper implementation of Basel-II in collaboration with external consultants and in light of SBP circulars and guidelines.
- As a policy the reporting line of the risk management function has been kept completely independent of the business divisions.
- The Bank has acquired Temenos T24 banking system as its core banking solution and its Risk Management system called T-Risk will be used for managing Credit, Market and Operational risks.

Notes to the Financial Statements

41.1 Credit risk

Bank Alfalah Limited has conducted a comprehensive Basel-II GAP analysis in order to categorize all the risk areas and have also laid down the road-map to move towards the implementation of Basel-II, as per the State Bank of Pakistan directives.

In our experience, a key to effective credit risk management is a well thought out business strategy and in order to achieve this the Bank continually strive hard to gauge such factors existent and simultaneously deriving the mitigating factors to effectively manage the risk inherent to the best possible degree.

The Credit Risk Management comprises of the Credit Risk Manager who along with his staff looks after all the aspects of credit risk and conducts portfolio analysis for managing credit risk. The Credit Risk Manager reports directly to the Head of Risk Management Division.

The bank has built-up and maintained a sound loan portfolio in terms of well-defined Credit Policy approved by the Board of Directors. Its credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. As part of discreet prudential practices the Risk Management Division conducts pre-fact validation of major cases from a risk point of view.

The Credit Division (now known as Credit & Collection Group) comprises of multiple credit approvers with authorities assigned in accordance with their qualifications and experience. This would be based on risk basis once rating structure is in place.

A comprehensive Risk Grading Index (RGI) model is used by the bank which categorizes different aspects of risk from credit point of view and assigns a grading to the counterparty. Moreover, a sophisticated Internal Credit Rating System is being developed by the Bank, which would be able to quantify the counterparty risk in accordance with the best practices. The system would take into consideration the qualitative and quantitative factors of the counter-party and generate a rating providing a snapshot of anticipated customer behavior. The system will be tested, validated and checked for compliance with the State Bank of Pakistan's guidelines for Internal Credit Rating.

Credit Administration Department (CAD) is working towards ensuring all the policies and procedures are implemented and followed accordingly.

Special attention is paid by the management in respect of non-performing loans. Special Asset Management (SAM) Department (now under Credit & Collections Group) is functional and handles this responsibility. A "Wastchlist" procedure is also functioning which identifies loans showing early warning signals of becoming non - performing. The Risk Management Division also monitors the NPL portfolio of the bank and reports the significant matter to BRMC.

Proactive credit-risk management practices in the form of studies, research work, Risk Grading Index (RGI), Integrated Bank-wide Risk Management and Internal Control Framework, adherence to Basel II accord, portfolio monitoring are only some of the prudent measures the bank is engaged in for mitigating risk exposures. The current focus is on augmenting the bank's abilities to quantify risk in a consistent, reliable and valid fashion which will ensure advanced level of sophistication in the Credit Risk measurement and management in the years ahead.

Notes to the Financial Statements

41.1.1 Segmental information

41.1.1.1 Segments by class of business

	2007					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	7,830,882	4.48%	1,562,973	0.57%	36,230	0.05%
Automobile & Transportation Equipment	5,815,984	3.31%	2,794,281	1.02%	3,628,648	4.77%
Chemical and Pharmaceuticals	3,749,425	2.13%	1,951,149	0.71%	2,163,730	2.84%
Cement	2,817,246	1.60%	1,008,105	0.37%	558,419	0.73%
Communication	2,105,503	1.20%	7,911,204	2.90%	3,099,550	4.07%
Electronics and Electrical Appliances	2,173,233	1.24%	841,611	0.31%	4,114,398	5.41%
Educational Institutes	607,080	0.35%	5,237,637	1.92%	105,305	0.14%
Financial	4,263,593	2.43%	10,841,624	3.97%	6,990,586	9.19%
Fertilizers	2,297,934	1.31%	3,229,602	1.18%	2,727,601	3.58%
Food & Allied Products	3,229,043	1.84%	1,294,974	0.47%	954,641	1.25%
Glass & Ceramics	253,661	0.14%	312,126	0.11%	276,443	0.36%
Ghee & Edible Oil	3,664,080	2.09%	445,543	0.16%	2,233,166	2.93%
Housing Societies / Trusts	2,484,934	1.41%	5,593,634	2.05%	27,657	0.04%
Insurance	75,736	0.04%	1,385,189	0.51%	44,641	0.06%
Import & Export	2,846,931	1.62%	4,793,407	1.75%	2,037,448	2.68%
Iron / Steel	3,365,857	1.92%	2,539,863	0.93%	2,860,725	3.76%
Oil & Gas	3,976,627	2.26%	14,850,578	5.44%	9,255,256	12.16%
Paper & Board	2,034,696	1.16%	1,248,918	0.46%	811,406	1.07%
Production and Transmission of Energy	7,208,151	4.10%	16,433,320	6.02%	7,897,125	10.38%
Real Estate / Construction	5,834,984	3.32%	8,301,050	3.04%	10,203,719	13.41%
Retail / Wholesale Trade	5,666,525	3.23%	6,728,486	2.46%	817,279	1.07%
Rice Processing and Trading/ Wheat	4,354,135	2.48%	729,346	0.27%	233,051	0.31%
Sugar	2,715,814	1.55%	653,211	0.24%	97,451	0.13%
Shoes and Leather garments	742,760	0.42%	609,830	0.22%	121,760	0.16%
Sports Goods	259,012	0.15%	314,201	0.12%	25,579	0.03%
Surgical Goods	201,360	0.11%	155,131	0.06%	33,755	0.04%
Textile Spinning	14,115,925	8.04%	2,290,836	0.84%	2,695,709	3.54%
Textile Weaving	6,728,552	3.83%	1,648,112	0.60%	1,103,280	1.45%
Textile Composite	8,757,959	4.98%	866,560	0.32%	2,261,410	2.97%
Welfare Institutions	657,149	0.37%	9,273,546	3.39%	66,003	0.09%
Individuals	43,497,451	24.75%	88,754,315	32.49%	969,444	1.27%
Others	21,346,588	12.14%	68,573,479	25.10%	7,647,265	10.06%
	<u>175,678,810</u>	<u>100%</u>	<u>273,173,841</u>	<u>100%</u>	<u>76,098,680</u>	<u>100%</u>

Notes to the Financial Statements

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	8,589,224	5.64%	1,336,055	0.56%	350,366	0.66%
Automobile and transportation equipment equipments	3,841,818	2.52%	1,805,445	0.75%	1,413,164	2.68%
Chemical and Pharmaceuticals	1,235,329	0.81%	2,676,326	1.12%	440,433	0.83%
Cement	1,661,732	1.09%	835,700	0.35%	159,460	0.30%
Communication	4,436,496	2.91%	9,484,807	3.96%	3,194,455	6.05%
Electronic & electrical appliances						
Appliances	906,302	0.60%	706,887	0.30%	321,596	0.61%
Educational institutes	708,194	0.47%	4,629,625	1.93%	66,628	0.13%
Financial	3,174,254	2.09%	11,195,617	4.67%	7,442,197	14.11%
Fertilizers	1,376,523	0.90%	3,588,099	1.50%	1,133,273	2.15%
Food & allied products	1,180,216	0.78%	2,536,459	1.06%	281,827	0.53%
Glass & ceramics	116,317	0.08%	234,350	0.10%	87,552	0.17%
Ghee & edible oil	1,729,781	1.14%	897,338	0.37%	1,319,221	2.50%
Housing societies / trusts	1,029,520	0.68%	4,069,439	1.70%	532	0.01%
Insurance	37,969	0.02%	1,523,805	0.64%	17,280	0.03%
Import & export	4,680,848	3.07%	2,837,080	1.18%	5,552,136	10.52%
Iron / steel	922,776	0.61%	1,943,466	0.81%	553,277	1.05%
Oil & gas	718,170	0.47%	12,507,484	5.22%	114,497	0.22%
Paper & board	725,958	0.48%	827,265	0.35%	276,107	0.52%
Production and transmission of energy	219,203	0.14%	16,146,805	6.74%	7,941,601	15.05%
Real Estate / construction	4,889,404	3.21%	6,366,661	2.66%	1,943,983	3.68%
Retail / wholesale trade	6,294,461	4.13%	5,933,500	2.48%	1,054,348	2.00%
Rice processing and trading	3,914,258	2.57%	497,158	0.21%	42,557	0.08%
Sugar	1,899,343	1.25%	1,013,901	0.42%	304,316	0.58%
Shoes & leather garments	1,095,613	0.72%	570,589	0.24%	208,213	0.41%
Sports goods	278,524	0.18%	118,643	0.05%	7,787	0.01%
Surgical goods	102,243	0.07%	7,754	0.01%	19,437	0.04%
Textile spinning	10,660,134	7.00%	1,255,925	0.52%	1,544,071	2.93%
Textile weaving	10,029,651	6.59%	1,007,630	0.42%	1,480,340	2.81%
Textile composite	5,226,503	3.43%	1,041,871	0.44%	762,153	1.44%
Welfare institutions	515,119	0.34%	4,917,025	2.05%	21,880	0.04%
Individuals	50,844,264	33.40%	83,390,959	34.82%	86,717	0.16%
Others	19,195,634	12.61%	53,605,723	22.37%	14,618,057	27.70%
	<u>152,235,781</u>	<u>100%</u>	<u>239,509,391</u>	<u>100%</u>	<u>52,759,461</u>	<u>100%</u>

Notes to the Financial Statements

41.1.1.2 Segment by sector

	2007					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	12,719,912	7%	68,848,320	25%	11,393,159	15%
Private	162,958,898	93%	204,325,521	75%	64,705,521	85%
	<u>175,678,810</u>	<u>100%</u>	<u>273,173,841</u>	<u>100%</u>	<u>76,098,680</u>	<u>100%</u>
	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	9,456,984	6%	67,482,409	28%	9,279,174	18%
Private	142,778,797	94%	172,026,982	72%	43,480,287	82%
	<u>152,235,781</u>	<u>100%</u>	<u>239,509,391</u>	<u>100%</u>	<u>52,759,461</u>	<u>100%</u>

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

	2007		2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in '000-----			
Agriculture, forestry, hunting and fishing	209,678	19,703	104,222	8,905
Textile	716,679	475,638	494,777	198,151
Chemical and pharmaceuticals	33,459	32,740	26,410	24,718
Cement	11,233	8,081	15,464	3,500
Automobile and transportation equipment	77,447	31,768	6,666	2,471
Wholesale and retail trade	796,700	661,669	340,867	232,513
Individuals	1,749,090	1,285,736	838,573	425,397
Others	1,110,799	865,074	481,689	279,913
	<u>4,705,085</u>	<u>3,380,409</u>	<u>2,308,668</u>	<u>1,175,568</u>

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

	2007		2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in '000-----			
Public / Government	-	-	-	-
Private	4,705,085	3,380,409	2,308,668	1,175,568
	<u>4,705,085</u>	<u>3,380,409</u>	<u>2,308,668</u>	<u>1,175,568</u>

Notes to the Financial Statements

41.1.1.5 Geographical segment analysis

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	4,264,249	311,622,060	16,017,906	70,221,545
Asia Pacific (including South Asia)	303,021	15,437,262	234,277	5,877,052
Middle East	(31,718)	1,835,830	(32,339)	83
	<u>4,535,552</u>	<u>328,895,152</u>	<u>16,219,844</u>	<u>76,098,680</u>
	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	2,492,613	266,369,097	12,202,137	49,345,511
Asia Pacific (including South Asia)	73,332	9,301,223	39,808	3,413,950
Middle East	-	15,221	-	
	<u>2,565,945</u>	<u>275,685,541</u>	<u>12,241,945</u>	<u>52,759,461</u>

41.2 Market risk

Market risk is the risk of losses due to on and off-balance sheet positions arising out of changes in market prices. Market risk mainly arises from trading activities undertaken by the bank's treasury. It also includes investments and structural positions in the banking book of the bank. To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. The bank uses the Standardized Approach to calculate capital charge for market risk as per the current regulatory framework under Basel I and the same approach is being adopted for the revised regulatory framework under Basel II. Going forward the bank is preparing to use more sophisticated systems and models and currently is evaluating various tools to enhance its capability to successfully meet the requirements of the internal models approach of Basel II.

41.2.1 Foreign exchange risk

Foreign exchange risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Bank manages this risk by setting and monitoring dealer, currency and counter-party limits for on and off-balance sheet financial instruments.

Off-Balance sheet financial instruments are contracts which are the resultant outcome of the import and export transactions. Moreover, counterparties enter into swaps, forward transactions in inter-bank market on behalf of customers to cover-up their positions against stipulated risks. The buy and sell transactions are matched in view of their maturities with respect to tenor.

The currency risk is regulated and monitored against the regulatory / statutory limits enforced by the State Bank of Pakistan. The foreign exchange exposure limits in respective currencies are managed against the prescribed limits.

Notes to the Financial Statements

The below represents the concentration of bank foreign currency risk for on and off balance sheet financial instruments:

	2007			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
-----Rupees in '000-----				
Pakistan Rupee	289,286,874	272,905,975	(412,694)	15,968,205
United States Dollar	33,368,721	33,365,380	119,391	122,732
Great Britain Pound	3,399,816	3,654,041	312,494	58,269
Japanese Yen	30,612	1,216	(20,068)	9,328
Euro	2,754,469	2,746,586	21,364	29,247
Other currencies	54,660	2,110	(20,487)	32,063
Total foreign currency exposure	39,608,278	39,769,333	412,694	251,639
Total currency exposure	<u>328,895,152</u>	<u>312,675,308</u>	<u>-</u>	<u>16,219,844</u>
	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
-----Rupees in '000-----				
Pakistan Rupee	249,195,107	238,293,886	1,217,810	12,119,031
United States Dollar	18,574,989	17,444,785	(1,220,355)	(90,151)
Great Britain Pound	2,912,043	2,899,834	11,438	23,647
Japanese Yen	17,750	3,225	(14,367)	158
Euro	1,659,008	1,589,273	(30,017)	39,718
Other currencies	3,326,644	3,212,593	35,491	149,542
Total foreign currency exposure	26,490,434	25,149,710	(1,217,810)	122,914
Total currency exposure	<u>275,685,541</u>	<u>263,443,596</u>	<u>-</u>	<u>12,241,945</u>

41.2.2 Equity position risk

Equity position risk in the trading books arises due to changes in prices of individual stocks or levels of equity indices. The Bank's equity trading book comprises of Equity Portfolio Unit's Held for Trading (HFT) & Available for Sale (AFS) portfolios. The objective of Equity Portfolio Unit's HFT portfolio is to take advantages of short-term capital gains, while the AFS portfolio is maintained with a medium term view of capital gains and dividend income. Separate product program manuals have been developed to discuss in detail the objectives / policies, risks / mitigants, limits / controls for equity trading portfolios of the Equity Portfolio Unit.

41.3 Interest rate risk

The interest rate risk arises from the fluctuation in the value of financial instruments consequent to the changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-priced in a given period. In order to ensure that this risk is managed within acceptable limits, the Bank's Asset and Liability Management Committee (ALCO) monitors the re-pricing of the assets and liabilities on a regular basis. The Bank's interest rate risk is limited since the majority of customer's deposits are retrospectively re-priced on a biannual basis on the profit and loss sharing principles.

Notes to the Financial Statements

41.3.1 Mismatch of Interest Rate Sensitive Assets and Liabilities

2007

On-balance sheet financial instruments	Effective Yield/Interest Rate	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			
													Rupees in '000
Assets													
Cash and balances with treasury banks	-	2,438,985	-	-	-	-	-	-	-	-	-	-	26,997,393
Balances with other banks	5.51%	18,380,738	2,413,452	-	358,346	-	-	-	-	-	-	-	3,685,081
Lendings to financial institutions	7.07%	3,452,059	-	-	-	-	-	-	-	-	-	-	-
Investments	10.54%	88,491,564	19,243,394	22,936,499	14,097,947	39,340	3,013,502	3,536,471	51,180	-	-	-	7,213,183
Advances	12.27%	171,198,992	20,692,822	29,697,136	30,422,125	17,396,043	20,773,602	5,276,867	8,313,272	-	-	-	5,779,153
Other assets	-	5,779,153	-	-	-	-	-	-	-	-	-	-	-
Liabilities													
Bills payable	-	60,471,161	42,349,668	52,633,635	44,878,418	14,330,915	17,435,383	23,787,104	8,813,338	8,364,452	-	-	43,674,810
Borrowings	8.35%	4,138,243	-	-	-	-	-	-	-	-	-	-	4,138,243
Deposits and other accounts	6.20%	21,230,697	15,174,379	34,226,613	4,793,196	11,646,533	10,371,771	725,551	44,106,194	-	-	-	537,571
Sub-ordinated loans	11.91%	273,173,841	21,325,896	324,844	324,844	988	1,687,554	881,640	-	-	-	-	71,014,379
Other liabilities	-	9,531,860	-	-	-	-	-	-	-	-	-	-	9,531,860
On-balance sheet gap													
Total Yield/Interest Risk Sensitivity Gap		5,443,385	23,970,886	150,155	18,082,178	11,964,254	3,843,109	5,787,862	11,727,779	(36,900,047)	8,364,452	-	(41,547,246)
Cumulative Yield/Interest Risk Sensitivity Gap													
		23,970,886	150,155	18,082,178	11,964,254	3,843,109	5,787,862	11,727,779	(36,900,047)	8,364,452	-	-	-
		23,970,886	24,121,041	42,203,219	54,167,473	58,010,582	63,798,444	75,526,223	38,626,176	46,990,628	-	-	-

2006

On-balance sheet financial instruments	Effective Yield/Interest Rate	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			
													Rupees in '000
Assets													
Cash and balances with treasury banks	4.35%	3,304,512	-	-	183,879	-	-	-	-	-	-	-	24,554,848
Balances with other banks	3.37%	12,731,952	9,745,379	-	-	-	-	-	-	-	-	-	2,802,694
Lendings to financial institutions	9.08%	12,456,653	12,456,653	-	-	-	-	-	-	-	-	-	-
Investments	8.30%	56,502,210	15,067,618	6,779,132	1,352,005	1,500,000	1,946,358	2,339,324	5,650,703	50,000	-	-	3,653,811
Advances	10.97%	149,999,325	11,543,484	19,036,037	38,221,717	9,602,798	11,439,075	29,579,307	5,152,702	7,889,098	-	-	3,518,059
Other assets	-	3,518,059	-	-	-	-	-	-	-	-	-	-	-
Liabilities													
Bills payable	-	52,117,646	35,698,366	25,815,169	39,757,601	11,102,798	13,385,433	31,918,631	10,803,405	7,939,098	-	-	34,529,412
Borrowings	7.79%	3,091,135	681,000	-	-	-	-	-	-	-	-	-	3,091,135
Deposits and other accounts	6.24%	239,509,391	33,435,903	29,357,060	22,102,440	7,970,912	8,561,323	8,471,056	33,857,020	663,053	-	-	108,077
Sub-ordinated loans	10.73%	3,222,106	-	624	624	649,688	988	416,258	2,153,924	-	-	-	58,255,318
Other liabilities	-	7,305,496	-	-	-	-	-	-	-	-	-	-	7,305,496
On-balance sheet gap													
Total Yield/Interest Risk Sensitivity Gap		1,545,301	13,627,503	1,581,463	(3,542,515)	11,704,321	2,482,198	4,823,122	23,031,317	(25,870,592)	7,939,098	-	(34,230,614)
Cumulative Yield/Interest Risk Sensitivity Gap													
		13,627,503	15,208,966	11,666,451	23,370,772	25,852,970	30,676,092	33,707,409	27,836,817	35,775,915	-	-	-



41.4 Liquidity risk

Liquidity risk is the potential for loss to the bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring an unacceptable cost.

The bank's Asset and Liability Committee (ALCO) manages the liquidity position on a regular basis and is primarily responsible for the formulation of the overall strategy and oversight of the asset liability function. ALCO monitors the maintenance of balance sheet liquidity ratios, depositor's concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits. Moreover, as core retail deposits form a considerable part of the bank's overall funding mix therefore significant importance is being given to the stability and growth of these deposits. The BOD has approved a comprehensive liquidity management policy which stipulates the early warning indicators of liquidity risk and maintenance of various ratios.

Notes to the Financial Statements

41.4.1 Maturities of Assets and Liabilities

	2007									
	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years		Over 5 to 10 Years	Above 10 Years
Assets	-----Rupees in '000-----									
Cash and balances with treasury banks	29,436,378	2,413,452	-	358,346	-	-	-	-	-	-
Balances with other banks	15,608,940	19,243,393	23,813,047	16,443,070	1,512,452	-	-	-	-	-
Lendings to financial institutions	3,452,059	20,692,822	29,697,156	30,422,124	12,898,554	17,896,043	3,013,501	3,536,471	3,833,607	8,313,272
Investments	88,491,564	25,728,572	200,123	400,245	800,490	880,388	1,600,980	3,553,833	5,276,867	8,313,272
Advances	171,198,992	672,055	426,829	483,526	298,314	298,314	447,472	447,472	3,553,833	3,387,381
Operating fixed assets	11,922,324	3,255,948	483,526	483,526	298,314	298,314	447,472	447,472	3,553,833	3,387,381
Other assets	6,013,097	95,210,635	54,193,832	48,107,310	15,509,810	18,614,085	25,835,555	12,814,643	15,534,260	15,534,260
Liabilities										
Bills payable	4,138,243	-	-	4,793,196	-	-	-	-	-	-
Borrowings	21,230,697	42,199,513	34,226,613	27,796,124	10,486,818	11,646,533	10,371,771	725,551	44,106,195	-
Deposits and other accounts	273,173,841	-	324,844	324,844	988	988	1,687,554	881,640	-	-
Sub-ordinated loans	3,220,858	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	1,379,809	41,175	478,880	1,214,011	1,131,043	1,131,043	1,379,809	167,562	-	-
Other liabilities	9,531,860	42,240,688	35,030,337	34,128,175	11,618,849	12,778,564	14,570,177	45,880,948	-	-
Net assets	16,219,844	834,334	19,163,495	13,979,135	3,890,961	5,835,521	11,265,378	(33,066,305)	15,534,260	-
Share capital	6,500,000	-	-	-	-	-	-	-	-	-
Reserves	2,414,833	-	-	-	-	-	-	-	-	-
Unappropriated profit	4,851,840	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets	2,453,171	-	-	-	-	-	-	-	-	-
Total	16,219,844	-	-	-	-	-	-	-	-	-
Assets	-----Rupees in '000-----									
Cash and balances with treasury banks	27,859,360	183,879	-	183,879	-	-	-	-	-	-
Balances with other banks	12,548,073	50,000	-	1,352,006	1,500,000	-	-	-	-	-
Lendings to financial institutions	12,456,653	18,163,258	6,779,131	38,221,717	9,602,798	11,439,075	2,339,324	5,770,703	2,189,092	7,889,098
Investments	56,502,210	17,535,107	19,036,037	370,134	740,267	740,267	1,480,534	5,152,702	3,662,429	3,139,225
Advances	149,999,325	123,378	185,067	370,134	122,872	122,872	184,307	291,499	3,139,225	3,139,225
Operating fixed assets	10,502,990	61,689	219,804	666,596	122,872	122,872	184,307	291,499	3,139,225	3,139,225
Other assets	5,633,051	3,901,702	2,19,804	666,596	122,872	122,872	184,307	291,499	3,139,225	3,139,225
Liabilities	275,685,541	84,783,299	26,220,039	40,794,332	11,965,937	14,248,572	33,583,472	14,877,333	13,217,415	-
Bills payable	3,091,135	-	-	5,950,216	-	-	-	-	-	-
Borrowings	8,394,130	681,000	-	22,102,440	7,970,912	8,561,323	8,471,055	663,052	33,857,019	-
Deposits and other accounts	239,509,391	33,435,904	29,357,060	624	649,688	988	416,258	2,153,924	-	-
Sub-ordinated loans	3,222,106	-	624	624	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	1,921,338	40,673	401,528	435,158	909,054	909,054	909,054	113,951	-	-
Other liabilities	7,305,496	34,157,577	29,759,212	28,488,438	9,529,654	9,471,365	11,717,705	36,787,946	-	-
Net assets	12,241,945	1,837,565	(3,539,173)	12,305,894	2,436,283	4,777,207	21,865,767	(21,910,613)	13,217,415	-
Share capital	5,000,000	-	-	-	-	-	-	-	-	-
Reserves	2,749,533	-	-	-	-	-	-	-	-	-
Unappropriated profit	2,823,072	-	-	-	-	-	-	-	-	-
Surplus on revaluation of assets	1,669,340	-	-	-	-	-	-	-	-	-
Total	12,241,945	-	-	-	-	-	-	-	-	-

60% of savings deposits have been distributed and classified equally in each of the categories ranging from upto one month to over 3 years to five years period with the remaining 40% being classified in over five to ten years based on management experience with such class of deposits. However, these deposits are payable on demand.

Notes to the Financial Statements

41.5 Operational risk

Basel II defines Operational risk as, “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.” In compliance with the Risk Management Guidelines, issued by SBP, an Operational Risk Function has been established within RMD, which directly reports to Head of RMD.

The Operational risk management policy of the Bank is incorporated in the Board-approved Risk Management & Internal Control Manual, which covers the strategies, processes, structure and functions of Operational risk management and provide guidelines to identify, assess, monitor, control & report operational risk in a consistent & transparent manner across the bank.

At Bank , risk awareness culture is being encouraged by communicating the principles of proper risk management to all Bank employees. Operational Risk Function and business units are involved and regularly collaborate in determining and reviewing the strategy, in order to use it as an action plan in improving the operational risk & control system at the organizational and business unit levels. All the policies and procedures of the Bank are reviewed from the risk perspective, and the recommendations of RMD are taken into consideration before their approval at the appropriate level. An Operational Loss Database, Risk & Control Self Assessment (RCSA) exercise and Key Risk Indicators (KRIs) are being developed and will soon be implemented.

42. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 24, 2008 has announced cash dividend of 15 percent and a bonus issue of 23 percent. This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended 31 December 2007 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 31 December 2008.

43. DATE OF AUTHORIZATION

These financial statements were authorized for issue on February 24, 2008 by the Board of Directors of the Bank.

44. GENERAL

44.1 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year.

Chief Executive Officer

Director

Director

Chairman

Annexure-I

Notes to the Financial Statements

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

(Rupees in '000)

S. No.	Name and address of the Borrower	Name of individuals / partners / directors (with N.I.C. No.)	Father's / Husband's Name	Outstanding Liabilities at January 1, 2007			Total (5+6+7)	Principal written-off	Mark-up written-off	Other financial relief provided	Total (9+10+11)
				Principal	Mark-up	Others					
1	2	3	4	5	6	7	8	9	10	11	12
1	Transpak Steel (Pvt) Ltd Transpak House Thokar Niaz Baig, Lahore	Mrs. Ismat Saeed Malik Mr. Ahmed Tariq Malik Mr. Muhammad Qasim Saeed Malik Mr. Saeed Anwar Miss Saddiqia Malik	W/o Mr. Mohammad Saeed Malik S/o Mr. Muhammad Saeed Malik S/o Mr. Muhammad Saeed Malik - D/o Mr. Muhammad Saeed Malik	14,401	1,740	-	16,141	14,401	1,740	-	16,141
2	Pearl Fabrics 89-H Jail Road, Lahore	Mr. Shafique A. Sheikh Mr. Muhammad Atshad Mr. Qamar Ishrat Mr. Zahid Ahmed Mr. Adnan Ahmed Sheikh		29,156	4,105	-	33,261	29,136	4,105	-	33,241
3	Pearl Knitwear (Pvt) Ltd	Brg. (R) Malik Muhammad Akhtar NIC # 35202-2710627-1 Mr. Qasir Zaman Mr. Mian Abdul Rasheed Mrs. Anwar Bano	Mr. Malik Muhammad Ashraf W/o Brg. (R) Malik Muhammad Akhtar	9,612	106	-	9,718	6,607	106	-	6,713
4	Iqra Maritime 501- Fortune Centre Shahrah-e-Faisal, Karachi	Mr. Tahir Lakhani NIC# 42301-1722026-7 Abdul Qadir Lakhani	S/o Mr. Abdul Qadir Lakhani S/o Haji Hassan Lakhani	72,074	-	-	72,074	72,074	-	-	72,074
			Total	125,243	5,951	-	131,194	122,218	5,951	-	128,169

Annexure - II

Islamic Banking Business

The bank is operating 32 Islamic banking branches at the end of current year as compared to 23 Islamic banking branches at the end of Prior year.

ASSETS

	2007	2006
(Rupees in '000)		
Cash and balances with treasury banks	2,804,104	3,210,942
Balances with and Due from Financial Institutions	3,326,484	4,631,442
Investments	3,057,155	833,203
Financing and Receivables		
- Murahaba	3,332,490	2,979,948
- Ijarah	7,814,376	6,869,769
- Musharaka	361,951	293,656
- Diminishing Musharaka	2,652,234	2,371,423
- Salam	331,933	100,000
- Istesina	148,474	-
- Other Islamic Modes	417,803	210,834
Other assets	2,330,408	1,995,042
	26,577,412	23,496,259

LIABILITIES

Bills payable	2,299,333	165,580
Due to Financial Institutions	99,573	-
Deposits and other accounts		
- Current Accounts	6,022,120	5,057,425
- Saving Accounts	4,462,553	3,701,738
- Term Deposits	6,845,355	6,808,727
- Deposit from Financial Institutions -Remunerative	3,481,453	3,275,330
- Deposits from Financial Institutions-Non-Remunerative	-	-
- Others	204,587	116,796
Due to Head Office (Deferred Tax Liabilities)	253,495	215,936
Other liabilities	2,972,927	2,280,394
	24,641,396	21,621,926
	1,936,016	1,874,333

NET ASSETS**REPRESENTED BY**

Islamic Banking Fund	1,200,000	1,200,000
Reserves	-	-
Exchange Equalization Reserve	178	-
Unappropriated profit	271,201	190,586
	1,471,379	1,390,586
Surplus/ (Deficit) on revaluation of assets	464,637	483,747
	1,936,016	1,874,333

Remuneration to Shariah Advisor/Board

	375	1,019
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CHARITY FUND

Opening Balance	16,611	2,908
Additions during the year	11,508	13,703
Payments / utilization during the year	-	-
Closing Balance	28,119	16,611

CONSOLIDATED
FINANCIAL STATEMENTS
OF
BANK ALFALAH LIMITED
AND SUBSIDIARY COMPANY

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of **Bank Alfalah Limited** ("the Bank") as at 31 December 2007 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. These financial statements include unaudited certified returns from the branches, except for 33 branches, which have been audited by us and 7 branches audited by auditors abroad.

These financial statements are responsibility of the Bank's management. Our responsibility is to express our 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.

In our opinion the consolidated financial statements present fairly the financial position of Bank Alfalah Limited as at 31 December 2007 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co.

Chartered Accountants

February 24, 2008

Karachi

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007	2006
(Rupees in '000)			
ASSETS			
Cash and balances with treasury banks	6	29,436,378	27,859,360
Balances with other banks	7	18,388,124	12,735,607
Lendings to financial institutions	8	3,452,059	12,456,653
Investments	9	89,578,391	56,128,577
Advances	10	171,031,183	149,942,717
Operating fixed assets	11	11,955,258	10,548,441
Deferred tax assets		-	-
Other assets	12	6,838,479	5,840,128
		330,679,872	275,511,483
LIABILITIES			
Bills payable	13	4,138,243	3,091,135
Borrowings	14	21,548,849	8,408,327
Deposits and other accounts	15	273,172,088	239,480,772
Sub-ordinated loans	16	3,220,858	3,222,106
Liabilities against assets subject to finance lease	17	11,303	1,137
Deferred tax liabilities	18	1,379,967	2,124,118
Other liabilities	19	9,794,410	7,356,679
		313,265,718	263,684,274
		17,414,154	11,827,209
REPRESENTED BY			
Share capital	20	6,500,000	5,000,000
Reserves		2,414,833	2,749,533
Share in share premium of associate		1,615,473	-
Unappropriated profit		4,404,631	1,979,360
		14,934,937	9,728,893
Minority Interest		26,046	52,383
		14,960,983	9,781,276
Surplus on revaluation of assets - net of tax	21	2,453,171	2,045,933
		17,414,154	11,827,209
CONTINGENCIES AND COMMITMENTS			
	22		

The annexed notes 1 to 45 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

Consolidated Profit and Loss Account

For the year ended December 31, 2007

	Note	2007	2006
(Rupees in '000)			
Mark-up / Return / Interest Earned	24	25,816,457	21,194,254
Mark-up / Return / Interest Expensed	25	16,645,178	15,235,688
Net Mark-up / Interest Income		9,171,279	5,958,566
Provision against loans and advances	10.4	(2,370,867)	(697,690)
Provision for diminution in value of investments		-	-
Bad debts written off directly	10.5	(5,844)	(1,537)
		(2,376,711)	(699,227)
Net Mark-up / Interest Income after provisions		6,794,568	5,259,339
NON MARK-UP / INTEREST INCOME			
Fee, commission and brokerage income		2,556,284	1,864,584
Dividend income		52,686	37,523
Income from dealing in foreign currencies		474,510	386,997
Gain on sale of securities	26	2,044,444	188,971
Unrealized loss on revaluation of investments classified as held for trading		(14,696)	(28,372)
Other income	27	1,029,012	840,920
Total Non-Mark-up / Interest Income		6,142,240	3,290,623
		12,936,808	8,549,962
NON MARK-UP / INTEREST EXPENSES			
Administrative expenses	28	8,383,322	5,952,637
Provisions against off-balance sheet obligations	19.2	6,959	-
Other provisions		1,634	-
Other charges	29	9,565	43,306
Total Non-Mark-up / Interest Expenses		8,401,480	5,995,943
		4,535,328	2,554,019
Share of profit / (loss) of associates		469,272	(647,347)
Extra ordinary / unusual items		-	-
PROFIT BEFORE TAXATION		5,004,600	1,906,672
Taxation	30		
- Current		1,743,247	481,150
- Prior years		360	(100,874)
- Deferred		(321,329)	427,902
Share of tax of associated undertaking		75,585	(226,895)
		1,497,863	581,283
PROFIT AFTER TAXATION		3,506,737	1,325,389
Profit / (loss) attributable to:			
Equity holders of the parent		3,505,697	1,332,748
Minority interests		1,040	(7,359)
		3,506,737	1,325,389
(Rupees)			
(Restated)			
Basic / diluted earnings per share	31	5.39	2.20

The annexed notes 1 to 45 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

Consolidated Cash Flow Statement

For the year ended December 31, 2007

Note	2007	2006
	(Rupees in '000)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	5,004,600	1,906,672
Share of (profit) / loss of associates	(469,272)	647,347
Less: Dividend income	(52,686)	(37,523)
	<u>4,482,642</u>	<u>2,516,496</u>
Adjustments:		
Depreciation	966,406	703,228
Amortisation	40,247	19,042
Provision against loans and advances (net)	2,370,867	697,690
Unrealized loss on revaluation of investments classified as held for trading	14,696	28,372
Bad debts written-off directly	5,844	1,537
Gain on sale of operating fixed assets	(13,919)	(12,994)
Provision for gratuity	90,289	62,797
	<u>3,474,430</u>	<u>1,499,672</u>
	7,957,072	4,016,168
(Increase) / decrease in operating assets		
Lendings to financial institutions	7,412,388	16,393,628
Held-for-trading securities	292,854	(125,329)
Advances	(23,465,177)	(32,002,238)
Other assets - net of provision against other assets	(1,435,311)	(1,066,512)
	<u>(17,195,246)</u>	<u>(16,800,451)</u>
Increase / (decrease) in operating liabilities		
Bills payable	1,047,108	(641,989)
Borrowings	13,140,522	2,563,938
Deposits and other accounts	33,691,316	17,145,187
Other liabilities	1,675,162	1,848,861
	<u>49,554,108</u>	<u>20,915,997</u>
	40,315,934	8,131,714
Gratuity paid	(90,289)	(62,797)
Income tax paid	(533,214)	(218,756)
Net cash from operating activities	<u>39,692,431</u>	<u>7,850,161</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investments in available-for-sale securities	(25,815,042)	(16,597,505)
Net investments in held-to-maturity securities	(4,335,842)	17,676,636
Investment in associated companies	(1,598,004)	(637,660)
Dividend income received	45,165	36,640
Investments in operating fixed assets	(2,427,622)	(2,520,362)
Proceeds from sale of operating fixed assets	28,071	28,414
Net cash used in investing activities	<u>(34,103,274)</u>	<u>(2,013,837)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of sub-ordinated loans	(1,248)	(1,249)
Proceeds from issue of right shares	-	2,000,000
Payments against lease obligations	10,166	(373)
Net cash from financing activities	<u>8,918</u>	<u>1,998,378</u>
Exchange difference on translation of the net investments in foreign branches	39,254	45,777
Increase in cash and cash equivalents	<u>5,637,329</u>	<u>7,880,479</u>
Cash and cash equivalents at beginning of the year	43,184,755	35,304,276
Cash and cash equivalents at end of the year	<u>48,822,084</u>	<u>43,184,755</u>

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The annexed notes 1 to 45 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

Consolidated Statement of Changes in Equity

For the year ended December 31, 2007

	Share Capital	Share Premium	Statutory Reserve	Reserve for issue of Bonus Shares	Exchange Translation Reserve	Unappropriated Profit	Minority Interest	Share in share premium of associate	Total
(Rupees in ' 000)									
Balance as at 01 January 2006	3,000,000	500,000	1,349,191	-	2,027	1,473,076	42,142	-	6,366,436
Changes in equity for 2006									
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	26,074	-	-	26,074
Profit attributable to equity holders of the parent	-	-	-	-	-	1,332,748	-	-	1,332,748
Exchange differences on translation of net investment in foreign branches	-	-	-	-	45,777	-	-	-	45,777
Loss attributable to minority shareholders	-	-	-	-	-	-	(7,359)	-	(7,359)
Total recognized income and expense for the year	-	-	-	-	45,777	1,358,822	(7,359)	-	1,397,240
Receivable against shares from minority	-	-	-	-	-	-	17,600	-	17,600
Transfer to statutory reserve	-	-	352,538	-	-	(352,538)	-	-	-
Issue of bonus shares	1,000,000	(500,000)	-	-	-	(500,000)	-	-	-
Issue of right shares	1,000,000	1,000,000	-	-	-	-	-	-	2,000,000
Balance at 31 December 2006	5,000,000	1,000,000	1,701,729	-	47,804	1,979,360	52,383	-	9,781,276
Changes in equity for 2007									
Transfer from surplus on revaluation of fixed assets - net of tax	-	-	-	-	-	24,585	-	-	24,585
Profit attributable to equity holders of the parent	-	-	-	-	-	3,505,697	-	-	3,505,697
Exchange differences on translation of net investment in foreign branches	-	-	-	-	39,254	-	-	-	39,254
Profit attributable to minority shareholders	-	-	-	-	-	-	1,040	-	1,040
Total recognized income and expense for the year	-	-	-	-	39,254	3,530,282	1,040	-	3,570,576
Investment in associate - (Note 1)	-	-	-	-	-	21,035	(27,377)	-	(6,342)
Share in equity of associate	-	-	-	-	-	-	-	1,615,473	1,615,473
Transfer to statutory reserve	-	-	626,046	-	-	(626,046)	-	-	-
Issue of bonus shares	1,500,000	(1,000,000)	-	-	-	(500,000)	-	-	-
Balance at 31 December 2007	6,500,000	-	2,327,775	-	87,058	4,404,631	26,046	1,615,473	14,960,983

The annexed notes 1 to 45 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Chairman

Notes to the Consolidated Financial Statements

For the year ended December 31, 2007

1. STATUS AND NATURE OF BUSINESS

Bank Alfalah Limited (the Bank) is a banking company incorporated in Pakistan on 21 June 1992 as a public limited company under the Companies Ordinance, 1984. It commenced its banking operations on 01 November 1992. The Bank's registered office is at B.A. Building, I. I. Chundrigar Road, Karachi and is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The Bank is engaged in banking services as described in the Banking Companies Ordinance, 1962 and is operating through 191 conventional banking branches (2006: 166 branches), 7 overseas branches (2006: 5), 32 Islamic banking branches (2006: 23 branches) and 1 offshore banking unit (2006: 1).

The Bank has invested in 76 percent (December 2006: 76 percent) shares of Alfalah Securities (Private) Limited. The principal objective of the company is to undertake the business of a brokerage house. Alfalah Securities (Private) Limited was incorporated on 23 September 2003 with registered office in Karachi, Pakistan. The company obtained corporate membership from Karachi Stock Exchange (Guarantee) Limited on 24 November 2003.

The Bank has invested in 40.22 percent (December 2006: 56 percent) shares of Alfalah GHP Investment Management Limited. The principal activity of the company is to act as an asset management company, investment advisor / fund manager and constitute, float and manage open-ended and closed-ended funds. Due to injection of equity from M/s MAB Investments the Bank's holding has reduced from 56% to 40.22% that has converted Alfalah GHP Investment Management Limited from Bank's subsidiary to an Associate.

2. BASIS OF PRESENTATION

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

The financial results of the Islamic banking branches have been consolidated in these financial statements for reporting purpose, after eliminating material inter branch transaction / balances, key financial figures of the Islamic Banking branches are disclosed in Annexure II to these financial statements.

2.1 Basis of consolidation

The Group comprises of Holding Company and a Subsidiary:

Holding Company

Bank Alfalah Limited

Subsidiary

Subsidiary is the entity over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights or has the power to elect and appoint more than one half of its directors. Subsidiary is fully consolidated from the date on which control is transferred to the Bank. It is de-consolidated from the date on which control ceases. In preparing the consolidated financial statements, the financial statements of the Bank and Subsidiary are consolidated on line by line basis by adding together like items according to their nature. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

The Bank has a following subsidiary

Alfalah Securities (Private) Limited

Percentage of shareholding

76 Percent

Associates

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The share of associates' post-acquisition profits or losses is recognised in the income statement and added to carrying value of investments. Dilution gains and losses in associates are recognised in the income statement.

Notes to the Consolidated Financial Statements

The Bank has the following associates:	Percentage of shareholding
Warid Telecom (Private) Limited	8.76 percent
Wateen Telecom (Private) Limited	20 percent
Alfalah Insurance Limited	30 percent
Alfalah GHP Value Fund	22.7 percent
Alfalah GHP Income Multiplier Fund	14.87 percent
Alfalah GHP Islamic Fund	75.08 percent
Alfalah GHP Investment Management Limited	40.22 percent

Warid Telecom (Private) Limited has been classified as associate due to significant influence exercised through Bank's nominated Director and is also one of the Group Company.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except that certain fixed assets are stated at revalued amounts, trading and available for sale investments and derivative financial instruments are measured at fair value.

The financial statements are presented in Pakistan Rupees, which is the Group's functional and presentation currency. The amounts are rounded to nearest thousand.

2.3 Critical accounting estimates and judgments

The preparation of financial statements in conformity with the 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 Group'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 Group's financial statements or where judgment was exercised in application of accounting policies are as follows:

i) Classification of investments

Held for trading

In classifying investments as 'held-for-trading' the Group has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements and are to be sold within 90 days.

Held to maturity

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

Available for sale

The investments which are not classified as 'held for trading' or 'held to maturity' are classified as available for sale.

ii) Provision against non performing loans and advances

The Group reviews its loan portfolio to assess amount of non-performing loans and advances and provision required there-against on quarterly basis. While assessing this requirement various factors including the delinquency in the account, financial position of the borrower and the requirements of the Prudential Regulations are considered. For portfolio impairment provision on consumer advances, the Group follows, the general provision requirement set out in Prudential Regulations. These provisions change due to the change in requirements and the effect is disclosed in note 10.

Notes to the Consolidated Financial Statements

iii) Impairment of available for sale equity investments

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

iv) Income taxes

In making the estimates for income taxes currently payable by the Group, the management looks at the current income tax laws and the decisions of Appellate Authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Group's future taxable profits are taken into account.

During the year, a new schedule has been introduced for taxation of banks in Pakistan. According to the provisions of this schedule, provision for doubtful loans and advances falling under the category of "doubtful" or "loss" will be allowed as a deduction in the year in which the provision is made. The schedule is applicable for the financial year ending 31 December 2008. Currently, provisions for loans and advances are allowed as a deduction when they are written off. The schedule does not contain transitory provisions with respect to provisions made before the applicability of the new schedule. The matter of introduction of such transitory provisions has been taken up with Federal Board of Revenue by Pakistan Banks Association and based on discussions to date the Group's management is confident that such provisions will be made in the new schedule. Accordingly, the deferred tax calculations assume that such transitory rules will be made and the Group would be able to get the benefit of the asset so recognised.

v) Fixed assets, depreciation and amortisation

The Group carries its land and buildings at their respective fair values. The fair values are determined by independent valuation experts and such valuations are carried out with sufficient regularity.

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Group. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors.

vi) Staff retirement benefits

Certain actuarial assumptions have been adopted and disclosed in these financial statements (note 35) for the actuarial valuations of staff retirement benefits plans. Actuarial assumptions are the Group's best estimates of the variables that will determine the ultimate cost of providing post employment benefits. Changes in these assumptions in future years may effect the liability / assets under these plans in those years.

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 issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 and the directives issued by State Bank of Pakistan (SBP). In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.

The Securities and Exchange Commission of Pakistan (SECP) has approved and notified the adoption of International Accounting Standard 39 - Financial Instruments; Recognition and Measurement and International Accounting Standard 40 - Investment Property. The requirements of these standards have not been followed in preparation of these financial statements as the State Bank of Pakistan has deferred the implementation of these standards, vide its BSD Circular No.10 dated 26 August 2002, for banks in Pakistan 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 and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

Notes to the Consolidated Financial Statements

In addition, Securities and Exchange Commission of Pakistan has notified the Islamic Financial Accounting Standard (IFAS) 1 - Murabaha and IFAS 2 - Ijara issued by the Institute of Chartered Accountants of Pakistan. IFAS 1 was effective for financial periods beginning on or after 01 January 2006 and IFAS 2 is effective for financial periods beginning on or after 01 July 2007. These standards have not been adopted by stand alone Islamic branches of conventional banks pending resolution of certain issues e.g. invoicing of goods, recording of inventories, concurrent application with other approved accounting standards in place for conventional banks, etc. Pakistan Banks Association and Modaraba Association of Pakistan have taken up the issue with SBP and Securities and Exchange Commission of Pakistan.

During the year, amendments to IAS 1 - Presentation of Financial Statements relating to capital disclosures became effective and have resulted in certain additional disclosures. International Financial Reporting Standard (IFRS) 2 - Share Based Payment, IFRS 3 - Business Combinations, IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, IFRS 6 - Exploration for and Extraction of Mineral Resources, IFRIC 8 - Scope of IFRS 2 Share Based Payment and IFRIC 10 - Interim Financial Reporting and impairment became effective during the year. The application of these standards and interpretations did not have any material effect on the Group's financial statements.

3.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2008:

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

Notes to the Consolidated Financial Statements

4. DISCONTINUING OPERATION

On 28 October 2005, the Board of Directors of the Bank approved a plan to segregate its business of Islamic Banking into a separate entity. The segregation reflects Bank's plan to remain competitive with ever increasing competition in the local market and become the premier Islamic bank. Resultantly, in order to achieve this objective the Board feels that the Islamic Banking Division should be converted into a wholly owned subsidiary of the Bank. As of 31 December 2007, the Islamic Banking Division's assets were Rs. 26,577 million (2006: Rs. 23,496 million) and its liabilities were Rs. 24,641 million (2006: Rs. 21,622 million). During 2007, Islamic Banking Division earned revenue of Rs. 1,897.925 million (2006: Rs. 1,362.884 million), incurred expenses of Rs. 1,793.879 million (2006: Rs. 1,215.086 million) and earned a pre-tax profit of Rs. 104.046 million (2006: Rs. 147.798 million) with a related tax expense including current and deferred tax of Rs. 31.162 million (2006: Rs. 53.299 million). During 2007, Islamic Banking Division's cash inflow from operating activities was Rs. 705.195 million (2006: Rs. 4,012.995 million), cash outflow from investing activities was Rs. 2,417.173 million (2006: Rs. 681.337 million) and cash inflow from financing activities was Rs. Nil (2006: Rs. Nil).

As the approval from State Bank of Pakistan is pending, therefore the active program to complete the plan has not been finalised. Accordingly, it has not been classified and disclosed as Discontinued Operations in accordance with IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents comprises cash and balances with treasury bank, balances with other banks and call lendings for the purpose of the cash flow statement.

5.2 Revenue recognition

Advances and investments

Mark-up income on loans and advances, debt securities investments and profit on murabaha and musharika financing are recognised on a time proportion basis taking into account effective yield on the instrument. Where debt securities are purchased at a premium or discount, those premiums / discounts are amortised through the profit and loss account over the remaining maturity, using the effective yield method.

Dividend income is recognized at the time when the Group's right to receive the dividend has been established.

Lease financing

Financing method is used in accounting for income from lease and ijarah financing. Under this method, the unrealised 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 the lease. Gains / losses on termination of leased contracts, documentation charges, front end fee and other lease income are recognized as income when they are realised.

Lease income and mark-up / return on non-performing advances are suspended, where necessary, in accordance with the requirements of the Prudential Regulations of the State Bank of Pakistan and recognised on receipt basis.

Fee, commission and brokerage

Fee, commission and brokerage income except income from guarantees are accounted for on receipt basis. Commission on guarantees is recognised on time proportion basis.

5.3 Advances

Loans and advances

Loans and advances including financing under murabaha and musharika and net investment in finance lease / ijarah are stated net of provisions against non-performing advances. Specific and general provisions against Pakistan operations are made in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan from time to time. The net provision made / reversed during the year is charged to profit and loss account and accumulated provision is netted-off against advances. Provisions pertaining to overseas advances are made in accordance with the requirements of regulatory authorities of the respective countries. Advances are written off when there are no realistic prospects of recovery.

Notes to the Consolidated Financial Statements

Finance lease receivables

Leases / ijarah financing where the Group transfers substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. A receivable is recognised at an amount equal to the present value of the lease payments, including any guaranteed residual value. Finance lease receivables are included in advances to customers.

5.4 Investments

The Group classifies Investments into 'held to maturity', 'held for trading' or 'available for sale' categories in accordance with the requirements of Prudential Regulation issued by State Bank of Pakistan.

The investments of the Group are classified in the following categories:

Held for trading

These are investments, which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealers margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Held to maturity

These are investments with fixed or determinable payments and fixed maturities and the Group has the positive intent and ability to hold them till maturity.

Available for sale

These are investments, other than those in subsidiaries and associates, which do not fall under the 'held for trading' and 'held to maturity' categories.

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

On derecognition or impairment in quoted available for sale investments, the cumulative gain or loss previously reported as surplus / (deficit) on revaluation of assets below equity is included in the profit and loss account for the period.

Quoted securities where ready quotes are available on Reuters Page (PKRV) or Stock Exchange, other than investments classified as held to maturity and investments in subsidiaries and associates are valued at market value. Investments classified as held to maturity are carried at amortised cost.

The surplus / deficit arising as a result of revaluation at market value on 'held for trading' portfolio is taken to profit and loss account and that relating to the 'available for sale' portfolio is kept in a separate account, which is shown in the balance sheet below shareholders equity.

Unquoted equity securities, excluding investments in subsidiaries and associates are valued at the lower of cost and break-up value. 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.

The carrying values of investments are reviewed for impairment at each balance sheet date. When any such indication exists where the carrying values exceed the estimated recoverable amounts, provision for impairment is made through the profit and loss account.

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

Gains or losses on disposals during the year are taken to profit and loss account.

5.5 Sale and repurchase agreements

The Group enters into purchase / (sale) of investments under agreements to resell / (repurchase) investments at a certain date in the future at a fixed price. Investments purchased subject to commitment to resale them at the future dates (reverse repo) are not recognized, as the Group does not obtain control over the assets. The amounts paid are recognized in lendings to financial institutions.

Notes to the Consolidated Financial Statements

Investments sold under repurchase agreements (repo) continue to be recognized in the balance sheet and are measured in accordance with the accounting policy for investments. The proceeds from the sale of the investments are reported in borrowings.

The difference between the purchase / (sale) and resale / (repurchase) consideration is recognized on a time proportion basis over the period of the transaction and is included in mark-up / return / interest earned or expensed.

5.6 Operating fixed assets

Tangible assets

Fixed assets except office premises are shown at cost less accumulated depreciation and impairment loss, if any. Office premises (which includes land and buildings) is stated at cost / revalued amount less accumulated depreciation.

Depreciation is charged to income applying the straight-line method using the rates specified in note 11.2 to these financial statements. The depreciation charge for the year is calculated after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. Depreciation on additions is charged from the date on which the assets are available for use and ceases on the date on which they are disposed off.

Maintenance and normal repairs are charged to income as and when incurred. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The surplus on revaluation of fixed assets (net of deferred taxation) to the extent of the incremental depreciation charged on the revalued assets is transferred to unappropriated profits. Gain and losses on disposal of fixed assets are taken to the profit and loss account except that the related surplus on revaluation of fixed assets (net of deferred taxation) is transferred directly to unappropriated profits. Valuations are carried out by professionally qualified valuers, with sufficient regularity, to ensure that carrying amounts do not differ materially from their fair values.

Intangible assets

Intangible assets having a finite useful life are stated at cost less accumulated amortization and impairment losses, if any. Such intangible assets are amortized using the straight-line method over their estimated useful lives. The useful lives and amortization method are reviewed and adjusted, if appropriate at each balance sheet date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment loss, if any.

5.7 Capital work in progress

Capital work in progress is stated at cost less impairment losses, if any.

5.8 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities using the tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available and the credits can be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Notes to the Consolidated Financial Statements

The Group also recognised a deferred tax asset / liability on the surplus / deficit on revaluation of fixed assets and securities, which is adjusted against the related surplus / deficit in accordance with the requirements of the International Accounting Standard 12 - Income Taxes.

Deferred tax liability is not recognised in respect of taxable temporary differences associated with exchange translation reserves of foreign branches, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

5.9 Employee benefits

Defined benefit plan

The Bank operates an approved funded gratuity scheme covering eligible employees whose period of employment with the Bank is five years or more. Contributions to the fund are made on the basis of actuarial recommendations. Projected Unit Credit Method has been used for the actuarial valuations. The results of current valuation are summarized in Note 35. Actuarial gains / losses in excess of 10 percent of actuarial liabilities or plan assets are recognized over the average lives of employees.

Defined contribution plan

The Bank operates a recognised provident fund scheme for all its permanent employees to which equal monthly contributions are made both by the Bank and employees at the rate of 8.33 percent of basic salary.

5.10 Borrowings / deposits and their cost

- a) Borrowings / deposits are recorded at the proceeds received.
- b) Borrowing / deposit costs are recognised as an expense in the period in which these are incurred using effective mark-up / interest rate method.

5.11 Foreign currency translation

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.

Transactions and balances

Transactions in foreign currencies are translated to Pakistani rupees at the exchange rates ruling on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised into profit and loss account.

Forward contracts other than contracts with the State Bank of Pakistan relating to foreign currency deposits are valued at forward rates applicable to the respective maturities of the relevant foreign exchange contract.

Forward purchase contracts with the State Bank of Pakistan relating to foreign currency deposits are valued at the spot rate prevailing on the balance sheet date. The forward cover fee payable on such contracts is amortized over the term of the contracts.

Commitments

Commitments for outstanding forward foreign exchange contracts are translated at forward rates applicable to their respective maturities. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the exchange rates ruling on the balance sheet date.

Foreign operations

Assets and liabilities of foreign operations are translated into rupees at the exchange rate prevailing at the balance sheet date. The results of foreign operations are translated at average rate of exchange for the year. Translation gains and losses arising on revaluations of net investment in foreign operations are taken to Exchange Translation Reserve in the equity under "Exchange Translation Reserve" which are recognised into profit and loss account on disposal.

Notes to the Consolidated Financial Statements

5.12 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format of reporting is based on business segments.

Business segments

Trading and sales

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

Retail banking

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

Commercial banking

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

Corporate finance

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

Geographical segments

The Bank operates in three geographical regions being:

- Pakistan
- Asia Pacific (including South Asia)
- Middle East

5.13 Provisions

Provision for guarantee claims and other off balance sheet obligations is recognised when intimated and reasonable certainty exists for the Group to settle the obligation. Expected recoveries are recognised by debiting the customer's account. Charge to profit and loss account is stated net-of expected recoveries.

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

5.14 Derivative financial instruments

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

5.15 Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Group expects most acceptances to be simultaneously settled with the reimbursement from the customers. Acceptances are accounted for as off balance sheet transactions and are disclosed as contingent liabilities and commitments.

Notes to the Consolidated Financial Statements

5.16 Off-setting

Financial assets and financial liabilities are only off-set and the net amount reported in the financial statements when there is a legally enforceable right to set-off the recognised amount and the Group intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also off-set and the net amount is reported in the financial statements.

5.17 Impairment

The carrying amount of Group's assets other than the deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

5.18 Dividend and appropriation to reserves

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

5.19 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

	Note	2007	2006
6. CASH AND BALANCES WITH TREASURY BANKS		(Rupees in '000)	
In hand			
Local currency (including in transit Rs.94.960 million)		4,797,473	3,387,226
Foreign currency (including in transit Rs. 104.904 million)		1,837,649	1,469,879
With State Bank of Pakistan in			
Local currency current account	6.1	16,566,799	16,077,606
Foreign currency current account	6.2	1,036,674	939,560
Foreign currency deposit account	6.3	929,357	2,318,183
With other central banks in			
Foreign currency current account	6.4	1,413,622	1,515,185
Foreign currency deposit account	6.5	1,509,628	986,329
With National Bank of Pakistan in			
Local currency current account		1,323,806	1,151,358
National Prize Bonds		21,370	14,034
		29,436,378	27,859,360

6.1 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in the current account opened with the SBP at a sum not less than such percentage of its time and demand liabilities in Pakistan as may be prescribed by SBP.

6.2 Cash reserve of 5% is required to be maintained with State Bank Pakistan on deposits held under the New Foreign Currency Accounts Scheme vide BSD Circular No. 9 dated 03 December 2007.

Notes to the Consolidated Financial Statements

- 6.3 Special cash reserve of 5% is required to be maintained with State Bank of Pakistan on deposits held under the New Foreign Currency Accounts Scheme vide BSD Circular No.9 dated 03 December 2007. Profit rates on these deposits are fixed by SBP on a monthly basis. It carries profit ranging between 3.71% to 4.72% (2006: 3.63% to 4.39%) per annum.
- 6.4 This includes an amount of USD 5.009 million (2006: USD 5.009 million) placed with Da Afghan Bank of Afghanistan to comply with the capital requirements of the country's regulatory authority.
- 6.5 This includes an amount of USD 15.880 million (2006: USD 15.880 million) placed with Central Bank of Bangladesh to meet the minimum capital requirement for Bangladesh operations at varying interest rates ranging from 4.92% to 5.07% per annum (2006: 4.22% to 5.07% per annum).

7. BALANCES WITH OTHER BANKS	Note	2007	2006
		(Rupees in '000)	
In Pakistan			
On current account		429,518	234,775
On deposit account	7.1	1,780,101	3,415,659
Outside Pakistan			
On current account		3,262,949	2,544,191
On deposit account	7.2	12,915,556	6,540,982
		<u>18,388,124</u>	<u>12,735,607</u>

7.1 This represents funds deposited with various banks at profit rates ranging from 7.80% to 8.95% per annum (2006: 7.8% to 8% per annum).

7.2 This represents placements of funds generated through foreign currency deposits scheme (FE-25), at interest rates ranging from 3.50% to 7.00% per annum (2006: 3.15% to 5.36% per annum) with maturities upto July 2008.

8. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings		997,582	2,589,788
Repurchase agreement lendings (reverse repo)	8.1 & 8.3	2,454,477	9,866,865
		<u>3,452,059</u>	<u>12,456,653</u>

8.1 These represent short term lendings to financial institutions against investment securities at interest rates ranging from 9.50% to 9.95% per annum (2006: 8.42% to 9.25% per annum) with maturities upto January 2008.

8.2 PARTICULARS OF LENDINGS TO FINANCIAL INSTITUTIONS

In local currency		2,454,477	12,456,653
In foreign currencies		997,582	-
		<u>3,452,059</u>	<u>12,456,653</u>

8.3 SECURITIES HELD AS COLLATERAL AGAINST LENDINGS TO FINANCIAL INSTITUTIONS

	2007			2006		
	Held by Group	Further Given as collateral	Total	Held by Group	Further Given as collateral	Total
	-----Rupees in '000-----					
Market Treasury Bills	954,477	-	954,477	8,576,865	-	8,576,865
Pakistan Investment Bonds	1,500,000	-	1,500,000	1,290,000	-	1,290,000
	<u>2,454,477</u>	<u>-</u>	<u>2,454,477</u>	<u>9,866,865</u>	<u>-</u>	<u>9,866,865</u>

Notes to the Consolidated Financial Statements

9. INVESTMENTS

9.1 INVESTMENTS BY TYPES:

Note	2007			2006		
	Held by Group	Given as collateral	Total	Held by Group	Given as collateral	Total
-----Rupees in '000-----						
Held-for-trading securities						
	Fully paid up ordinary shares / units - Listed					
	552,501	-	552,501	845,355	-	845,355
Available-for-sale securities						
	Market Treasury Bills					
	32,763,607	14,683,909	47,447,516	19,981,883	1,681,213	21,663,096
	Pakistan Investment Bonds					
	375,592	58,791	434,383	1,859,240	-	1,859,240
	Fully paid up ordinary shares / units - Listed					
	2,289,220	-	2,289,220	615,886	-	615,886
	Fully paid up ordinary shares / units - Unlisted					
	129,821	-	129,821	129,821	-	129,821
	Term Finance Certificates					
	1,073,805	-	1,073,805	1,291,660	-	1,291,660
	36,632,045	14,742,700	51,374,745	23,878,490	1,681,213	25,559,703
Held-to-maturity securities						
	Government Bonds					
	85,341	-	85,341	85,341	-	85,341
	Pakistan Investment Bonds					
	6,855,500	-	6,855,500	8,085,321	-	8,085,321
	Market Treasury Bills					
	21,453,797	-	21,453,797	17,197,812	-	17,197,812
	Term Finance Certificates					
	1,413,401	-	1,413,401	1,975,432	-	1,975,432
	Sukook Bonds					
	2,562,207	-	2,562,207	690,498	-	690,498
9.8	32,370,246	-	32,370,246	28,034,404	-	28,034,404
Associates						
	Warid Telecom (Private) Limited					
	2,679,578	-	2,679,578	2,000,000	-	2,000,000
	Wateen Telecom (Private) Limited					
	417,474	-	417,474	417,474	-	417,474
	Alfalah Insurance Limited					
	68,990	-	68,990	68,990	-	68,990
	Alfalah GHP Value Fund					
	100,000	-	100,000	100,000	-	100,000
	Alfalah GHP Income Multiplier Fund					
	550,000	-	550,000	-	-	-
	Alfalah GHP Islamic Fund					
	250,000	-	250,000	-	-	-
	Alfalah GHP Investment Management Limited					
	130,493	-	130,493	-	-	-
	Share of Associates					
	1,161,785	-	1,161,785	(825,624)	-	(825,624)
	5,358,320	-	5,358,320	1,760,840	-	1,760,840
	74,913,112	14,742,700	89,655,812	54,519,089	1,681,213	56,200,302
	Investments at cost					
	Less: Provision for diminution in value of investments					
	-	-	-	-	-	-
	74,913,112	14,742,700	89,655,812	54,519,089	1,681,213	56,200,302
	Investments (net of provisions)					
	(Deficit) on revaluation of held-for-trading securities					
9.15	(22,057)	-	(22,057)	(7,361)	-	(7,361)
	(Deficit) on revaluation of available-for-sale investments					
21.2	(21,148)	(34,216)	(55,364)	(63,548)	(816)	(64,364)
	74,869,907	14,708,484	89,578,391	54,448,180	1,680,397	56,128,577

Notes to the Consolidated Financial Statements

	Note	2007	2006
(Rupees in '000)			
9.2 INVESTMENTS BY SEGMENTS:			
Federal Government Securities:			
-Market Treasury Bills	9.3	68,901,313	38,860,908
-Pakistan Investment Bonds	9.4	7,289,883	9,944,561
-Government Bonds	9.5	85,341	85,341
-Sukook Bonds	9.6	1,747,208	500,000
		78,023,745	49,390,810
Fully Paid up Ordinary Shares/Units:			
-Listed companies/Units	9.9	2,841,721	1,461,241
-Un-listed companies	9.10	129,821	129,821
		2,971,542	1,591,062
Term Finance Certificates, Debentures, Bonds and Participation Term Certificates:			
-Listed TFCs	9.11	1,098,805	1,329,160
-Un-listed TFCs	9.12	1,388,401	1,937,932
		2,487,206	3,267,092
Investment in associated companies	9.13	5,358,320	1,760,840
Sukook Bonds	9.7	814,999	190,498
Total investments at cost		89,655,812	56,200,302
(Deficit) / Surplus on revaluation of held-for-trading securities	9.15	(22,057)	(7,361)
(Deficit) on revaluation of available-for-sale securities	21.2	(55,364)	(64,364)
Total investments at market value		89,578,391	56,128,577

9.3 Market Treasury Bills are for the periods of six months and one year. The effective rates of profit on Market Treasury Bills range between 8.93% to 9.39% per annum (2006: 8.48% to 8.79% per annum) with maturities upto August 2008 (2006: July 2007).

9.4 Pakistan Investment Bonds are for periods of three, five, ten and fifteen years. The rates of profit range from 7% to 14% per annum (2006: 6% to 14% per annum) with maturities from March 2008 to June 2019 (2006: January 2007 to June 2019). These also include PIBs having face value of Rs. 35 million (2006: Rs. 35 million) pledged with the National Bank of Pakistan as security to facilitate Telegraphic Transfer discounting facility.

9.5 This represents bonds issued by the Federal Government to settle the dues of Heavy Mechanical Complex at the rate of 6% per annum (2006: 6% per annum) redeemable on maturity in March 2009.

9.6 This represents bonds issued by Water and Power Development Authority (WAPDA) for a period of ten years. The rates of profit ranges between 9.76% to 10.34 % per annum (2006: 9.36% to 11.23% per annum).

9.7 This represents bonds issued by Sitara Chemicals (Private) Limited, Orix Leasing Pakistan Limited, Security Leasing Corporation Limited and Kohat Cement Limited. The rates of profit ranges between 10.77% to 12.04% per annum (2006: KIBOR + 1.65% per annum) with maturity upto 2012.

9.8 The market value of securities classified as 'held to maturity' amounted to Rs. 31.661 million (2006: Rs. 27.063 million) as at 31 December 2007.

Notes to the Consolidated Financial Statements

9.9 Particulars of investments in listed companies / funds include the following:

2007	2006		2007	2006
(Number of shares certificates / units)			(Rupees in '000)	
MUTUAL FUNDS				
152,973	-	Askari Asset Allocation Fund	15,000	-
181,325	-	UTP A30+ Fund	10,000	-
47,996	-	United Stock Advantage Fund	5,000	-
1,026,592	465,640	Pakistan Capital Market Fund	9,882	4,881
3,033,125	2,637,500	Pakistan Premier Fund Limited	36,554	36,555
486,251	-	AKD Opportunity Fund	30,000	-
2,500,000	2,500,000	Meezan Balanced Fund	25,000	25,000
400,000	400,000	Pakistan Strategic Allocation Fund	4,000	4,000
332,869	104,144	AMZ Plus Income Fund	35,000	10,000
450,000	217,000	PICIC Growth Fund	16,672	9,229
1,923,869	2,854,794	United Money Market Fund	200,000	300,000
108,892	-	KASB Stock Market Fund	5,000	-
951,203	-	JS Income Fund (formerly UTP - Income Fund)	100,000	-
1,918,281	-	Pakistan Income Fund	100,000	-
96,052	-	Atlas Income Fund	50,000	-
476,872	-	Askari Income Fund	50,000	-
9,587,084	-	NAFA Cash Fund	100,000	-
478,790	-	KASB Liquid Fund	50,000	-
238,962	-	Dawood Money Market Fund	25,000	-
1,917,972	-	Reliance Income Fund	100,000	-
956,676	-	MCB Dynamic Cash Fund	93,094	-
480,307	-	IGI Income Fund	50,000	-
623,690	-	First Habib Income Fund	65,000	-
15,000,000	-	Pak Oman Advantage Fund (Pre IPO)	150,000	-
993,246	-	Pak Oman Bank of Punjab Advantage Plus Fund	50,000	-
956,124	-	AKD Income Fund	50,000	-
501,000	-	UTP - Capital Protected Fund II	50,000	-
1,000,000	-	United Islamic Income Fund	100,000	-
972,919	-	Meezan Islamic Income Fund	50,000	-
INSURANCE				
-	90,000	Adamjee Insurance Company Limited	-	15,032
SYNTHETIC AND RAYON				
25,000	25,000	Dewan Salman Fibre Limited	330	330
INVESTMENT COMPANIES & BANKS				
2,525,000	3,519,602	Askari Bank Limited (formerly Askari Commercial Bank Limited)	188,621	305,089
660,000	75,800	National Bank of Pakistan	165,490	17,710
1,000,000	95,000	Pakistan Industrial Credit and Investment Corporation	75,860	6,513
15,000	101,600	Allied Bank Limited	2,115	9,408
-	636,250	The Bank of Punjab	-	59,547
-	600,000	Soneri Bank Limited	-	27,271
-	400,000	United Bank Limited	-	49,580
15,000	-	Arif Habib Securities Limited	2,739	-
2,382,187	-	Mybank Limited	52,715	-
195,000	-	Habib Bank Limited	50,009	-
121,000	-	The Bank of Khyber	1,786	-

Notes to the Consolidated Financial Statements

2007	2006		2007	2006
(Number of shares certificates / units)			(Rupees in '000)	
		CEMENT		
-	695,000	D.G.Khan Cement Limited (Preference Shares)	-	7,660
-	759,500	D.G.Khan Cement Limited	-	54,104
60,000	797,300	Lucky Cement Limited	7,255	63,446
-	605,000	Maple Leaf Cement Factory Limited	-	13,980
2,794,000	200,000	Fauji Cement Company Limited	49,906	3,952
249,700	182,500	Fecto Cement Limited	14,488	12,324
86,825	323,000	Kohat Cement Company Limited	4,153	17,766
50,250	67,000	Dewan Cement Limited (formerly Dewan Hattar Cement Company Limited)	1,196	1,196
3,000	-	Dadabhuoy Cement Limited	33	-
		FUEL, ENERGY, OIL & GAS		
175,000	924,000	The Hub Power Company Limited	5,825	30,853
52,007	25,000	Pakistan State Oil Company Limited	22,295	7,069
173,000	87,000	Pakistan Oilfields Limited	59,620	29,727
175,000	-	Pakistan Petroleum Limited	44,523	-
1,934,000	3,402,000	Kohinoor Energy Limited	62,889	108,001
1,922,700	660,000	Oil and Gas Development Company Limited	236,880	80,257
24,000	-	Attock Refinery Limited	6,364	-
-	10,000	Sui Southern Gas Company Limited	-	338
		AUTOMOBILE ASSEMBLERS		
450,500	316,500	Dewan Farooque Motors Limited	12,977	10,847
		TEXTILE		
25,000	452,100	Nishat Mills Limited	2,689	39,377
-	50,000	Nishat (Chunian) Limited	-	3,353
1,318,710	-	Hira Textile Mills Limited	16,484	-
484	484	Nakshbandi Industries Limited	6	6
128	-	Yousuf Weaving Limited	1	-
		TECHNOLOGY & COMMUNICATION		
-	150,000	Pakistan Telecommunication Company Limited	-	6,917
100,000	-	Telecard Limited	1,121	-
2,000,000	-	Worldcall Telecom Limited	36,710	-
400,000	-	TRG Pakistan Limited	5,142	-
		CHEMICALS & FERTILIZERS		
-	500,000	ICI Pakistan Limited	-	88,414
500,000	50,000	Fauji Fertilizer Bin Qasim Limited	22,918	1,509
75,000	-	Engro Chemical Pakistan Limited	21,093	-
386,500	-	Fauji Fertilizer Company Limited	42,286	-
			2,841,721	1,461,241

Notes to the Consolidated Financial Statements

9.10 Investments in unlisted companies

2007	2006		2007	2006
(Number of shares)			(Rupees in '000)	
572,531	572,531	Pakistan Export Finance Guarantee Agency Limited Chief Executive : Mr. S.M. Zaem Break-up value: Rs. 5.684 Period of financial statements : 31 December 2006	5,725	5,725
16	16	Society for Worldwide Interbank Financial Telecommunication Chief Executive : Mr. Lazaro Campos Break-up value: Rs. 159.52 Period of financial statements : 31 December 2006	4,096	4,096
7,000,000	7,000,000	Al-Hamra Hills (Private) Limited Chief Executive : Mr. Habib Rafiq Break-up value: Rs. 9.76 Period of financial statements : 30 June 2007	70,000	70,000
5,000,000	5,000,000	Al-Hamra Avenue (Private) Limited Chief Executive : Mr. Habib Rafiq Break-up value: Rs. 10 Period of financial statements : 30 June 2007	50,000	50,000
			129,821	129,821

9.11 Particulars of Term Finance Certificates - Quoted, Secured

Askari Bank Limited (2nd Issue)
(formerly Askari Commercial Bank Limited)
20,000 (2006: 20,000) units of Rs.5,000 each
Mark up: 6 Months KIBOR (Ask Side) + 150 basis points per annum (no floor no cap)
Redemption: Bullet payment at maturity
Maturity: 8 years from date of disbursement i.e. 31 October 2013
Rating: AA- (PACRA)
Chief Executive : Mr. Shaharyar Ahmad

Standard Chartered Bank (Pakistan) Limited - (3rd Issue)
(formerly Union Bank Limited)
10,000 (2006: 10,000) units of Rs.5,000 each
Mark up: 6 Months KIBOR + 200 basis points prevailing one working day prior to the beginning of each semi annual period.
Redemption: A nominal amount i.e. 0.16 percent of the Issue Amount will be re-paid equally in each of the redemption periods during the first 4 years.
Maturity: 7 years from the date of issue.
Rating: AAA (PACRA)
Chief Executive : Mr. Badar Kazmi

99,920

99,960

49,970

49,990

Notes to the Consolidated Financial Statements

Bank Al Habib Limited

9,350 (2006: 9,350) certificates of Rs.5,000 each
 Mark up: The average 6 month KIBOR + 1.50 percent per annum with a floor of 3.50 percent and a cap of 10.00 percent per annum

Redemption: The TFC is structured to redeem 0.25 percent of principal semi-annually in the first 78 months and the remaining principal in three semi-annual installments of 33.25 percent respectively starting from the 84th month.

Maturity: June 2012

Rating: AA- (PACRA)

Chief Executive : Mr. Abbas D. Habib

**ABN Amro (Pakistan) Limited
(formerly Prime Commercial Bank Limited)**

578 (2006: 6,578) units of Rs.5,000 each
 Mark up: 6 month KIBOR (Ask Side) + 190 basis points (no floor no cap)

Redemption: Redemption after a grace period of 54 months in 4 equal installments

Maturity: 8 years from the date of disbursement i.e. February 2012.

Rating: A (PACRA)

Chief Executive : Mr. Naved A.Khan

**Trust Investment Bank Limited
(formerly Trust Leasing Corporation Limited)**

11,136 (2006: 11,136) certificates of Rs.5,000 each
 Mark up: 3.00 percent + KIBOR (6 months ask side) with a floor of 6.00 percent per annum and a cap of 10.00 percent per annum

Redemption: Principal repayment in 10 equal semi-annual installments; profit payable on semi-annual basis.

Maturity: July 2009

Rating: AA (PACRA)

Chief Executive : Mr. Javaid Bashir Sheikh

First Dawood Investment Bank Limited

Nil (2006: 2,000) certificates of Rs.5,000 each
 Mark up: On SBP discount rate + 1.75 percent per annum with a floor of 12.25 percent and a cap of 16.25 percent per annum

Redemption: Bullet payment at maturity; the issuer has a Call Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue. The investor has a Put Option exercisable in whole for redemption at face value at the end of every 5 years from the date of issue.

Maturity: September 2007

Rating: AA- (PACRA)

Chief Executive : Mr. Rafiq Dawood

Allied Bank Limited

7,686 (2006 :67,686) certificates of Rs.5,000 each
 Mark up: Six months KIBOR + 1.90 percent per annum with no floor & cap

Redemption: The instrument is structured to redeem 0.24% of principal in the first 72 months and the remaining principal in 4 equal semi-annual installments of 24.94% each of the Issue amount respectively starting from the 78th month.

Maturity: September 2014

Rating: A+ (JCR - VIS)

Chief Executive : Mr. Aftab Manzoor

2007

2006

(Rupees in '000)

46,693

46,713

2,887

32,870

22,272

33,408

-

10,289

38,415

338,430

Notes to the Consolidated Financial Statements

Pakistan Mobile Communication (Private) Limited

80,000 (2006: 80,000) units of Rs.5,000 each
 Mark up: 6 Months KIBOR (Ask Side) + 285 basis points per annum
 Redemption: 6 monthly installments of principal amount after
 4 years of grace period
 Maturity: 7 years from date of issue.
 Rating: AA- (PACRA)
 Chief Executive : Mr. Zuhair A. Khaliq

2007

2006

(Rupees in '000)

399,760

400,000

ORIX Leasing Pakistan Limited

37,000 (2006:37,000) certificates of Rs.5,000 each
 Mark up: Six months KIBOR + 1.50 per annum with no floor & cap
 Redemption: The instrument is structured to redeem 0.08% of
 principal in the first 24 months in 4 equal semi-annual installments and
 the remaining 99.22% of the principal would be redeemed during the
 last 36 months in six equal semi-annual installments
 Maturity: September 2012
 Rating: AA+ (PACRA)
 Chief Executive : Mr. Humayun Murad

184,963

185,000

Jahangir Siddiqui & Company Limited

10,000 (2006:10,000) certificates of Rs.5,000 each
 Mark up: Six months KIBOR + 2.50% with a floor of 6.0% per
 annum and ceiling of 16% per annum
 Redemption: The instrument is structured to redeem 0.18% of
 principal in the first 54 months 49.91% in the 60th month and the
 remaining 49.91% in the last six months
 Maturity: September 2011
 Rating: AA+ (PACRA)
 Chief Executive : Mr. Munaf Ibrahim

49,980

50,000

Azgard Nine Limited

10,000 (2006: 10,000) certificates of Rs.5,000 each
 Mark up: Six month KIBOR + 1.75 percent per annum
 Redemption: Eight equal semi-annual installments commencing from
 eighteenth month of the issue date; the issuer has a Call Option
 exercisable at profit payment date to redeem in full or in part the
 outstanding issue amount of the TFCs
 Maturity: August 2009
 Rating: AA- (PACRA)
 Chief Executive : Mr. Ahmed H. Shaikh

25,000

37,500

Financial Receivables Securitization Company Limited

15,792 (2006:9,000) certificates of Rs.5,000 each
 Mark up: Six months KIBOR + 2.00 p.a. with a floor of 8.0% per
 annum and cap of 16% per annum
 Redemption: Principal redemption will be carried out in 12 and
 8 equal semi-annual installments in arrears, with a grace period of
 1 year and 3 years for Class A TFCs and Class B TFCs respectively.
 Maturity: January 2014
 Rating: AA- (PACRA)
 Chief Executive : Mr. S. M. Nasir Raza

78,945

45,000

Pak Arab Fertilizers Limited - Pre-IPO

20,000 (2006:Nil) certificates of Rs.5,000 each
 Mark up: Six months KIBOR + 1.50 percent per annum
 Redemption: Principal redemption in 6 stepped-up semi-annual
 installments starting from the issue date; the issuer may call the TFC in
 part or full on any profit payment date subject to 30 days prior notice.
 Maturity: 5 years from the issue date
 Rating: AA (PACRA)
 Chief Executive : Mr. Fawad Ahmed Mocha

100,000

-

1,098,805**1,329,160**

Notes to the Consolidated Financial Statements

9.12 Particular of Term Finance Certificates - Unquoted, Secured

Gulshan Spinning Mills Limited

10,000 (2006: 10,000) certificates of Rs. 5,000 each

Mark up: Six months KIBOR (Average, Ask Side) + 1.80 percent per annum with a cap of 15 percent per annum

Redemption: Seven equal semi-annual installments commencing June 2006

Maturity: June 2009

Chief Executive : Mr. Naseer Ahmed

28,544

42,822

Paramount Spinning Mills Limited

16,000 (2006: 16,000) certificates of Rs.5,000 each

Mark up: Six months KIBOR (Average, Ask Side) + 1.80 percent per annum with a cap of 15 percent per annum

Redemption: Seven equal semi-annual installments commencing June 2006

Maturity: September 2009

Chief Executive : Mr. Tanveer Ahmad

45,687

68,530

Pakistan International Airlines Corporation

100,000 (2006: 100,000) certificates of Rs.5,000 each

Mark up: SBP discount rate + 0.5 percent per annum with a floor of 8 percent per annum and a cap of 12.50 percent per annum

Redemption: First four equal semi-annual installments commencing August 2003 amounting to Rs.5,000 each. Next six equal semi-annual installments commencing August 2005 amounting to Rs.12,499,500 each, subsequent six equal semi-annual installments commencing August 2008 amounting to Rs.70,830,500 each; the issuer has a Call Option exercisable any time at 24th, 48th and 72nd month to redeem in full or part with a premium.

Maturity: February 2011

Chief Executive : Mr. Zafar A.Khan

437,482

462,482

Crescent Leasing Corporation Limited (2nd Issue)

10,000 (2006: 10,000) certificates of Rs.5,000 each

Mark up: Six months KIBOR (Average, Ask Side) + 1.75 percent per annum

Redemption: Ten equal semi-annual installments commencing January 2005; the issuer has a Call Option exercisable at any time from the beginning of the nineteenth month till the end of the sixtieth month from the issue date only on a profit payment date subject to a 30 day notice period

Maturity: July 2009

Chief Executive : Mr. Syed Shahnawaz Ahmed Rizvi

20,000

30,000

Pakistan Mobile Communication (Private) Limited

50,000 (2006: 50,000) certificates of Rs.5,000 each

Mark up: Simple average of last three 6 month Treasury Bills cut-off rate +2.25 percent per annum with a floor of 6.00 percent per annum and a cap of 12.00 percent per annum

Redemption: Five equal semi-annual installments commencing September 2006; the issuer has a call option exercisable any time from the first principal repayment date (i.e. starting from the 36th month) onwards on a coupon date subject to 30 days notice period to repay in whole or in part.

Maturity: September 2008

Chief Executive : Mr. Zuhair A. Khaliq

100,378

200,908

Notes to the Consolidated Financial Statements

Pakistan Mobile Communication (Private) Limited (2nd Issue)
 30,000 (2006: 30,000) certificates of Rs.5,000 each
 Mark up: Six month KIBOR (Average, Ask Side) + 1.60 percent per annum with a floor of 4.95 percent per annum and a cap of 12.00 percent per annum
 Redemption: Five equal semi-annual installments commencing March 2007; the issuer has a Call Option exercisable any time from the 36th month to 54th month on a coupon date subject to 30 days notice period to repay in whole or in part
 Maturity: September 2009
 Chief Executive : Mr. Zuhair A. Khaliq

2007

2006

(Rupees in '000)

90,000

150,000

Dominion Fertilizers (Private) Limited
 500 (2006: 500) units of Rs.1,000,000 each
 Mark up: 6 Months KIBOR (Ask Side) + 325 basis point per annum (no floor & no cap)
 Redemption: Redemption after a grace period of one year in 24 equal quarterly installments. The issuer has a Call Option exercisable from six months from the date of disbursement at any mark-up payment date subject to a prepayment amount of at least PKR 500 million or in multiples thereof in its entirety
 Maturity: 7 years from the date of disbursement i.e. July 2013.
 Chief Executive : Mr. Ahmed Hummayun Shaikh

479,167

500,000

Bosicor Pakistan Limited
 20,000 (2006: 20,000) certificates of Rs.5,000 each
 Mark up: Six month KIBOR (average ask side) + 5.5 percent per annum with a floor of 9.00 percent per annum and a cap of 13.00 percent per annum payable semi-annually
 Redemption: Seven equal semi-annual installments commencing August 2006;
 the issuer has a Call Option exercisable at any time from the 1st principal repayment date (i.e. starting from the 24th month) onwards on a coupon date subject to a 60 days notice period to repay in whole or in part.
 Maturity: August 2009
 Chief Executive : Mr. M. Wasi Khan

57,143

85,714

Security Leasing Corporation Limited
 Nil (2006: 10,000) certificates of Rs.5,000 each
 Mark up: Six month KIBOR (Average, Ask Side) + 190 basis point per annum.
 Redemption: Ten equal semi-annual installments commencing January 2005; the issuer has a Call Option exercisable at any time from the beginning of the nineteenth month till the end of the sixtieth month from the issue date only on profit payment date subject to a 30 days notice period.
 Maturity: April 2008
 Chief Executive : Mohammad Khalid Ali

-

37,500

Security Leasing Corporation Limited (2nd Issue)
 Nil (2006: 20,000) units of Rs.5,000 each
 Mark up: 6 Months KIBOR (Ask Side) + 165 basis point per annum (no floor & no cap)
 Redemption: Ten equal quarterly installments commencing from the 9th month of the issue; the issuer has a Call Option exercisable at any mark-up payment date after a period of 12 months from the issue date to redeem in full or in part the issue amount outstanding of the PPTFCs subject to a 90 days notice to the Investors.
 Maturity: 3 years from date of disbursement i.e. June 2008.
 Chief Executive : Mohammad Khalid Ali

-

59,976

Notes to the Consolidated Financial Statements

Reliance Exports (Private) Limited

Nil (2006: 30) units of Rs.10,000,000 each

Mark up: 6 Months KIBOR (Ask Side) + 250 basis point per annum
(no floor & no cap)

Redemption: Redemption after a grace period of one year in stepped-up installments. The issuer has a Call Option exercisable at any mark-up payment date to redeem in full or in part the Issue amount outstanding of the PPTFCs subject to a 60 days notice to the Investors.

Maturity: 7 years from the date of disbursement i.e. July 2012.

Chief Executive : Mr. Fawad Ahmed Mukhtar

2007

2006

(Rupees in '000)

-

300,000

Jahangir Siddiqui & Company Limited

20,000 (2006:Nil) certificates of Rs.5,000 each

Mark up: Six months KIBOR (Ask side) + 1.70 percent per annum

Redemption: The instrument is structured to redeem 0.20% of principal in the first 60 months and remaining principal in two equal semi-annual installments of 49.90% each of the issue amount respectively from 60th month; the issuer has a call option exercisable in full at any time after 1 year on a coupon date.

Maturity: July 2013

Chief Executive : Mr. Munaf Ibrahim

100,000

-

Kunjah Textiles Mills Limited

6,000 (2006: Nil) certificates of Rs.5,000 each

Mark-up: six months KIBOR + 3.00 percent per annum

Redemption: 10 equal semi-annual installments commencing from the 24th months from first draw down

Maturity: April 2014

Chief Executive: Mr. Shafaq Hussain

30,000

-

1,388,4011,937,932**9.13 Particulars of investments in associated companies**

The paid up value of these shares / units is Rs.10 except where stated.

2007	2006			
(Number of shares)				
267,957,279	199,999,500	Warid Telecom (Private) Limited Percentage of holding : 8.76% Break-up value: Rs. 7.74 Date of audited financial statements : 30 June 2007 Chief Executive : Mr. Marwan Zawaydeh	2,679,578	2,000,000
41,747,460	41,747,460	Wateen Telecom (Private) Limited Percentage of holding : 20% Break-up value: Rs. 12.76 Date of audited financial statements : 30 June 2007 Chief Executive : Mr. Tariq Malik	417,474	417,474
6,899,000	6,899,000	Alfalah Insurance Limited Percentage of holding : 30% Break-up value: Rs. 10.93 Date of un-audited financial statements : 31 December 2007 Chief Executive : Mr. Nasar us Samad Qureshi	68,990	68,990

Notes to the Consolidated Financial Statements

9.14 Particulars of investments in associated companies

The paid up value of these shares / units is Rs.10 except where stated.

2007	2006		2007	2006
(Number of shares)			(Rupees in '000)	
2,413,487	2,000,000	Alfalah GHP Value Fund Percentage of holding : 22.70% Break-up value: Rs. 53.02 Date of audited financial statements : 31 December 2007 Investment Adviser - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	100,000	100,000
10,752,548	-	Alfalah GHP Income Multiplier Fund Percentage of holding : 14.87% Break-up value: Rs. 52.59 Date of audited financial statements : 31 December 2007 Investment Adviser - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	550,000	-
5,000,000	-	Alfalah GHP Islamic Fund Percentage of holding : 75.08% Break-up value: Rs. 52.34 Date of audited financial statements : 31 December 2007 Investment Adviser - Alfalah GHP Investment Management Limited (Paid-up value of each unit is Rs. 50)	250,000	-
13,049,070	-	Alfalah GHP Investment Management Limited Percentage of holding : 40.22% Break-up value: Rs. 8.97 Date of audited financial statements : 31 December 2007 Chief Executive : Mr. Aziz Anis Dhedhi	130,493	-
		Share of associates		
		- Warid Telecom (Private) Limited		
		Share of loss	(699,275)	(933,962)
		Share in share premium	1,615,473	-
			916,198	(933,962)
		- Wateen Telecom (Private) Limited	211,045	85,858
		- Alfalah Insurance Limited	6,410	(645)
		- Alfalah GHP Value Fund	15,896	23,125
		- Alfalah GHP Income Multiplier Fund	15,475	-
		- Alfalah GHP Islamic Fund	11,700	-
		- Alfalah GHP Investment Management Limited	(14,939)	-
			1,161,785	(825,624)
			5,358,320	1,760,840

Notes to the Consolidated Financial Statements

9.14 Quality of available for sale securities

	Market value		Cost		Long/Medium Term Credit Rating	Rated by
	2007	2006	2007	2006		
-----Rupees in '000-----						
Market Treasury Bills	47,367,696	21,649,928	47,447,516	21,663,096	(Unrated - Government Securities)	
Pakistan Investment Bonds	433,347	1,842,473	434,383	1,859,240	(Unrated - Government Securities)	
Term Finance Certificates						
Bank Al-Habib Limited	44,205	45,026	46,693	46,713	AA-	PACRA
Trust Investment Bank Limited (formerly Trust Leasing Corporation Limited)	22,123	33,652	22,272	33,408	AA	PACRA
First Dawood Investment Bank Limited	-	10,065	-	10,289	AA-	PACRA
ABN Amro Pakistan Limited (formerly Prime Commercial Bank Limited)	2,981	32,808	2,887	32,870	A	PACRA
Askari Bank Limited (2nd Issue) (formerly Askari Commercial Bank Limited)	104,267	99,060	99,920	99,960	AA-	PACRA
Standard Chartered Bank (Pakistan) Limited (formerly Union Bank Limited)	50,969	50,810	49,970	49,990	AAA	PACRA
Pakistan Mobile Communication (Private) Limited	421,067	402,400	399,760	400,000	AA-	PACRA
ORIX Leasing Pakistan Limited	189,735	185,000	184,963	185,000	AA+	PACRA
Allied Bank Limited	40,942	338,667	38,415	338,430	A+	JCRVIS
Jahangir Siddiqui & Company Limited	50,395	50,000	49,980	50,000	AA+	PACRA
Financial Receivables Securitization Company Limited	79,868	45,000	78,945	45,000	AA-	PACRA
Pak Arab Fertilizers Limited	100,000	-	100,000	-	AA	JCRVIS
	1,106,552	1,292,488	1,073,805	1,291,660		
Shares in Listed Companies / Certificates / Units						
AMZ Plus Income Fund	35,094	11,065	35,000	10,000	A (f)	JCRVIS
Askari Asset Allocation Fund	15,250	-	15,000	-	-----	(Unrated)-----
UTP A30 + Fund	9,870	-	10,000	-	-----	(Unrated)-----
United Stock Advantage Fund	5,504	-	5,000	-	-----	(Unrated)-----
AKD Opportunity Fund	30,464	-	30,000	-	-----	(Unrated)-----
KASB Stock Market Fund	6,181	-	5,000	-	-----	(Unrated)-----
Askari Bank Limited (formerly Askari Commercial Bank Limited)	199,500	157,425	138,490	118,923	AA	PACRA
The Bank of Punjab	-	51,258	-	45,697	AA	PACRA
D.G.Khan Cement Limited (Preference Shares)	-	6,497	-	7,660	-----	(Unrated)-----
Dewan Farooque Motors Limited	5,857	4,906	12,977	10,847	A	PACRA
Fecto Cement Limited	6,168	4,918	14,488	12,324	-----	(Unrated)-----
The Hub Power Company Limited	-	18,198	-	24,279	-----	(Unrated)-----
ICI Pakistan Limited	-	57,750	-	88,414	-----	(Unrated)-----
Kohat Cement Company Limited	4,454	10,271	4,153	17,766	A-	PACRA
Kohinoor Energy Limited	61,502	84,710	62,889	108,001	-----	(Unrated)-----
Meezan Balanced Fund	21,000	21,500	25,000	25,000	5 Star	PACRA
Nishat (Chunian) Limited	-	1,908	-	3,353	-----	(Unrated)-----
Nishat Mills Limited	-	39,694	-	39,377	A+	PACRA
Pakistan Capital Market Fund	13,079	5,332	9,882	4,881	3 Star	PACRA
Pakistan Premier Fund Limited	36,549	34,288	36,554	36,555	4 Star	PACRA
Pakistan Strategic Allocation Fund	3,640	3,400	4,000	4,000	4 Star	PACRA
PICIC Growth Fund	12,825	6,109	16,672	9,229	MFR 2 Star	JCRVIS
Oil & Gas Development Company Limited	119,450	-	122,699	-	AAA	JCRVIS
Fauji Fertilizer Company Limited	45,897	-	42,286	-	-----	(Unrated)-----
Mybank Limited	45,925	-	47,128	-	A	PACRA
National Bank of Pakistan	116,075	-	126,564	-	AAA	JCRVIS
Hira Textiles Limited	10,484	-	16,484	-	-----	(Unrated)-----
Pakistan Industrial Credit and Investment Corporation	58,750	-	75,860	-	MFR 3 Star	JCRVIS
United Islamic Income Fund	101,580	-	100,000	-	-----	(Unrated)-----
Meezan Islamic Income Fund	50,747	-	50,000	-	5 Star	PACRA

Notes to the Consolidated Financial Statements

	Market value		Cost		Long/Medium Term Credit Rated by Rating
	2007	2006	2007	2006	
-----Rupees in '000-----					
JS Income Fund (formerly UTP - Income Fund)	100,694	-	100,000	-	----- (Unrated) -----
Pakistan Income Fund	100,729	-	100,000	-	4 Star PACRA
Atlas Income Fund	50,097	-	50,000	-	5 Star PACRA
Askari Income Fund	50,401	-	50,000	-	A (f) JCRVIS
NAFA Cash Fund	100,776	-	100,000	-	A (f) JCRVIS
KASB Liquid Fund	50,244	-	50,000	-	----- (Unrated) -----
United Money Market Fund	198,543	-	200,000	-	A+ (f) JCRVIS
Dawood Money Market Fund	24,314	-	25,000	-	5 Star PACRA
Reliance Income Fund	100,387	-	100,000	-	----- (Unrated) -----
MCB Dynamic Cash Fund	100,171	-	93,094	-	----- (Unrated) -----
IGI Income Fund	50,403	-	50,000	-	----- (Unrated) -----
First Habib Income Fund	65,344	-	65,000	-	----- (Unrated) -----
Pak Oman Advantage Fund	123,750	-	150,000	-	AA-(f) JCRVIS
Pak Oman Bank of Punjab Advantage Plus Fund	50,387	-	50,000	-	A-(f) JCRVIS
AKD Income Fund	50,321	-	50,000	-	----- (Unrated) -----
UTP - Capital Protected Fund II	49,559	-	50,000	-	----- (Unrated) -----
United Bank Limited	-	61,400	-	49,580	A-1+ JCRVIS
	2,281,965	580,629	2,289,220	615,886	
Shares in Un-listed Companies					
Pakistan Export Finance Guarantee Agency Limited		Not Applicable	5,725	5,725	----- (Unrated) -----
Society for Worldwide Interbank Financial Telecommunication		Not Applicable	4,096	4,096	----- (Unrated) -----
Al-Hamra Hills (Private) Limited		Not Applicable	70,000	70,000	----- (Unrated) -----
Al-Hamra Avenue (Private) Limited		Not Applicable	50,000	50,000	----- (Unrated) -----
			129,821	129,821	
	51,189,560	25,365,518	51,374,745	25,559,703	

9.15 Unrealized (loss) / gain on revaluation of investments classified as held for trading - net

Investee Companies	Unrealised gain / (loss)		Cost	
	2007	2006	2007	2006
-----Rupees in '000-----				
Fully paid up ordinary shares / units - Listed				
Allied Bank Limited	(163)	92	2,115	9,408
Askari Bank Limited (formerly Askari Commercial Bank Limited)	2,238	25,792	50,131	186,166
Adamjee Insurance Company Limited	-	(1,487)	-	15,032
The Bank of Punjab	-	(689)	-	13,850
DG Khan Cement Limited	-	(6,293)	-	54,104
Dewan Cement Limited (formerly Dewan Hattar Cement Company Limited)	(369)	(526)	1,196	1,196
Dewan Salman Fibre Limited	(143)	(139)	330	330
Dadabhuy Cement Limited	(12)	-	33	-
Fauji Cement Company Limited	(8,276)	(932)	49,906	3,952
The Hub Power Company Limited	(487)	176	5,825	6,574
Lucky Cement Limited	(265)	(15,687)	7,255	63,446
Maple Leaf Cement Factory Limited	-	(3,453)	-	13,980
Nakshbandi Industries Limited	(3)	(2)	6	6
National Bank of Pakistan	(1,782)	(712)	38,926	17,710
Nishat Mills Limited	(59)	-	2,689	-
Yousuf Weaving Limited	-	-	1	-
Oil and Gas Development Company Limited	(3,964)	(4,555)	114,181	80,257
Pakistan Oilfields Limited	(1,769)	701	59,620	29,727
Pakistan Industrial Credit and Investment Corporation	-	(862)	-	6,513
Pakistan Petroleum Limited	(1,639)	-	44,523	-
Pakistan State Oil Company Limited	(1,149)	281	22,295	7,069
Pakistan Telecommunication Limited	-	(272)	-	6,917
Soneri Bank Limited	-	1,319	-	27,271
Sui Southern Gas Company Limited	-	(103)	-	338
United Money Market Fund	-	74	-	300,000
Telecard Limited	(36)	-	1,121	-

Notes to the Consolidated Financial Statements

	Unrealised gain / (loss)		Cost	
	2007	2006	2007	2006
	-----Rupees in '000-----			
Fauji Fertilizer Bin Qasim Limited	(1,893)	(84)	22,918	1,509
Attock Refinery Limited	(333)	-	6,364	-
Arif Habib Securities Limited	(141)	-	2,739	-
Mybank Limited	5,541	-	5,587	-
Engro Chemical Pakistan Limited	(1,162)	-	21,093	-
Worldcall Telecom Limited	(3,510)	-	36,710	-
Habib Bank Limited	(3,229)	-	50,009	-
The Bank of Khyber	90	-	1,786	-
TRG Pakistan Limited	458	-	5,142	-
	<u>(22,057)</u>	<u>(7,361)</u>	<u>552,501</u>	<u>845,355</u>

10. ADVANCES	Note	2007	2006
		(Rupees in '000)	
Loans, cash credits, running finances, etc.			
In Pakistan		144,944,115	128,009,414
Outside Pakistan		7,598,767	3,552,842
		<u>152,542,882</u>	<u>131,562,256</u>
Net investment in finance lease			
In Pakistan	10.2	15,820,046	14,278,002
Outside Pakistan		-	-
		<u>15,820,046</u>	<u>14,278,002</u>
Bills discounted and purchased (excluding treasury bills)			
Payable in Pakistan		1,579,472	1,687,954
Payable outside Pakistan		5,568,601	4,650,961
		<u>7,148,073</u>	<u>6,338,915</u>
		<u>175,511,001</u>	<u>152,179,173</u>
Provision against advances			
Specific provision against non-performing advances	10.4	(3,380,409)	(1,175,568)
General provision against consumer financings		(1,099,409)	(1,060,888)
		<u>(4,479,818)</u>	<u>(2,236,456)</u>
		<u>171,031,183</u>	<u>149,942,717</u>
10.1 Particulars of advances - gross of provisions			
10.1.1 In local currency		158,763,104	142,168,710
In foreign currencies		16,747,897	10,010,463
		<u>175,511,001</u>	<u>152,179,173</u>
10.1.2 Short Term (upto one year)		110,852,663	86,303,763
Long Term (over one year)		64,658,338	65,875,410
		<u>175,511,001</u>	<u>152,179,173</u>
10.2 Net Investment in Finance Lease / Ijarah Financing			

	2007				2006			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	-----Rupees in '000-----							
Lease rentals receivable	3,431,964	10,848,748	200,081	14,480,793	3,179,454	10,135,226	47,765	13,362,445
Residual value	1,001,268	3,110,044	44,121	4,155,433	373,072	2,908,809	11,966	3,293,847
Minimum lease payments	4,433,232	13,958,792	244,202	18,636,226	3,552,526	13,044,035	59,731	16,656,292
Financial charges for future periods	(778,419)	(1,978,295)	(59,466)	(2,816,180)	(558,733)	(1,811,557)	(8,000)	(2,378,290)
Present value of minimum lease payments	<u>3,654,813</u>	<u>11,980,497</u>	<u>184,736</u>	<u>15,820,046</u>	<u>2,993,793</u>	<u>11,232,478</u>	<u>51,731</u>	<u>14,278,002</u>

Notes to the Consolidated Financial Statements

10.3 Advances include Rs.4.705 billion (2006: Rs.2.31 billion) which have been placed under non-performing status as detailed below:-

Category of Classification	2007								
	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	------(Rupees in '000)-----								
Other Assets Especially Mentioned (Agri Financing)	110,759	-	110,759	-	-	-	-	-	-
Substandard	1,026,754	36,255	1,063,009	243,543	1,813	245,356	243,543	1,813	245,356
Doubtful	593,233	-	593,233	282,801	-	282,801	282,801	-	282,801
Loss	2,885,788	52,296	2,938,084	2,830,217	22,035	2,852,252	2,830,217	22,035	2,852,252
	<u>4,616,534</u>	<u>88,551</u>	<u>4,705,085</u>	<u>3,356,561</u>	<u>23,848</u>	<u>3,380,409</u>	<u>3,356,561</u>	<u>23,848</u>	<u>3,380,409</u>
	2006								
Category of Classification	Classified Advances			Provision Required			Provision Held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	------(Rupees in '000)-----								
Other Assets Especially Mentioned (Agri Financing)	60,158	-	60,158	-	-	-	-	-	-
Substandard	489,955	-	489,955	87,025	-	87,025	87,025	-	87,025
Doubtful	503,524	-	503,524	143,706	-	143,706	143,706	-	143,706
Loss	1,209,360	45,671	1,255,031	923,979	20,858	944,837	923,979	20,858	944,837
	<u>2,262,997</u>	<u>45,671</u>	<u>2,308,668</u>	<u>1,154,710</u>	<u>20,858</u>	<u>1,175,568</u>	<u>1,154,710</u>	<u>20,858</u>	<u>1,175,568</u>

10.4 Particulars of provision against non-performing advances

Note	2007			2006		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----					
Opening balance	1,175,568	1,060,888	2,236,456	707,369	845,612	1,552,981
Exchange adjustment and other movement	(1,662)	(2,887)	(4,549)	70	(1,650)	(1,580)
Charge for the year	2,559,795	154,726	2,714,521	652,227	217,069	869,296
Reversals / recoveries	(230,336)	(113,318)	(343,654)	(171,463)	(143)	(171,606)
	<u>2,329,459</u>	<u>41,408</u>	<u>2,370,867</u>	<u>480,764</u>	<u>216,926</u>	<u>697,690</u>
Amounts written off	10.5.1 (122,956)	-	(122,956)	(12,635)	-	(12,635)
Closing balance	<u>3,380,409</u>	<u>1,099,409</u>	<u>4,479,818</u>	<u>1,175,568</u>	<u>1,060,888</u>	<u>2,236,456</u>

To comply with the requirements of BSD Circular No. 7 dated 12 October 2007 issued by the State Bank of Pakistan - SBP, the Bank changed the method of estimation of provision against non-performing loans and advances, previously the provisions against non-performing loans were made after considering the benefits of Forced Sales Valuations - FSV on mortgaged / charged assets. The benefits of FSV against provisioning requirements has now been completely withdrawn, except for Housing and Agriculture loans. The benefits of FSV for housing loans shall be reduced by 50% each year and will be completely withdrawn in the third year.

Had the provision against non-performing loans and advances been determined in accordance with the previous requirements of the State Bank of Pakistan by considering the benefit of FSV, the specific provision against non-performing loans and advances would have been lower and consequently profit before taxation would have been higher by Rs. 1,070 million.

10.4.1 General provision against consumer loans represents provision maintained at an amount equal to 1.5% of the fully secured performing portfolio and 5% of the unsecured performing portfolio as required by the Prudential Regulations issued by the State Bank of Pakistan. General provision for overseas branches are maintained in accordance with the guidelines of the authorities in the respective countries.

10.4.2 Particulars of provisions against non-performing advances

	2007			2006		
	Specific	General	Total	Specific	General	Total
	------(Rupees in '000)-----					
In local currency	3,356,561	1,033,919	4,390,480	1,154,710	1,020,511	2,175,221
In foreign currencies	23,848	65,490	89,338	20,858	40,377	61,235
	<u>3,380,409</u>	<u>1,099,409</u>	<u>4,479,818</u>	<u>1,175,568</u>	<u>1,060,888</u>	<u>2,236,456</u>

Notes to the Consolidated Financial Statements

	Note	2007		2006	
		(Rupees in '000)			
10.5 Particulars of write-offs					
10.5.1 Against provisions		122,956		12,635	
Directly charged to profit and loss account		5,844		1,537	
		<u>128,800</u>		<u>14,172</u>	
10.5.2 Write Offs of Rs. 500,000 and above		122,218		11,991	
Write Offs of below Rs. 500,000		6,582		2,181	
		<u>128,800</u>		<u>14,172</u>	
10.6 Details of loans written-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 or above allowed to a person(s) during the year ended 31 December 2007 is given at Annexure-I.					
10.7 Particulars of loans and advances to directors, executives, associated companies, etc.					
Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons					
Balance at beginning of year		209,064		153,675	
Loans granted during the year		602,724		316,729	
Repayments		(591,895)		(261,340)	
Balance at end of year		<u>219,893</u>		<u>209,064</u>	
Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or in the case of private companies as members					
Balance at beginning of year		3,100,908		31,969	
Adjustment		5,444		-	
Loans granted during the year		-		3,086,143	
Repayments		(3,094,334)		(17,204)	
Balance at end of year		<u>12,018</u>		<u>3,100,908</u>	
		<u>231,911</u>		<u>3,309,972</u>	
11. OPERATING FIXED ASSETS					
Capital work-in-progress	11.1	1,742,554		1,370,175	
Property and equipment	11.2	10,095,022		9,134,464	
Intangible assets	11.8	117,682		43,802	
		<u>11,955,258</u>		<u>10,548,441</u>	
11.1 Capital work-in-progress					
Civil works		748,484		740,641	
Equipment / intangibles		518,096		108,477	
Advances to suppliers and contractors		306,124		410,988	
Others		169,850		110,069	
		<u>1,742,554</u>		<u>1,370,175</u>	

Notes to the Consolidated Financial Statements

11.2 Property and equipment

Description	2007									
	Cost / revaluation at January 1, 2007	Additions / (disposals) / *adjustments	Revaluation surplus	Cost/ Revaluation as at December 31, 2007	Accumulated depreciation at January 1, 2007	Depreciation for the year/ (on disposal) / *adjustments	Accumulated depreciation on Revaluation as at Dec 31, 2007	Accumulated depreciation at December 31, 2007	Net Book Value at December 31, 2007	Rate of depreciation % per annum
----- (Rupees in '000) -----										
Office premises	3,605,728	392,156	-	3,985,401	-	47,530	-	47,364	3,938,037	2.5%-5.5%
Revaluation	3,041,000	*(12,483)	-	3,041,000	-	*(166)	-	37,823	3,003,177	2.5%-5.5%
	6,646,728	392,156	-	7,026,401	-	85,353	-	85,187	6,941,214	
		*(12,483)				*(166)				
Lease hold improvements	702,109	382,065	-	1,044,085	291,180	172,365	-	449,883	594,202	20%
		(10,374)				(9,540)				
		*(29,715)				*(4,122)				
Furniture and Fixtures	531,445	245,780	-	766,601	154,841	75,010	-	224,181	542,420	10% - 25%
		(10,003)				(4,410)				
		*(621)				*(1,260)				
Office equipment	2,418,248	844,855	-	3,207,446	986,847	542,289	-	1,495,460	1,711,986	20% - 25%
		(22,369)				(17,121)				
		*(33,288)				*(16,555)				
Vehicles	480,316	127,075	-	570,136	213,052	89,040	-	278,872	291,264	25%
		(25,462)				(22,985)				
		*(11,793)				*(235)				
Leased Vehicles	5,069	12,076	-	17,145	3,531	2,349	-	3,209	13,936	25%
		-				-				
		-				(2,671)				
	10,783,915	2,004,007	-	12,631,814	1,649,451	966,406	-	2,536,792	10,095,022	
		(68,208)				(54,056)				
		*(87,900)				*(25,009)				
----- (Rupees in '000) -----										
Description	2006									
	Cost / revaluation at January 1, 2006	Additions / (disposals) / *adjustments	Revaluation surplus	Cost/ Revaluation as at December 31, 2006	Accumulated depreciation at January 1, 2006	Depreciation for the year/ (on disposal) / *adjustments	Accumulated depreciation on Revaluation as at Dec 31, 2006	Accumulated depreciation at December 31, 2006	Net Book Value at December 31, 2006	Rate of depreciation % per annum
----- (Rupees in '000) -----										
Office premises	2,849,274	778,636	-	3,605,728	51,330	39,151	(83,070)	-	3,605,728	2.5%-5.5%
Revaluation	1,138,799	*(22,182)	1,902,201	3,041,000	80,226	*(7,411)	(120,339)	-	3,041,000	2.5%-5.5%
	3,988,073	778,636	1,902,201	6,646,728	131,556	79,264	(203,409)	-	6,646,728	
		*(22,182)				*(7,411)				
Lease hold improvements	481,899	224,655	-	702,109	177,669	112,536	-	291,180	410,929	20%
		(1,754)				(313)				
		*(2,691)				*(1,288)				
Furniture and fixtures	381,300	148,920	-	531,445	107,706	48,633	-	154,841	376,604	10%-25%
		(1,866)				(903)				
		*(3,091)				*(595)				
Office equipment	1,553,989	889,215	-	2,418,248	624,484	372,043	-	986,847	1,431,401	20%-25%
		(7,542)				(5,509)				
		*(17,414)				*(4,171)				
Vehicles	370,035	155,386	-	480,316	156,639	89,485	-	213,052	267,264	25%
		(42,887)				(31,904)				
		*(2,218)				*(1,168)				
Leased Vehicles	5,069		-	5,069	2,264	1,267	-	3,531	1,538	25%
	6,780,365	2,196,812	1,902,201	10,783,915	1,200,318	703,228	(203,409)	1,649,451	9,134,464	
		(54,049)				(38,629)				
		*(41,414)				*(12,057)				

Notes to the Consolidated Financial Statements

- 11.3 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 437.352 million (2006: Rs. 303.419 million).
- 11.4 The fair value of property and equipment as per management estimate is not materially different from the carrying amount.
- 11.5 Office premises have been revalued on 31 December 2006 on the basis of market value by Harvester Services (Private) Limited, engineers, surveyors, inspectors valuers, loss assessors. Had there been no revaluation, the figures would have been as follows:

	Cost as at December 31, 2007	Accumulated depreciation as at December 31, 2007	Book value as at December 31, 2007
Office premises	<u>3,985,401</u>	<u>47,364</u>	<u>3,938,037</u>

- 11.6 The above balance of owned operating assets represents the value of assets subsequent to revaluation on 30 December 1999, 31 December 2003 and 31 December 2006 which had resulted in surplus of Rs. 830.950 million, Rs. 516.802 million and Rs. 2,106 million respectively and additions thereafter at cost.
- 11.7 As at 31 December 2007, un-depreciated balance of revaluation surplus included in the carrying value of fixed assets, amounted to Rs. 3,003 million (2006: Rs. 3,041 million).

11.8 Intangible assets

	2007						Book value at closing 2007	Rate of amortization %
	COST			AMORTIZATION				
	Opening Balance 2007	Additions/ (Deletions)/ * Adjustment	Closing Balance 2007	Opening Balance 2007	Amortization (Deletions)/ * Adjustment	Closing Balance 2007		
------(Rupees in '000)-----								
Computer softwares	98,287	111,711	212,091	54,485	40,247	94,409	117,682	20%
	-	-	-	-	-	-	-	
	-	* 2,093	-	-	* (323)	-	-	
2006	<u>70,633</u>	<u>27,654</u>	<u>98,287</u>	<u>35,443</u>	<u>19,042</u>	<u>54,485</u>	<u>43,802</u>	20%

Notes to the Consolidated Financial Statements

11.9 Details of disposal of fixed assets having cost of more than Rs. 1,000,000 or net book value of Rs. 250,000 or above

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
------(Rupees in '000)-----						
Leasehold Improvements						
Civil, Electric and Plumbing works	755	71	684	671	Insurance Claim Settled	Alfalsh Insurance Limited
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	<u>665</u>	<u>515</u>	<u>150</u>	<u>-</u>	Various	Various
Furniture and Fixtures						
Partitions	321	15	306	300	Insurance Claim Settled	Alfalsh Insurance Limited
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	<u>9,682</u>	<u>4,395</u>	<u>5,287</u>	<u>4,770</u>	Various	Various
Office Equipment						
Diesel Generator	1,750	1,750	-	550	Negotiation	Master Repairs
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	<u>20,619</u>	<u>15,371</u>	<u>5,248</u>	<u>6,836</u>	Various	Various
Vehicles						
Vehicle	791	506	285	615	Auction	Argosy Enterprises
Vehicle	555	96	459	505	Auction	Mr. Haroon Ali
Vehicle	1,003	633	370	-	As per Bank's policy	Family Members of Deceased Employee
Vehicle	1,172	1,172	-	671	Auction	Mr. Tajammul Farooq
Vehicle	555	129	426	488	Auction	Mr. Irfan Shakeel
Vehicle	555	147	408	512	Auction	Mr. Saleem Aziz
Vehicle	<u>1,549</u>	<u>1,456</u>	<u>93</u>	<u>631</u>	Auction	Ms. Shamama Irfan
Items having book value of less than Rs. 250,000 or cost of less than Rs. 1,000,000	<u>19,282</u>	<u>18,846</u>	<u>436</u>	<u>11,522</u>	Various	Various

Notes to the Consolidated Financial Statements

	Note	ANNUAL REPORT 2007	
		2007	2006
12. OTHER ASSETS		(Rupees in '000)	
Income / mark-up accrued in local currency		4,056,997	3,407,048
Income / mark-up accrued in foreign currency		368,151	162,588
Advances, deposits, advance rent and other prepayments		2,237,461	1,629,559
Membership Card		31,000	31,000
Advance taxation		-	447,824
Unrealized gain on forward foreign exchange contracts		26,506	25,002
Asset acquired in satisfaction of claims		48,884	-
Branch Adjustment		32,919	-
Dividend receivable		8,464	943
Prepaid exchange risk fee		2,111	5,277
Stationery and stamps on hand		70,926	66,771
Receivable against issue of rights		-	160
Receivable from brokers		640,913	342,135
		<u>7,524,332</u>	<u>6,118,307</u>
Mark up held in suspense account		(674,545)	(268,505)
Less: Provision held against other assets		(11,308)	(9,674)
		<u>6,838,479</u>	<u>5,840,128</u>
13. BILLS PAYABLE			
In Pakistan		4,090,688	3,059,519
Outside Pakistan		47,555	31,616
		<u>4,138,243</u>	<u>3,091,135</u>
14. BORROWINGS			
In Pakistan		20,920,847	8,300,250
Outside Pakistan		628,002	108,077
		<u>21,548,849</u>	<u>8,408,327</u>
14.1 Particulars of borrowings with respect to currencies			
In local currency		20,920,847	8,300,250
In foreign currencies		628,002	108,077
		<u>21,548,849</u>	<u>8,408,327</u>
14.2 Details of borrowings secured / unsecured			
<i>Secured</i>			
Borrowings from Financial Institutions		318,152	14,197
Borrowings from State Bank of Pakistan under:			
Export refinance scheme	14.3	4,793,196	5,950,216
Long Term Finance for Export Oriented Projects Scheme (LTF-EOP)	14.4	725,551	663,053
Repurchase agreement borrowings	14.5	14,683,908	1,672,784
		<u>20,520,807</u>	<u>8,300,250</u>
<i>Unsecured</i>			
Call borrowings		490,471	-
Overdrawn nostro accounts		537,571	108,077
		<u>1,028,042</u>	<u>108,077</u>
		<u>21,548,849</u>	<u>8,408,327</u>
14.3	This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility is 6.5% per annum (2006: 6.5% per annum) payable on a quarterly basis.		
14.4	This facility is secured against a demand promissory note executed in favour of the State Bank of Pakistan. The mark-up rate on this facility is 5% per annum (2006: 5% per annum) payable on a quarterly basis.		
14.5	This represents repurchase agreement borrowings from other banks at rates ranging from 9.10% to 9.95% per annum (2006: 8.72% to 9.10% per annum) maturing by January 2008.		

Notes to the Consolidated Financial Statements

		ANNUAL REPORT 2007	
		2007	2006
		(Rupees in '000)	
15. DEPOSITS AND OTHER ACCOUNTS	Note		
Customers			
Fixed deposits		85,520,839	88,851,222
Savings deposits		107,879,576	78,888,612
Current accounts - non-remunerative		67,602,936	58,210,263
Others		3,267,104	3,616,936
		264,270,455	229,567,033
Financial institutions			
Remunerative deposits		8,759,047	9,892,433
Non-remunerative deposits		142,586	21,306
		8,901,633	9,913,739
		273,172,088	239,480,772
15.1 Particulars of deposits			
In local currency		234,412,217	214,795,425
In foreign currencies		38,759,871	24,685,347
		273,172,088	239,480,772
16. SUB-ORDINATED LOANS			
Term Finance Certificates I - Quoted, Unsecured		648,700	648,960
Mark up	Base Rate + 1.33% (Base Rate is defined as the cut-off yield on the last successful auction of the 5 year Pakistan Investment Bonds (PIB) conducted by SBP with a floor of 10% per annum and a cap of 15% per annum)		
Subordination	The TFCs are subordinated to all other indebtedness of the Bank including deposits.		
Issue Date	June 2002		
Rating	AA-		
Tenor	Six years		
Redemption	2 equal semi-annual installments commencing 66th month after the issue date.		
Maturity	December 2008		
Term Finance Certificates II - Quoted, Unsecured		1,248,560	1,249,040
Mark up	Base rate + 1.50% (Base Rate is defined as the simple average (average of the KIBOR Rate quoted by banks for that day) of the ask rate of the six months Karachi Interbank Offer rate (KIBOR) prevailing on the first day of the start of each half yearly period for mark up due at the end of that period)		
Subordination	The TFCs are subordinated as to the payment of principal & profit. In case of occurrence of default, the TFC holder will rank below the senior unsecured creditors and depositors and other creditors of the Bank.		
Issue Date	December 2004		
Rating	AA-		
Tenor	Eight years		
Redemption	3 equal semi-installments commencing 84th month after the issue date.		
Maturity	December 2012		

Notes to the Consolidated Financial Statements

		ANNUAL REPORT 2007	
		2007	2006
		(Rupees in '000)	
Term Finance Certificates III - Quoted, Unsecured		1,323,598	1,324,106
Mark up	Base rate + 1.50% (Base Rate is defined as the simple average of the ask rate of the six months KIBOR prevailing on the first day of the start of each half yearly period and mark up due at the end of that period)		
Subordination	The TFCs are subordinated as to the payment of principal & profit to all other indebtedness of the bank.		
Issue Date	November 2005		
Rating	AA-		
Tenor	Eight years		
Redemption	3 equal semi-installments commencing 84th month after the issue date.		
Maturity	November 2013		
		3,220,858	3,222,106

17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2007			2006		
	Minimum Lease Payments	Financial Charges for future periods	Principal Outstanding	Minimum Lease Payments	Financial Charges for future periods	Principal Outstanding
------(Rupees in '000)-----						
Upto 1 year	3,612	1,241	2,371	821	62	759
Over 1 year to 5 years	10,204	1,272	8,932	379	1	378
	<u>13,816</u>	<u>2,513</u>	<u>11,303</u>	<u>1,200</u>	<u>63</u>	<u>1,137</u>

18. DEFERRED TAX LIABILITIES

Deferred credits arising due to

Write offs / reversals of provision for bad debts	914,268	688,974
Difference between accounting book value of leased assets and lease liabilities	935,133	665,463
Excess of accounting net book value over tax written down value of fixed assets	983,291	837,272
Surplus on revaluation of operating fixed assets	712,315	1,130,553
	3,545,007	3,322,262

Deferred debits arising due to

Provision for doubtful debts	(2,136,740)	(1,187,667)
Deficit on revaluation of securities	(28,300)	(10,477)
	(2,165,040)	(1,198,144)
	1,379,967	2,124,118

Notes to the Consolidated Financial Statements

	Note	2007		2006	
		(Rupees in '000)			
19. OTHER LIABILITIES					
Mark-up / return / interest payable in local currency		3,130,081		2,733,823	
Mark-up / return / interest payable in foreign currency		371,360		205,197	
Unearned commission and income on bills discounted		147,231		119,971	
Accrued expenses		401,859		164,216	
Current taxation		762,569		-	
Payable against redemption of credit card reward points		177,557		136,224	
Branch adjustment account		-		296,512	
Security deposits against lease		4,188,187		3,317,158	
Exchange difference payable to SBP		34,840		8	
Payable to brokers	19.1	249,023		11,279	
Provision against off-balance sheet obligations	19.2	6,959		-	
Others		324,744		372,291	
		<u>9,794,410</u>		<u>7,356,679</u>	
19.1 This represents amounts payable to brokers against purchase of shares.					
19.2 Provision against off-balance sheet obligations					
Opening balance		-		-	
Charge for the year		6,959		-	
Closing balance		<u>6,959</u>		<u>-</u>	
20. SHARE CAPITAL					
20.1 Authorized Capital					
		2007	2006		
		(Number of shares)			
		<u>800,000,000</u>	<u>800,000,000</u>	Ordinary shares of Rs. 10/- each	<u>8,000,000</u> <u>8,000,000</u>
20.2 Issued, subscribed and paid up Ordinary Shares of Rs.10 each					
		<u>225,000,000</u>	<u>225,000,000</u>	Fully paid in cash	<u>2,250,000</u> <u>2,250,000</u>
		<u>425,000,000</u>	<u>275,000,000</u>	Issued as bonus shares	<u>4,250,000</u> <u>2,750,000</u>
		<u>650,000,000</u>	<u>500,000,000</u>		<u>6,500,000</u> <u>5,000,000</u>
20.3 The right shares include 8,000 shares, representing rights relating to applications rejected and missing from the offer for sale of shares. These right shares will be offered to those applicants who were allotted/offered shares in accordance with the directives / guidance of the Securities and Exchange Commission of Pakistan. These shares are subject to all corporate actions applicable to all other ordinary shares.					
21. SURPLUS ON REVALUATION OF ASSETS - NET OF TAX					
Surplus / (deficit) arising on revaluation of:					
- Fixed assets	21.1	2,480,235		2,099,820	
- Available-for-sale securities	21.2	(27,064)		(53,887)	
		<u>2,453,171</u>		<u>2,045,933</u>	

Notes to the Consolidated Financial Statements

Note	2007	2006
	(Rupees in '000)	
21.1 Surplus on revaluation of fixed assets		
Surplus on revaluation of fixed assets at 01 January	3,230,373	1,164,876
Surplus on revaluation of fixed assets recognized during the year	-	2,105,611
Transferred to retained earnings in respect of incremental depreciation charged during the year	(24,585)	(26,074)
Related deferred tax liability in respect of incremental depreciation charged during the year	(13,238)	(14,040)
	(37,823)	(40,114)
	3,192,550	3,230,373
Related deferred tax liability on surplus as at 01 January	1,130,553	407,630
Deferred tax liability (reversed) / recognized	(405,000)	736,963
Related deferred tax liability in respect of incremental depreciation charged during the year	(13,238)	(14,040)
	(418,238)	722,923
	712,315	1,130,553
	2,480,235	2,099,820
21.2 Surplus / (deficit) on revaluation of available-for-sale securities		
Government securities	(80,856)	(29,935)
Quoted shares	(7,255)	(35,257)
Term Finance Certificates - quoted	32,747	828
	(55,364)	(64,364)
Related deferred tax asset	28,300	10,477
	(27,064)	(53,887)
22. CONTINGENCIES AND COMMITMENTS		
22.1 Direct credit substitutes		
i) Government	1,292,972	1,060,022
ii) Banking companies and other financial institutions	180,164	50,077
iii) Others	2,413,750	1,607,806
	3,886,886	2,717,905
22.2 Transaction-related contingent liabilities		
i) Government	13,045,987	11,477,550
ii) Banking companies and other financial institutions	446,639	617,392
iii) Others	11,627,301	5,603,788
	25,119,927	17,698,730
22.3 Trade-related contingent liabilities		
Letters of credit	38,533,186	27,080,933
Acceptances	8,558,681	5,261,893

Notes to the Consolidated Financial Statements

22.4 Other contingencies

Claims against Bank not acknowledged as debts

728,489 643,384

22.5 Commitments in respect of forward lendings

Forward repurchase agreement lendings

- 922,102

Commitments to extend credit

6,014,000 6,106,000

22.6 Commitments in respect of forward exchange contracts

Purchase

11,653,723 4,331,315

Sale

12,625,977 4,821,648

22.7 Commitments for the acquisition of operating fixed assets

492,230 520,565

22.8 Commitments in respect of repo transactions

Repurchase

14,827,466 1,777,650

Resale

2,455,815 9,924,099

22.9 Commitments in respect of CFS transactions

CFS transaction (including transactions to be rolled over) entered in respect of which the purchase transactions have not been settled at year end

- 443

CFS transaction (including transactions to be rolled over) entered in respect of which the sale transactions have not been settled at year end

- 7,255

23. 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

Forward Exchange Contracts:

Forward exchange contract is a product offered to customer backed by international trading contract. These customers used this product to hedge themselves from unfavorable movements in foreign currencies.

In order to mitigate this risk of adverse exchange rate movements the Bank hedges its exposure by taking forward position in inter bank market. In addition to this, the exposure is also managed by matching the maturities and fixing the counter parties, dealers, intra-day and overnight limits.

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.

Notes to the Consolidated Financial Statements

	Note	2007	2006
		(Rupees in '000)	
24. MARK-UP / RETURN / INTEREST EARNED			
a) On loans and advances to:			
i) customers		17,926,773	14,339,396
ii) financial institutions		337,331	96,517
b) On investments in:			
i) held for trading securities		-	10,605
ii) available for sale securities		3,246,017	2,513,194
iii) held to maturity securities		2,596,391	3,020,932
c) On deposits with financial institutions		1,154,110	740,026
d) On securities purchased under resale agreements		555,855	473,584
		<u>25,816,457</u>	<u>21,194,254</u>
24.1 These include mark-up earned of Rs. 1,755.553 million (2006: Rs. 1,265.267 million) of Islamic Banking Division.			
25. MARK-UP / RETURN / INTEREST EXPENSED			
Deposits		15,235,243	13,476,166
Securities sold under repurchase agreements		589,210	1,032,832
Other short term borrowings		443,217	373,369
Term Finance Certificates		376,707	353,170
Lease Obligation		801	151
		<u>16,645,178</u>	<u>15,235,688</u>
26. GAIN / (LOSS) ON SALE OF SECURITIES			
Market Treasury Bills		-	(1,324)
Pakistan Investment Bonds		-	(86)
Listed shares		255,930	190,381
Un-listed shares	26.1	<u>1,788,514</u>	<u>-</u>
		<u>2,044,444</u>	<u>188,971</u>
26.1 As per the agreement entered into between Singapore Telecommunication Limited (Singtel) and shareholders of Warid Telecom (Private) Limited, the Bank sold 48,816,474 shares out of its total holding of 316,773,753 shares at a price of USD 37.671 million.			
27. OTHER INCOME			
Net profit on sale of property and equipment		13,919	12,994
Postage, telex service charges etc.		<u>1,015,093</u>	<u>827,926</u>
		<u>1,029,012</u>	<u>840,920</u>
28. ADMINISTRATIVE EXPENSES			
Non executive director fee and allowances		4,937	-
Salaries, allowances, etc.		3,588,503	2,305,468
Charge for defined benefit plan	35.7	90,289	62,797
Contribution to defined contribution plan	36	114,015	81,395
Brokerage and commission		550,988	456,347
Rent, taxes, insurance, electricity, etc.		917,820	734,796
Legal and professional charges		157,139	73,396
Communications		311,779	269,488
Repairs and maintenance		400,649	267,342
Stationery and printing		136,796	139,623
Advertisement and publicity		477,699	358,957
Donations	28.1	36,173	3,635
Auditors' remuneration	28.2	6,626	5,451
Depreciation	11.2	966,406	703,228
Amortization of intangible assets	11.8	40,247	19,042
Entertainment, vehicle running expenses, traveling and subscription		333,776	282,506
Others		<u>247,480</u>	<u>189,166</u>
		<u>8,383,322</u>	<u>5,952,637</u>

Notes to the Consolidated Financial Statements

28.1 Donations

	2007	2006
	(Rupees in '000)	
Kashmir Education Foundation	1,500	1,500
Zindagi Trust	500	-
Lahore Businessmen association for Rehabilitation for disabled (LBARD)	500	-
Shalimar Hospital, Lahore	2,000	-
Government College University, Faisalabad	10,000	-
Bahauddin Zakaria University, Multan	10,000	-
Pakistan Society for the Rehabilitation of the disabled (PSRD)	2,000	-
Marie Adelaide Leprosy Center, Larkana	850	-
Chief Advisor's Relief and Welfare Fund - Bangladesh	8,823	-
The Citizen Foundation	-	1,500
Dar-ul-Khusnood, Karachi	-	25
Patient Welfare Association, Jinnah Hospital, Lahore	-	500
Murshid Hospital & Health Care Center, Karachi	-	100
Others	-	10
	36,173	3,635

None of the directors or their spouses had any interest in the donees.

28.2 Auditors' remuneration

Audit fee	3,765	3,150
Half yearly review	835	785
Fee for audit of foreign branches	1,015	889
Special certifications and sundry advisory services	210	217
Out-of-pocket expenses	801	410
	6,626	5,451

29. OTHER CHARGES

Penalties imposed by Central Bank	9,565	43,306
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30. TAXATION

For the year		
Current	1,743,247	481,150
Prior years	360	(100,874)
Deferred	(321,329)	427,902
	1,422,278	808,178
Share of tax of associates	75,585	(226,895)
	1,497,863	581,283

The income tax assessments of the Bank have been finalised upto and including tax year 2007. Matters of disagreement exist between the Bank and tax authorities for various assessment years and are pending with the Commissioner of Income Tax (Appeals), Income Tax Appellate Tribunal (ITAT) and High Court of Sindh.

The issues mainly relate to addition of mark-up in suspense to income, taxability of profit on government securities, bad debts written off and disallowance relating to profit and loss expenses. However, adequate provision has been made in the financial statements in this respect.

Notes to the Consolidated Financial Statements

	Note	2007		2006	
		(Rupees in '000)		(Rupees)	
30.1 Relationship between tax expense and accounting profit					
Profit before tax		<u>5,004,600</u>		<u>1,906,672</u>	
Tax at the applicable rate of 35% (2006: 35%)		<u>1,751,610</u>		<u>667,335</u>	
Effect of:					
- income chargeable to tax at reduced rates		(175,954)		(11,218)	
- income exempt from tax		(92,467)		(63,756)	
- Share of tax of associates		75,585		(226,895)	
- other differences		(61,271)		316,691	
- prior year provision		360		(100,874)	
Tax expense for the year		<u>1,497,863</u>		<u>581,283</u>	
31. BASIC / DILUTED EARNINGS PER SHARE					
Profit for the year		<u>3,505,697</u>		<u>1,332,748</u>	
		(Number of shares in thousand)		(Restated)	
Weighted average number of ordinary shares		<u>650,000</u>		<u>606,132</u>	
		(Rupees)		(Restated)	
Basic / Diluted earnings per share		<u>5.39</u>		<u>2.20</u>	
		2007		2006	
32. CASH AND CASH EQUIVALENTS		(Rupees in '000)		(Rupees)	
Cash and balances with treasury banks		<u>29,436,378</u>		<u>27,859,360</u>	
Balances with other banks		<u>18,388,124</u>		<u>12,735,607</u>	
Call lendings		<u>997,582</u>		<u>2,589,788</u>	
		<u>48,822,084</u>		<u>43,184,755</u>	
33. CREDIT RATING					
PACRA has assigned a long term credit rating of AA [double A] and a short-term credit rating of A1+ (A one plus) to the Bank as at July 2007 (2006: AA [Double A]) for long term and A1+ [A one plus] for short term).					
34. STAFF STRENGTH		2007		2006	
		(Number of employees)		(Number of employees)	
Permanent		<u>5,979</u>		<u>5,266</u>	
Temporary / on contractual basis		<u>1,392</u>		<u>1,277</u>	
Bank's own staff strength at the end of the year		<u>7,371</u>		<u>6,543</u>	
Outsourced		<u>1,812</u>		<u>1,536</u>	
Total staff strength		<u>9,183</u>		<u>8,079</u>	
34.1 Staff strength do not include number of employees of the Subsidiary Company.					

Notes to the Consolidated Financial Statements

35. DEFINED BENEFIT PLAN

35.1 Principal actuarial assumptions

The latest actuarial valuation was carried out as at 31 December 2007. Projected unit credit method, using the following significant assumptions, was used for the valuation of the defined benefit plan:

	2007	2006
Discount factor used	10.00%	10.00%
Expected rate of return on plan assets	10.00%	10.00%
Expected rate of salary increase	10.00%	10.00%
Normal retirement age	60 Years	60 Years

35.2 Reconciliation of payable to defined benefit plan

	2007	2006
(Rupees in '000)		
Present value of defined benefit obligations	546,346	366,308
Fair value of plan assets	(352,811)	(250,757)
Net actuarial losses not recognized	(190,705)	(111,306)
Past service cost not yet recognized	(2,830)	(4,245)
	-	-

35.3 Movement in defined benefit obligation

Obligations at beginning of the year	366,308	261,191
Current service cost	66,651	47,911
Interest cost	36,631	26,119
Benefits paid	(10,638)	(14,064)
Actuarial (gain) / loss on obligation	87,394	45,151
Obligations at end of the year	546,346	366,308

35.4 Movement in fair value of plan assets

Fair value at beginning of the year	250,757	183,665
Expected return on plan assets	25,076	18,366
Contributions	90,289	62,797
Benefits paid	(10,638)	(14,064)
Actuarial gain / (loss) on plan assets	(2,673)	(7)
Fair value at end of the year	352,811	250,757

35.5 Plan assets consist of the following:

Defence Saving Certificates	46,156	41,963
Preference shares	-	16,445
Term Finance Certificates	65,415	65,765
Pakistan Investment Bonds	23,810	-
Alfalah GHP Value Fund	9,689	10,002
Cash and bank	207,741	116,582
	352,811	250,757

35.6 Movement in payable to defined benefit plan

Opening balance	-	-
Charge for the year	90,289	62,797
Bank's contribution to fund made during the year	(90,289)	(62,797)
Closing balance	-	-

Notes to the Consolidated Financial Statements

35.7 Charge for defined benefit plan

	2007	2006
	(Rupees in '000)	
Current service cost	66,651	47,911
Interest cost	36,631	26,119
Expected return on plan assets	(25,076)	(18,366)
Actuarial losses	10,668	5,718
Past service cost	1,415	1,415
	<u>90,289</u>	<u>62,797</u>
	<u>22,403</u>	<u>16,383</u>

35.8 Actual return on plan assets

35.9 Historical information

	2007	2006	2005	2004	2003
	----- (Rupees in '000) -----				
Defined benefit obligation	546,346	366,308	261,191	176,786	135,457
Fair value of plan assets	352,811	250,757	183,665	131,193	86,303
Surplus / (deficit)	<u>(193,535)</u>	<u>(115,551)</u>	<u>(77,526)</u>	<u>(45,593)</u>	<u>(49,154)</u>
Experience adjustments on plan liabilities	<u>(87,394)</u>	<u>(45,151)</u>	<u>(29,548)</u>	<u>(15,760)</u>	<u>(21,992)</u>
Experience adjustments on plan assets	<u>(2,673)</u>	<u>(7)</u>	<u>174</u>	<u>14,052</u>	<u>1,276</u>

36. DEFINED CONTRIBUTION PLAN

The Bank operates an approved provident fund scheme for all its permanent employees to which both the Bank and employees contributes @ 8.33% of basic salary in equal monthly contributions.

During the year, the Bank contributed Rs.114.015 million (2006: Rs. 81.395 million) in respect of this fund.

37. COMPENSATION OF DIRECTORS AND EXECUTIVES

	Chief Executive		Directors		Executives	
	2007	2006	2007	2006	2007	2006
	----- (Rupees in '000) -----					
Fee	-	-	4,937	-	-	-
Managerial remuneration	7,470	6,400	-	-	667,719	380,269
Bonus	7,193	4,616	-	-	175,918	72,659
Post employment benefits	1,350	1,066	-	-	75,693	42,488
Rent and house maintenance	2,949	2,560	-	-	160,462	119,917
Utilities	737	640	-	-	51,268	29,321
Medical	-	-	-	-	-	-
Others	-	-	-	-	-	-
	<u>19,699</u>	<u>15,282</u>	<u>4,937</u>	<u>-</u>	<u>1,131,060</u>	<u>644,654</u>
Number of persons	<u>1</u>	<u>1</u>	<u>2</u>	<u>-</u>	<u>511</u>	<u>331</u>

The Chief Executive and certain executives have been provided with the free use of cars and household equipments.

The particulars do not include particulars of Chief Executive and Executives employed by the subsidiaries.

Notes to the Consolidated Financial Statements

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

On-balance sheet financial instruments

	2007		2006	
	Book value	Fair value	Book value	Fair value
-----Rupees in '000-----				
Assets				
Cash and balances with treasury banks	29,436,378	29,436,378	27,859,360	27,859,360
Balances with other banks	18,388,124	18,388,124	12,735,607	12,735,607
Lendings to financial institutions	3,452,059	3,452,059	12,456,653	12,456,653
Investments	89,578,391	88,869,145	56,128,577	55,198,242
Advances	171,031,183	171,031,183	149,942,717	149,942,717
Other assets	6,600,104	6,600,104	5,408,080	5,408,080
	<u>318,486,239</u>	<u>317,776,993</u>	<u>264,530,994</u>	<u>263,600,659</u>
Liabilities				
Bills payable	4,138,243	4,138,243	3,091,135	3,091,135
Borrowings	21,548,849	21,548,849	8,408,327	8,408,327
Deposits and other accounts	273,172,088	273,172,088	239,480,772	239,480,772
Sub-ordinated loans	3,220,858	3,220,858	3,222,106	3,222,106
Liabilities against assets subject to finance lease	-	-	1,137	1,137
Other liabilities	9,794,410	9,794,410	7,356,679	7,356,679
	<u>311,874,448</u>	<u>311,874,448</u>	<u>261,560,156</u>	<u>261,560,156</u>

Off-balance sheet financial instruments

Forward purchase of foreign exchange	<u>11,653,723</u>	<u>11,782,530</u>	<u>4,303,574</u>	<u>4,331,315</u>
Forward sale of foreign exchange	<u>12,625,977</u>	<u>12,748,699</u>	<u>4,810,836</u>	<u>4,821,648</u>

39. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

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

	Trading & Sales	Retail Banking	Corporate / Commercial Banking	Retail Brokerage	Asset Management	Total
-----Rupees in '000-----						
2007						
Total income	8,079,827	7,474,429	16,268,081	136,360	-	31,958,697
Total expenses	7,459,954	6,462,015	13,364,816	136,584	-	27,423,369
Net income	619,873	1,012,414	2,903,265	(224)	-	4,535,328
Segment assets	121,094,895	49,700,079	159,703,584	181,314	-	330,679,872
Segment non-performing loans	-	1,708,428	2,996,657	-	-	4,705,085
Segment provision required	-	2,139,734	2,340,084	-	-	4,479,818
Segment liabilities	18,750,329	66,094,010	227,830,969	590,410	-	313,265,718
Segment return on assets (ROA) (%)	7.96%	17.61%	9.99%	14.75%	-	
Segment cost of funds (%)	7.08%	15.20%	8.24%	12.10%	-	
2006						
Total income	7,082,839	6,143,236	11,166,753	72,499	19,550	24,484,877
Total expenses	6,863,416	5,003,226	9,960,242	68,114	35,860	21,930,858
Net income	219,423	1,140,010	1,206,511	4,385	(16,310)	2,554,019
Segment assets	83,602,344	48,170,167	143,368,856	299,159	70,957	275,511,483
Segment non-performing loans	-	659,196	1,649,472	-	-	2,308,668
Segment provision required	-	1,215,502	1,020,954	-	-	2,236,456
Segment liabilities	83,494,770	43,026,160	136,959,523	194,967	8,854	263,684,274
Segment return on assets (ROA) (%)	7.88%	16.08%	9.50%	15.46%	10.35%	
Segment cost of funds (%)	7.49%	13.10%	8.28%	14.53%	9.00%	

Notes to the Consolidated Financial Statements

40. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, group companies, associated companies with or without common directors, retirement benefit funds and directors and key management personnel and their close family members.

Banking transactions with the 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).

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of the contribution plan. Remuneration to executives is determined in accordance with the terms of their appointment.

The details of transactions with related parties, other than those which have been specifically disclosed elsewhere in the financial statements are as follows:

40.1 Deposits

	2007					Total
	Directors	Key Management Personnel	Group Companies	Associates	Strategic Investments	
	------(Rupees in '000)-----					
Balance at beginning of the year	3,905	20,467	16,095	1,047,226	6	1,087,699
Adjustments	-	-	-	5,750	-	5,750
Placements during the year	58,035	574,163	2,106,653	144,806,723	15	147,545,589
Withdrawals during the year	(59,811)	(483,361)	(1,967,166)	(136,157,239)	(3)	(138,667,580)
Balance at end of the year	2,129	111,269	155,582	9,702,460	18	9,971,458

40.2 Financing

Balance at beginning of the year	-	59,043	-	3,100,908	183,333	3,343,284
Adjustments	-	-	-	5,444	-	5,444
Disbursements during the year	-	269,968	-	-	-	269,968
Repayments during the year	-	(183,176)	-	(3,094,334)	(183,333)	(3,460,843)
Balance at end of the year	-	145,835	-	12,018	-	157,853

40.3 Investments

Balance at beginning of the year	-	-	349,580	2,586,464	120,000	3,056,044
Adjustments	-	-	-	56,000	-	56,000
Investment during the year	-	-	49,173	2,042,236	-	2,091,409
Withdrawals during the year	-	-	(93,753)	(488,165)	-	(581,918)
Balance at end of the year	-	-	305,000	4,196,535	120,000	4,621,535

40.4 Call borrowings / Repo

Balance at beginning of the year	-	-	-	-	-	-
Placements during the year	-	-	30,036,692	-	-	30,036,692
Withdrawals during the year	-	-	(30,036,692)	-	-	(30,036,692)
Balance at end of the year	-	-	-	-	-	-

40.5 Call lendings / Reverse Repo

Balance at beginning of the year	-	-	920,644	-	-	920,644
Placements during the year	-	-	43,298,686	-	-	43,298,686
Withdrawals during the year	-	-	(44,219,330)	-	-	(44,219,330)
Balance at end of the year	-	-	-	-	-	-

Notes to the Consolidated Financial Statements

	2007	2006
	(Rupees in '000)	
40.6 Financing		
Running finance		
- Other related parties	12,018	3,100,908
Long term loans		
- Other related parties	145,835	242,376
40.7 Contingencies and commitments		
Letter of credit and acceptance issued	-	157,048
Guarantees issued	6,200	169,200
40.8 Customer accounts		
PLS accounts		
- Other related parties	8,694,676	390,387
Current accounts		
- Other related parties	291,942	112,750
Fixed deposit accounts		
- Other related parties	984,840	584,562
40.9 With associated companies		
Commission income from Warid Telecom (Private) Limited	154	12,997
Commission income on letters of credit and letters of guarantee	102	2,447
Insurance premium paid to Alfalah Insurance Limited	55,438	7,467
Mark-up income on advances	238,386	211,865
40.10 With other Related Parties		
Contribution to Employees provident fund	114,015	81,395
40.11 The Key Management Personnel / Directors compensation are as follows:		
Salaries and benefits - Parent company	343,502	236,094

In addition, the chief executive and other executive officers are provided with Bank maintained car.

41. CAPITAL ADEQUACY

41.1 Capital Management

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

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

In accordance with BSD Circular No. 6 dated 28 October 2005, the State Bank of Pakistan has raised the minimum paid-up capital requirement for locally incorporated banks to Rs. 6 billion (net of losses) to be achieved in a phased manner by 31 December 2009. In addition all banking companies carrying on business in Pakistan are required to maintain capital and unencumbered general reserves the amount of which should at least be equivalent to 8% of the risk weighted assets of the banking company.

Notes to the Consolidated Financial Statements

The individual banking operation or companies outside Pakistan are directly regulated and supervised by their local banking supervisor. The requirements of those may differ from country to country.

The Group's regulatory capital is divided into two tiers;

- Tier 1 Capital: Share Capital, Reserves excluding foreign exchange translation reserves and unappropriated profit.
- Tier 2 Capital: Qualifying subordinated debt, eligible general reserves against future credit losses, revaluation reserves on fixed assets and exchange translation reserve.

The Book value of investments in subsidiary engaged in banking and financial activities and deficits arising on revaluation of available of sale securities are deducted form tier one capital.

The risk weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of each asset and counter party, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off balance sheet items with some adjustments in line with the regulatory requirements.

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

41.2 Capital Adequacy Ratio

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

	2007	2006
	(Rupees in '000)	
Regulatory Capital Base		
<i>Tier I Capital</i>		
Shareholders' capital	6,500,000	5,000,000
Balance in share premium account - associate	1,615,473	-
Reserves	2,327,775	2,701,729
Unappropriated profits	4,404,631	1,979,360
Minority interest	26,046	52,383
	<u>14,873,925</u>	<u>9,733,472</u>
Less: Adjustments		
- Deficit on account of revaluation of investments classified as AFS	59,811	54,715
Total Tier I Capital	<u>14,814,114</u>	<u>9,678,757</u>
<i>Tier II Capital</i>		
Subordinated debt (upto 50% of total Tier I Capital)	2,322,446	2,702,939
General provisions (subject to 1.25% of total risk weighted assets)	1,099,409	1,060,888
Revaluation reserve (upto 50%)	1,256,491	1,050,324
Foreign exchange translation reserves	87,058	47,804
Total Tier II Capital	<u>4,765,404</u>	<u>4,861,955</u>
<i>Eligible Tier III Capital</i>	-	-
Total regulatory capital (a)	<u>19,579,518</u>	<u>14,540,712</u>

Notes to the Consolidated Financial Statements

Risk-weighted exposures	Note	2007		2006	
		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
-----Rupees in '000-----					
<i>Credit risk</i>					
Balance sheet items:					
Cash and other liquid assets		51,276,561	5,166,102	53,051,620	7,330,283
Investments	41.3	89,047,947	10,886,316	55,290,583	5,507,969
Loans and advances	41.4	159,543,072	128,109,846	137,387,437	108,928,420
Fixed assets		11,955,258	11,955,258	10,548,440	10,548,440
Other assets		6,838,479	6,738,869	5,840,129	5,249,830
		<u>318,661,317</u>	<u>162,856,391</u>	<u>262,118,209</u>	<u>137,564,942</u>
Off - balance sheet items:					
Loan repayment guarantees and acceptances	41.5	12,606,646	8,831,288	6,586,181	6,586,181
Performance bonds, bid bonds, warranties and similar instruments etc.	41.6	3,816,356	1,833,017	3,138,478	1,242,115
Stand by letters of credit and other stand by facilities	41.7	30,958,445	12,369,451	25,139,511	9,112,710
Outstanding foreign exchange contracts - purchase and sales (both)		24,279,700	271,380	9,114,410	100,136
		<u>71,661,147</u>	<u>23,305,136</u>	<u>43,978,580</u>	<u>17,041,142</u>
Credit risk-weighted exposures			<u>186,161,527</u>		<u>154,606,084</u>
<i>Market risk</i>					
General market risk			42,435		67,040
Specific market Risk			42,435		67,040
Capital charge for foreign exchange risk			20,131		9,833
Total capital charge for market risk (b)			<u>105,001</u>		<u>143,913</u>
Market risk weighted exposure (b x 12.5)			<u>1,312,513</u>		<u>1,798,913</u>
Total risk-weighted exposures (c)			<u>187,474,040</u>		<u>156,404,997</u>
Capital adequacy ratio (a / c x 100)			<u>10.44</u>		<u>9.30</u>

41.3 Investments exclude held-for-trading portfolio amounting to Rs. 530.444 million (2006: Rs. 837.994 million). The held-for-trading portfolio is subject to market risk and is included in the computation of capital charge for market risk.

41.4 Advances secured against government securities / own deposits and cash margins amounting to Rs. 12,587.518 million (2006: Rs. 13,616.168 million) have been deducted from gross advances. Advances are gross of general reserve for consumer financing amounting to Rs. 1,099.409 million (2006: Rs. 1,060.888 million). This reserve has been added to supplementary capital.

41.5 Cash margins / government securities amounting to Rs. 2,608.655 million (2006: Rs. 1,927.011 million) and expired instruments amounting to Rs. 492.436 million (2006: Rs. 99.458 million) have been deducted from loan repayment guarantees.

Notes to the Consolidated Financial Statements

- 41.6 Cash margins / government securities amounting to Rs. 12,864.713 million (2006: Rs. 10,845.067 million) and expired instruments amounting to Rs. 4,397.859 million (2006: Rs. 2,782.718 million) have been deducted from performance bonds etc.
- 41.7 Cash margins / government securities amounting to Rs. 5,361.447 million (2006: Rs. 1,183.529 million) and expired instruments amounting to Rs. 2,992.124 million (2006: Rs. 1,057.508 million) have been deducted from stand by letters of credit.

42. RISK MANAGEMENT

The Group has in place an approved integrated risk management framework for managing credit risk, market risk, liquidity risk and operational risk as evidenced by its Board approved "Risk Management and Internal Control" manual.

Following is the governance structure and important policies on Risk Management of the Bank:

- The Board of Directors through its sub-committee called 'Board Risk Management Committee' (BRMC) oversees the overall risk of the Bank.
- The Head of the Risk Management Division (RMD) is also the secretary of BRMC and reports directly to it.
- The Head of RMD along with his staff has overall responsibility for all Risk Management activities. RMD performs the important function of being the facilitators between the strategic risk takers and the tactical risk takers.
- RMD is the organizational arm performing the functions of identifying, measuring, monitoring and controlling the various risks and assists the Apex level committee and the various sub-committees in conversion of policies into action.
- As part of its mandate the Central Management Committee (CMC) is entrusted with overseeing the operational risk of the Group.
- The Bank has established a Treasury Middle Office to effectively monitor day-to-day trading activities of the dealing room. The middle-office directly reports to Head of RMD.
- An independent risk review function exists at the bank through by internal audit division that reports directly to the Board Audit Committee.
- The Group has completed the Basel-II GAP analysis process and is now preparing for the proper implementation of Basel-II in collaboration with external consultants and in light of SBP circulars and guidelines.
- As a policy the reporting line of the risk management function has been kept completely independent of the business divisions.
- The Group has acquired Temenos T24 banking system as its core banking solution and its Risk Management system called T-Risk will be used for managing Credit, Market and Operational risks.

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42.1 Credit risk

Bank Alfalah Limited has conducted a comprehensive Basel-II GAP analysis in order to categorize all the risk areas and have also laid down the road-map to move towards the implementation of Basel-II, as per the State Bank of Pakistan directives.

In our experience, a key to effective credit risk management is a well thought out business strategy and in order to achieve this the Bank continually strive hard to gauge such factors existent and simultaneously deriving the mitigating factors to effectively manage the risk inherent to the best possible degree.

The Credit Risk Management comprises of the Credit Risk Manager who along with his staff looks after all the aspects of credit risk and conducts portfolio analysis for managing credit risk. The Credit Risk Manager reports directly to the Head of Risk Management Division.

The Group has built-up and maintained a sound loan portfolio in terms of well-defined Credit Policy approved by the Board of Directors. Its credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio. As part of discreet prudential practices the Risk Management Division conducts pre-fact validation of major cases from a risk point of view.

The Credit Division (now known as Credit & Collection Group) comprises of multiple credit approvers with authorities assigned in accordance with their qualifications and experience. This would be based on risk basis once rating structure is in place.

A comprehensive Risk Grading Index (RGI) model is used by the Group which categorizes different aspects of risk from credit point of view and assigns a grading to the counterparty. Moreover, a sophisticated Internal Credit Rating System is being developed by the Group, which would be able to quantify the counter-party risk in accordance with the best practices. The system would take into consideration the qualitative and quantitative factors of the counter-party and generate a rating providing a snapshot of anticipated customer behavior. The system will be tested, validated and checked for compliance with the State Bank of Pakistan's guidelines for Internal Credit Rating.

Credit Administration Department (CAD) is working towards ensuring all the policies and procedures are implemented and followed accordingly.

Special attention is paid by the management in respect of non-performing loans. Special Asset Management (SAM) Department (now under Credit & Collections Group) is functional and handles this responsibility. A "Wastchlist" procedure is also functioning which identifies loans showing early warning signals of becoming non - performing. The Risk Management Division also monitors the NPL portfolio of the Group and reports the significant matter to BRMC.

Proactive credit-risk management practices in the form of studies, research work, Risk Grading Index (RGI), Integrated Bank-wide Risk Management and Internal Control Framework, adherence to Basel II accord, portfolio monitoring are only some of the prudent measures the bank is engaged in for mitigating risk exposures. The current focus is on augmenting the bank's abilities to quantify risk in a consistent, reliable and valid fashion which will ensure advanced level of sophistication in the Credit Risk measurement and management in the years ahead.

Notes to the Consolidated Financial Statements

42.1.1 Segmental information

42.1.1.1 Segments by class of business

	2007					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	7,830,882	4.48%	1,562,973	0.57%	36,230	0.05%
Automobile & Transportation						
Equipment	5,815,984	3.31%	2,794,281	1.02%	3,628,648	4.77%
Chemical and Pharmaceuticals	3,749,425	2.13%	1,951,149	0.71%	2,163,730	2.84%
Cement	2,817,246	1.60%	1,008,105	0.37%	558,419	0.73%
Communication	2,105,503	1.20%	7,911,204	2.90%	3,099,550	4.07%
Electronics and Electrical						
Appliances	2,173,233	1.24%	841,611	0.31%	4,114,398	5.41%
Educational Institutes	607,080	0.35%	5,237,637	1.92%	105,305	0.14%
Financial	4,095,783	2.33%	10,839,871	3.97%	6,990,586	9.19%
Fertilizers	2,297,934	1.31%	3,229,602	1.18%	2,727,601	3.58%
Food & Allied Products	3,229,043	1.84%	1,294,974	0.47%	954,641	1.25%
Glass & Ceramics	253,661	0.14%	312,126	0.11%	276,443	0.36%
Ghee & Edible Oil	3,664,080	2.09%	445,543	0.16%	2,233,166	2.93%
Housing Societies / Trusts	2,484,934	1.41%	5,593,634	2.05%	27,657	0.04%
Insurance	75,736	0.04%	1,385,189	0.51%	44,641	0.06%
Import & Export	2,846,931	1.62%	4,793,407	1.75%	2,037,448	2.68%
Iron / Steel	3,365,857	1.92%	2,539,863	0.93%	2,860,725	3.76%
Oil & Gas	3,976,627	2.26%	14,850,578	5.44%	9,255,256	12.16%
Paper & Board	2,034,696	1.16%	1,248,918	0.46%	811,406	1.07%
Production and Transmission						
of Energy	7,208,151	4.10%	16,433,320	6.02%	7,897,125	10.38%
Real Estate / Construction	5,834,984	3.32%	8,301,050	3.04%	10,203,719	13.41%
Retail / Wholesale Trade	5,666,525	3.23%	6,728,486	2.46%	817,279	1.07%
Rice Processing and Trading/						
Wheat	4,354,135	2.48%	729,346	0.27%	233,051	0.31%
Sugar	2,715,814	1.55%	653,211	0.24%	97,451	0.13%
Shoes and Leather garments	742,760	0.42%	609,830	0.22%	121,760	0.16%
Sports Goods	259,012	0.15%	314,201	0.12%	25,579	0.03%
Surgical Goods	201,360	0.11%	155,131	0.06%	33,755	0.04%
Textile Spinning	14,115,925	8.04%	2,290,836	0.84%	2,695,709	3.54%
Textile Weaving	6,728,552	3.83%	1,648,112	0.60%	1,103,280	1.45%
Textile Composite	8,757,959	4.98%	866,560	0.32%	2,261,410	2.97%
Welfare Institutions	657,149	0.37%	9,273,546	3.39%	66,003	0.09%
Individuals	43,497,451	24.75%	88,754,315	32.49%	969,444	1.27%
Others	21,346,589	12.24%	68,573,479	25.10%	7,647,265	10.06%
	<u>175,511,001</u>	<u>100%</u>	<u>273,172,088</u>	<u>100%</u>	<u>76,098,680</u>	<u>100%</u>

Notes to the Consolidated Financial Statements

	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Agribusiness	8,589,224	5.64%	1,336,055	0.56%	350,366	0.66%
Automobile and transportation equipment						
equipments	3,841,818	2.52%	1,805,445	0.75%	1,413,164	2.68%
Chemical and Pharmaceuticals	1,235,329	0.81%	2,676,326	1.12%	440,433	0.83%
Cement	1,661,732	1.09%	835,700	0.35%	159,460	0.30%
Communication	4,436,496	2.92%	9,484,807	3.96%	3,194,455	6.05%
Electronic & electrical appliances						
Appliances	906,302	0.60%	706,887	0.30%	321,596	0.61%
Educational institutes	708,194	0.47%	4,629,625	1.93%	66,628	0.13%
Financial	3,174,254	2.09%	11,195,617	4.67%	7,442,197	14.11%
Fertilizers	1,376,523	0.90%	3,588,099	1.50%	1,133,273	2.15%
Food & allied products	1,180,216	0.78%	2,536,459	1.06%	281,827	0.53%
Glass & ceramics	116,317	0.08%	234,350	0.10%	87,552	0.17%
Ghee & edible oil	1,729,781	1.14%	897,338	0.37%	1,319,221	2.50%
Housing societies / trusts	1,029,520	0.68%	4,069,439	1.70%	532	0.01%
Insurance	37,969	0.02%	1,523,805	0.64%	17,280	0.03%
Import & export	4,680,848	3.08%	2,837,080	1.18%	5,552,136	10.52%
Iron / steel	922,776	0.61%	1,943,466	0.81%	553,277	1.05%
Oil & gas	718,170	0.47%	12,507,484	5.22%	114,497	0.22%
Paper & board	725,958	0.48%	827,265	0.35%	276,107	0.52%
Production and transmission of energy	219,203	0.14%	16,146,805	6.74%	7,941,601	15.05%
Real Estate / construction	4,889,404	3.21%	6,366,661	2.66%	1,943,983	3.68%
Retail / wholesale trade	6,294,461	4.14%	5,933,500	2.48%	1,054,348	2.00%
Rice processing and trading	3,914,258	2.57%	497,158	0.21%	42,557	0.08%
Sugar	1,899,343	1.25%	1,013,901	0.42%	304,316	0.58%
Shoes & leather garments	1,095,613	0.72%	570,589	0.24%	208,213	0.41%
Sports goods	278,524	0.18%	118,643	0.05%	7,787	0.01%
Surgical goods	102,243	0.07%	7,754	0.01%	19,437	0.04%
Textile spinning	10,660,134	7.00%	1,255,925	0.52%	1,544,071	2.93%
Textile weaving	10,029,651	6.59%	1,007,630	0.42%	1,480,340	2.81%
Textile composite	5,226,503	3.43%	1,041,871	0.44%	762,153	1.44%
Welfare institutions	515,119	0.33%	4,917,025	2.05%	21,880	0.04%
Individuals	50,844,264	33.41%	83,390,959	34.82%	86,717	0.16%
Others	19,139,026	12.58%	53,577,104	22.37%	14,618,057	27.70%
	<u>152,179,173</u>	<u>100%</u>	<u>239,480,772</u>	<u>100%</u>	<u>52,759,461</u>	<u>100%</u>

Notes to the Consolidated Financial Statements

42.1.1.2 Segment by sector

	2007					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	12,719,912	7%	68,848,320	25%	11,393,159	15%
Private	162,791,089	93%	204,323,768	75%	64,705,521	85%
	<u>175,511,001</u>	<u>100%</u>	<u>273,172,088</u>	<u>100%</u>	<u>76,098,680</u>	<u>100%</u>
	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	(Rupees in '000)	Percent	(Rupees in '000)	Percent	(Rupees in '000)	Percent
Public/ Government	9,456,984	6%	67,482,409	28%	9,279,174	18%
Private	142,722,189	94%	171,998,363	72%	43,480,287	82%
	<u>152,179,173</u>	<u>100%</u>	<u>239,480,772</u>	<u>100%</u>	<u>52,759,461</u>	<u>100%</u>

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

	2007		2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in '000-----			
Agriculture, forestry, hunting and fishing	209,678	19,703	104,222	8,905
Textile	716,679	475,638	494,777	198,151
Chemical and pharmaceuticals	33,459	32,740	26,410	24,718
Cement	11,233	8,081	15,464	3,500
Automobile and transportation equipment	77,447	31,768	6,666	2,471
Wholesale and retail trade	796,700	661,669	340,867	232,513
Individuals	1,749,090	1,285,736	838,573	425,397
Others	<u>1,110,799</u>	<u>865,074</u>	<u>481,689</u>	<u>279,913</u>
	<u>4,705,085</u>	<u>3,380,409</u>	<u>2,308,668</u>	<u>1,175,568</u>

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

	2007		2006	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in '000-----			
Public / Government	-	-	-	-
Private	<u>4,705,085</u>	<u>3,380,409</u>	<u>2,308,668</u>	<u>1,175,568</u>
	<u>4,705,085</u>	<u>3,380,409</u>	<u>2,308,668</u>	<u>1,175,568</u>

Notes to the Consolidated Financial Statements

42.1.1.5 Geographical segment analysis

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	4,733,297	313,406,780	17,212,216	70,221,545
Asia Pacific (including South Asia)	303,021	15,437,262	234,277	5,877,052
Middle East	(31,718)	1,835,830	(32,339)	83
	<u>5,004,600</u>	<u>330,679,872</u>	<u>17,414,154</u>	<u>76,098,680</u>
	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in '000-----			
Pakistan	1,833,340	266,195,039	11,787,401	49,345,511
Asia Pacific (including South Asia)	73,332	9,301,223	39,808	3,413,950
Middle East	-	15,221	-	
	<u>1,906,672</u>	<u>275,511,483</u>	<u>11,827,209</u>	<u>52,759,461</u>

42.2 Market risk

Market risk is the risk of losses due to on and off-balance sheet positions arising out of changes in market prices. Market risk mainly arises from trading activities undertaken by the bank's treasury. It also includes investments and structural positions in the banking book of the bank. To manage and control market risk a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. The bank uses the Standardized Approach to calculate capital charge for market risk as per the current regulatory framework under Basel I and the same approach is being adopted for the revised regulatory framework under Basel II. Going forward the bank is preparing to use more sophisticated systems and models and currently is evaluating various tools to enhance its capability to successfully meet the requirements of the internal models approach of Basel II.

42.2.1 Foreign exchange risk

Foreign exchange risk arises from the fluctuation in the value of financial instruments consequent to the changes in foreign exchange rates. The Bank manages this risk by setting and monitoring dealer, currency and counter-party limits for on and off-balance sheet financial instruments.

Off-Balance sheet financial instruments are contracts which are the resultant outcome of the import and export transactions. Moreover, counterparties enter into swaps, forward transactions in inter-bank market on behalf of customers to cover-up their positions against stipulated risks. The buy and sell transactions are matched in view of their maturities with respect to tenor.

The currency risk is regulated and monitored against the regulatory / statutory limits enforced by the State Bank of Pakistan. The foreign exchange exposure limits in respective currencies are managed against the prescribed limits.

Notes to the Consolidated Financial Statements

The below represents the concentration of bank foreign currency risk for on and off balance sheet financial instruments:

	2007			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
-----Rupees in '000-----				
Pakistan Rupee	291,071,594	273,496,385	(412,694)	17,162,515
United States Dollar	33,368,721	33,365,380	119,391	122,732
Great Britain Pound	3,399,816	3,654,041	312,494	58,269
Japanese Yen	30,612	1,216	(20,068)	9,328
Euro	2,754,469	2,746,586	21,364	29,247
Other currencies	54,660	2,110	(20,487)	32,063
Total foreign currency exposure	39,608,278	39,769,333	412,694	251,639
Total currency exposure	330,679,872	313,265,718	-	17,414,154

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
-----Rupees in '000-----				
Pakistan Rupee	249,021,049	238,534,564	1,217,810	11,704,295
United States Dollar	18,574,989	17,444,785	(1,220,355)	(90,151)
Great Britain Pound	2,912,043	2,899,834	11,438	23,647
Japanese Yen	17,750	3,225	(14,367)	158
Euro	1,659,008	1,589,273	(30,017)	39,718
Other currencies	3,326,644	3,212,593	35,491	149,542
Total foreign currency exposure	26,490,434	25,149,710	(1,217,810)	122,914
Total currency exposure	275,511,483	263,684,274	-	11,827,209

42.2.2 Equity position risk

Equity position risk in the trading books arises due to changes in prices of individual stocks or levels of equity indices. The Group's equity trading book comprises of Equity Portfolio Unit's Held for Trading (HFT) & Available for Sale (AFS) portfolios. The objective of Equity Portfolio Unit's HFT portfolio is to take advantages of short-term capital gains, while the AFS portfolio is maintained with a medium term view of capital gains and dividend income. Separate product program manuals have been developed to discuss in detail the objectives / policies, risks / mitigants, limits / controls for equity trading portfolios of the Equity Portfolio Unit.

42.3 Interest rate risk

The interest rate risk arises from the fluctuation in the value of financial instruments consequent to the changes in the market interest rates. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-priced in a given period. In order to ensure that this risk is managed within acceptable limits, the Group's Asset and Liability Management Committee (ALCO) monitors the re-pricing of the assets and liabilities on a regular basis. The Group's interest rate risk is limited since the majority of customer's deposits are retrospectively re-priced on a biannual basis on the profit and loss sharing principles.

Notes to the Consolidated Financial Statements

42.3.1 Mismatch of Interest Rate Sensitive Assets and Liabilities

2007

On-balance sheet financial instruments	Effective Yield/Interest Rate	Exposed to Yield/Interest risk										Non-interest bearing financial instruments		
		Rupees in '000												
		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				
<i>Assets</i>														
Cash and balances with treasury banks	-	2,438,985	-	-	-	-	-	-	-	-	-	-	-	26,997,393
Balances with other banks	5.51%	18,388,124	2,413,452	-	358,346	-	-	-	-	-	-	-	-	3,692,467
Lendings to financial institutions	7.07%	3,452,059	3,452,059	-	-	-	-	-	-	-	-	-	-	-
Investments	10.54%	89,578,391	19,243,394	22,936,499	14,097,947	39,340	3,013,502	3,536,471	51,180	-	-	-	-	8,315,060
Advances	12.27%	171,031,183	25,560,762	29,697,136	30,422,125	12,898,554	20,773,602	5,276,867	8,313,272	-	-	-	-	-
Other assets	-	6,600,104	-	-	-	-	-	-	-	-	-	-	-	6,600,104
318,486,239		60,288,302	42,349,668	52,633,635	44,878,418	17,435,383	23,787,104	8,813,338	8,364,452	45,605,024				
<i>Liabilities</i>														
Bills payable	-	4,138,243	-	-	-	-	-	-	-	-	-	-	-	4,138,243
Borrowings	8.35%	21,548,849	15,174,380	-	4,793,196	-	-	-	-	-	-	-	-	537,571
Deposits and other accounts	6.20%	273,172,088	21,325,896	34,226,613	27,796,124	10,486,818	10,371,771	44,106,194	71,012,626	-	-	-	-	-
Sub-ordinated loans	11.91%	3,220,858	-	324,844	2,192	988	1,687,554	881,640	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	11,303	826	-	-	-	8,285	-	-	-	-	-	-	-
Other liabilities	10.75%	9,794,410	-	-	-	-	-	-	-	-	-	-	-	9,794,410
311,855,751		36,500,276	42,200,339	34,551,457	32,916,356	11,647,521	12,067,610	46,031,536	85,482,850					
On-balance sheet gap		6,600,488	23,788,026	18,082,178	11,962,062	3,843,109	5,787,862	11,719,494	8,364,452	(39,877,826)				
Total Yield/Interest Risk Sensitivity Gap		23,788,026	149,329	18,082,178	11,962,062	3,843,109	5,787,862	11,719,494	8,364,452					
Cumulative Yield/Interest Risk Sensitivity Gap		23,788,026	23,937,355	42,019,533	53,981,595	57,824,704	63,612,566	75,332,060	83,696,512	92,060,964				

2006

On-balance sheet financial instruments	Effective Yield/Interest Rate	Exposed to Yield/Interest risk										Non-interest bearing financial instruments		
		Rupees in '000												
		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				
<i>Assets</i>														
Cash and balances with treasury banks	4.35%	27,859,360	2,318,183	-	-	-	-	-	-	-	-	-	-	25,541,177
Balances with other banks	3.35%	12,735,607	9,772,762	-	183,879	-	-	-	-	-	-	-	-	2,778,966
Lendings to financial institutions	9.08%	12,456,653	12,406,653	50,000	-	-	-	-	-	-	-	-	-	-
Investments	8.30%	56,128,577	15,067,618	18,163,259	1,352,005	1,500,000	2,339,324	5,650,703	3,280,178	50,000	-	-	-	3,280,178
Advances	12.50%	149,942,717	11,539,128	17,528,489	38,207,293	9,599,174	29,568,144	5,150,757	7,886,121	-	-	-	-	-
Other assets	-	5,408,080	-	-	-	-	-	-	-	-	-	-	-	5,408,080
264,530,994		51,104,344	35,741,748	25,807,985	39,743,177	11,099,174	31,907,468	10,801,460	7,936,121	37,008,401				
<i>Liabilities</i>														
Bills payable	-	3,091,135	-	-	-	-	-	-	-	-	-	-	-	3,091,135
Borrowings	7.79%	8,408,327	991,784	681,000	5,964,413	-	-	-	-	-	-	-	-	108,077
Deposits and other accounts	6.24%	239,480,772	37,474,609	33,431,034	22,102,440	7,970,912	8,471,056	33,857,020	58,255,318	-	-	-	-	-
Sub-ordinated loans	10.73%	3,222,106	-	624	624	649,688	416,258	2,153,924	-	-	-	-	-	-
Liabilities against assets subject to finance lease	-	1,137	32	64	205	183	367	-	-	-	-	-	-	-
Other liabilities	9.75%	7,356,679	-	-	-	-	-	-	-	-	-	-	-	7,356,679
261,560,156		38,466,425	34,112,098	29,357,787	28,067,682	8,620,783	8,887,681	36,673,997	68,811,209					
On-balance sheet gap		2,970,838	12,637,919	1,629,650	11,675,495	2,478,391	4,818,622	23,019,787	7,936,121	(31,802,808)				
Total Yield/Interest Risk Sensitivity Gap		12,637,919	1,629,650	(3,549,802)	11,675,495	2,478,391	4,818,622	23,019,787	7,936,121					
Cumulative Yield/Interest Risk Sensitivity Gap		12,637,919	14,267,569	10,717,767	22,393,262	24,871,653	29,690,275	52,710,062	60,646,183	68,549,014				



42.4 Liquidity risk

Liquidity risk is the potential for loss to the bank arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring an unacceptable cost.

The Group's Asset and Liability Committee (ALCO) manages the liquidity position on a regular basis and is primarily responsible for the formulation of the overall strategy and oversight of the asset liability function. ALCO monitors the maintenance of balance sheet liquidity ratios, depositor's concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits. Moreover, as core retail deposits form a considerable part of the Group's overall funding mix therefore significant importance is being given to the stability and growth of these deposits. The BOD has approved a comprehensive liquidity management policy which stipulates the early warning indicators of liquidity risk and maintenance of various ratios.

Notes to the Consolidated Financial Statements

42.4.1 Maturities of Assets and Liabilities

		2007									
		Rupees in '000-									
Total		Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
Assets											
Cash and balances with treasury banks	29,436,378	2,413,452	-	-	358,346	-	-	-	-	-	-
Balances with other banks	18,388,124	-	-	-	-	-	-	-	-	-	-
Lendings to financial institutions	3,452,059	18,726,814	23,813,047	16,443,070	1,512,452	39,340	-	-	-	-	
Investments	89,578,391	20,692,822	29,697,136	30,254,315	12,898,554	17,396,043	3,013,501	3,536,471	5,437,013	8,313,272	
Advances	171,031,183	426,829	200,123	433,178	800,490	880,388	1,600,980	3,553,833	5,276,867	8,313,272	
Operating fixed assets	11,955,258	1,123,908	483,526	483,525	298,314	298,314	447,472	447,472	3,387,382	-	
Other assets	6,838,479	95,218,021	43,383,825	54,193,832	47,972,434	18,614,085	25,835,555	12,814,643	17,137,667	-	
Liabilities	330,679,872										
Bills payable	4,138,243	-	-	-	4,793,196	-	-	-	-	-	
Borrowings	21,548,849	16,030,102	34,226,613	27,796,124	10,486,818	11,646,533	10,371,771	725,551	44,106,195	-	
Deposits and other accounts	273,172,088	42,197,760	324,844	324,844	988	988	1,687,554	881,640	-	-	
Sub-ordinated loans	3,220,858	-	-	-	2,192	-	8,285	-	-	-	
Liabilities against assets subject to finance lease	11,303	826	-	-	-	-	1,379,967	-	-	-	
Deferred tax liabilities	1,379,967	41,175	478,880	1,214,011	1,131,043	1,131,043	1,131,043	167,562	-	-	
Other liabilities	9,794,410	42,239,761	35,030,337	34,130,367	11,618,849	12,778,564	14,578,620	45,880,948	-	-	
Net assets	313,265,178	(21,790,251)	19,163,495	13,842,067	3,890,961	5,835,521	11,256,935	(33,066,305)	17,137,667	-	
Share capital	17,414,154	1,144,064	-	-	-	-	-	-	-	-	
Reserves	6,500,000	-	-	-	-	-	-	-	-	-	
Share in share premium of associate	2,414,833	-	-	-	-	-	-	-	-	-	
Unappropriated profit	1,615,473	-	-	-	-	-	-	-	-	-	
Minority interest	4,404,631	-	-	-	-	-	-	-	-	-	
Surplus on revaluation of assets	14,934,937	-	-	-	-	-	-	-	-	-	
	26,046	-	-	-	-	-	-	-	-	-	
	14,960,983	-	-	-	-	-	-	-	-	-	
	2,453,171	-	-	-	-	-	-	-	-	-	
	17,414,154	-	-	-	-	-	-	-	-	-	
Assets											
Cash and balances with treasury banks	27,859,360	-	-	-	183,879	-	-	-	-	-	-
Balances with other banks	12,551,728	50,000	-	-	-	-	-	-	-	-	
Lendings to financial institutions	12,406,653	18,163,258	6,779,132	1,352,006	1,500,000	1,946,358	2,339,324	5,770,703	1,810,840	-	
Investments	56,128,577	17,528,489	19,028,853	38,207,293	9,599,174	11,434,758	29,568,144	5,150,757	7,886,121	-	
Advances	149,942,717	124,368	186,635	373,270	749,774	749,774	1,490,344	3,672,666	3,139,226	-	
Operating fixed assets	10,548,441	62,184	124,431	669,964	124,431	124,431	186,647	293,837	31,000	-	
Other assets	5,840,128	4,062,716	222,143	40,786,412	11,973,379	14,255,321	33,584,659	14,887,963	12,867,187	-	
Liabilities	275,511,483										
Bills payable	3,091,135	3,091,135	-	-	-	-	-	-	-	-	
Borrowings	8,408,327	690,465	-	5,950,216	-	-	-	663,051	-	-	
Deposits and other accounts	289,480,772	33,431,035	29,357,060	22,102,440	7,970,912	8,561,323	8,471,055	33,857,020	-	-	
Sub-ordinated loans	3,222,106	624	624	205	649,688	988	416,258	2,153,924	-	-	
Liabilities against assets subject to finance lease	1,137	32	103	64	183	183	367	-	-	-	
Deferred tax liabilities	2,124,118	-	-	-	-	-	2,124,118	113,682	-	-	
Other liabilities	7,356,679	3,637,408	402,542	436,170	908,645	908,645	908,645	36,787,677	-	-	
Net assets	263,684,274	103,563,097	29,760,329	28,489,655	9,529,428	9,477,139	11,920,443	(21,899,714)	12,867,187	-	
Share capital	11,827,209	1,828,568	(3,543,566)	12,296,757	2,443,951	4,784,182	21,664,216	(21,899,714)	-	-	
Reserves	5,000,000	-	-	-	-	-	-	663,051	-	-	
Share in share premium of associate	2,749,533	-	-	-	-	-	-	33,857,020	-	-	
Unappropriated profit	1,979,360	9,728,893	-	-	-	-	-	2,153,924	-	-	
Minority interest	52,383	-	-	-	-	-	-	-	-	-	
Surplus on revaluation of assets	9,781,276	-	-	-	-	-	-	113,682	-	-	
	2,045,933	-	-	-	-	-	-	36,787,677	-	-	
	11,827,209	-	-	-	-	-	-	(21,899,714)	-	-	

60% of savings deposits have been distributed and classified equally in each of the categories ranging from upto one month to over 3 years to five years period with the remaining 40% being classified in over five to ten years based on management experience with such class of deposits. However, these deposits are payable on demand.

Notes to the Consolidated Financial Statements

42.5 Operational risk

Basel II defines Operational risk as, “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.” In compliance with the Risk Management Guidelines, issued by SBP, an Operational Risk Function has been established within RMD, which directly reports to Head of RMD.

The Operational risk management policy of the Group is incorporated in the Board-approved Risk Management & Internal Control Manual, which covers the strategies, processes, structure and functions of Operational risk management and provide guidelines to identify, assess, monitor, control & report operational risk in a consistent & transparent manner across the Group.

Risk awareness culture is being encouraged by communicating the principles of proper risk management to all Group employees. Operational Risk Function and business units are involved and regularly collaborate in determining and reviewing the strategy, in order to use it as an action plan in improving the operational risk & control system at the organizational and business unit levels. All the policies and procedures of the Group are reviewed from the risk perspective, and the recommendations of RMD are taken into consideration before their approval at the appropriate level. An Operational Loss Database, Risk & Control Self Assessment (RCSA) exercise and Key Risk Indicators (KRIs) are being developed and will soon be implemented.

43. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 24, 2008 has announced cash dividend of 15 percent and a bonus issue of 23 percent. This appropriation will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended 31 December 2007 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending 31 December 2008.

44. DATE OF AUTHORIZATION

These financial statements were authorized for issue on February 24, 2008 by the Board of Directors of the Bank.

45. GENERAL

45.1 Comparatives

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year.

Chief Executive Officer

Director

Director

Chairman

Annexure - I

Notes to the Consolidated Financial Statements

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

(Rupees in '000)

S. No.	Name and address of the Borrower	Name of individuals / partners / directors (with N.I.C. No.)	Father's / Husband's Name	Outstanding Liabilities at January 1, 2007			Principal written-off	Mark-up written-off	Other financial relief provided	Total (9+10+11)	
				Principal	Mark-up	Others					
1	2	3	4	5	6	7	8	9	10	11	12
1	Transpak Steel (Pvt) Ltd Transpak House Thokar Niaz Baig, Lahore	Mrs. Ismat Saeed Malik Mr. Ahmed Tariq Malik Mr. Muhammad Qasim Saeed Malik Mr. Saeed Anwar Miss Saddiqia Malik	W/o Mr. Mohammad Saeed Malik S/o Mr. Muhammad Saeed Malik S/o Mr. Muhammad Saeed Malik - D/o Mr. Muhammad Saeed Malik	14,401	1,740	-	16,141	14,401	1,740	-	16,141
2	Pearl Fabrics 89-H Jail Road, Lahore	Mr. Shafique A. Sheikh Mr. Muhammad Atshad Mr. Qamar Ishrat Mr. Zahid Ahmed Mr. Adnan Ahmed Sheikh		29,156	4,105	-	33,261	29,136	4,105	-	33,241
3	Pearl Knitwear (Pvt) Ltd	Bg. (R) Malik Muhammad Akhtar NIC # 35202-2710627-1 Mr. Qasir Zaman Mr. Mian Abdul Rasheed Mrs. Anwar Bano	Mr. Malik Muhammad Ashraf W/o Bg. (R) Malik Muhammad Akhtar	9,612	106	-	9,718	6,607	106	-	6,713
4	Iqra Maritime 501- Fortune Centre Shahrah-e-Faisal, Karachi	Mr. Tahir Lakhani NIC# 42301-1722026-7 Abdul Qadir Lakhani	S/o Mr. Abdul Qadir Lakhani S/o Haji Hassan Lakhani	72,074	-	-	72,074	72,074	-	-	72,074
			Total	125,243	5,951	-	131,194	122,218	5,951	-	128,169

Annexure - II

Islamic Banking Business

The bank is operating 32 Islamic banking branches at the end of current year as compared to 23 Islamic banking branches at the end of Prior year.

ASSETS

	2007	2006
	(Rupees in '000)	
Cash and balances with treasury banks	2,804,104	3,210,942
Balances with and Due from Financial Institutions	3,326,484	4,631,442
Investments	3,057,155	833,203
Financing and Receivables		
- Murahaba	3,332,490	2,979,948
- Ijarah	7,814,376	6,869,769
- Musharaka	361,951	293,656
- Diminishing Musharaka	2,652,234	2,371,423
- Salam	331,933	100,000
- Istesina	148,474	-
- Other Islamic Modes	417,803	210,834
Other assets	2,330,408	1,995,042
	26,577,412	23,496,259

LIABILITIES

Bills payable	299,333	165,580
Due to Financial Institutions	99,573	-
Deposits and other accounts		
- Current Accounts	6,022,120	5,057,425
- Saving Accounts	4,462,553	3,701,738
- Term Deposits	6,845,355	6,808,727
- Deposit from Financial Institutions -Remunerative	3,481,453	3,275,330
- Deposits from Financial Institutions-Non-Remunerative	-	-
- Others	204,587	116,796
Due to Head Office (Deferred Tax Liabilities)	253,495	215,936
Other liabilities	2,972,927	2,280,394
	24,641,396	21,621,926
	1,936,016	1,874,333

NET ASSETS

REPRESENTED BY

Islamic Banking Fund	1,200,000	1,200,000
Reserves	-	-
Exchange Equalization Reserve	178	-
Unappropriated profit	271,201	190,586
	1,471,379	1,390,586
Surplus/ (Deficit) on revaluation of assets	464,637	483,747
	1,936,016	1,874,333

Remuneration to Shariah Advisor/Board

	375	1,019
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CHARITY FUND

Opening Balance	16,611	2,908
Additions during the year	11,508	13,703
Payments / utilization during the year	-	-
Closing Balance	28,119	16,611

COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS AS AT DECEMBER 31, 2007

Number of Share Holders	From	To	Number of Shares Held
1,272	1	100	69,501
3,584	101	500	1,220,162
2,417	501	1,000	1,956,522
6,741	1,001	5,000	17,319,618
703	5,001	10,000	5,163,329
187	10,001	15,000	2,345,787
131	15,001	20,000	2,339,124
99	20,001	25,000	2,281,063
51	25,001	30,000	1,424,965
35	30,001	35,000	1,133,275
34	35,001	40,000	1,293,850
21	40,001	45,000	900,820
40	45,001	50,000	1,978,211
10	50,001	55,000	524,473
5	55,001	60,000	290,915
9	60,001	65,000	562,684
4	65,001	70,000	268,518
8	70,001	75,000	577,654
8	75,001	80,000	628,809
11	80,001	85,000	903,699
9	85,001	90,000	792,078
3	90,001	95,000	280,900
18	95,001	100,000	1,790,220
4	100,001	105,000	413,849
5	105,001	110,000	542,139
2	110,001	115,000	225,232
3	115,001	120,000	351,650
3	120,001	125,000	363,929
4	125,001	130,000	510,856
1	130,001	135,000	135,000
6	135,001	140,000	825,410
4	140,001	145,000	578,382
7	145,001	150,000	1,049,700
2	150,001	155,000	304,215
1	155,001	160,000	158,200
2	160,001	165,000	322,630
2	165,001	170,000	333,490
1	170,001	175,000	170,500
5	175,001	180,000	893,012
1	180,001	185,000	184,165
2	185,001	190,000	378,500
5	195,001	200,000	994,009
1	205,001	210,000	208,700
1	210,001	215,000	214,774
1	215,001	220,000	220,000
3	220,001	225,000	668,070
2	225,001	230,000	455,160
1	230,001	235,000	235,000
2	235,001	240,000	476,668
1	240,001	245,000	240,450
2	245,001	250,000	499,997
1	250,001	255,000	251,702
3	255,001	260,000	768,125
3	265,001	270,000	802,224
2	270,001	275,000	547,174

COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS AS AT DECEMBER 31, 2007

Number of Share Holders	From	To	Number of Shares Held
1	275,001	-	280,000
5	295,001	-	300,000
1	300,001	-	305,000
1	305,001	-	310,000
1	315,001	-	320,000
1	320,001	-	325,000
2	325,001	-	330,000
1	330,001	-	335,000
1	335,001	-	340,000
1	355,001	-	360,000
1	360,001	-	365,000
2	365,001	-	370,000
2	370,001	-	375,000
1	380,001	-	385,000
2	385,001	-	390,000
1	400,001	-	405,000
1	430,001	-	435,000
1	435,001	-	440,000
1	440,001	-	445,000
1	465,001	-	470,000
1	475,001	-	480,000
1	490,001	-	495,000
1	495,001	-	500,000
1	505,001	-	510,000
1	525,001	-	530,000
1	535,001	-	540,000
1	540,001	-	545,000
1	545,001	-	550,000
1	550,001	-	555,000
1	560,001	-	565,000
1	570,001	-	575,000
1	580,001	-	585,000
2	595,001	-	600,000
1	610,001	-	615,000
1	665,001	-	670,000
1	675,001	-	680,000
1	700,001	-	705,000
1	710,001	-	715,000
1	720,001	-	725,000
1	730,001	-	735,000
1	735,001	-	740,000
2	740,001	-	745,000
1	745,001	-	750,000
1	765,001	-	770,000
1	785,001	-	790,000
2	795,001	-	800,000
1	805,001	-	810,000
1	815,001	-	820,000
1	840,001	-	845,000
1	920,001	-	925,000
1	970,001	-	975,000
1	985,001	-	990,000
1	990,001	-	995,000
1	995,001	-	1,000,000
1	1,010,001	-	1,015,000
1	1,015,001	-	1,020,000
1	1,020,001	-	1,025,000

COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS AS AT DECEMBER 31, 2007

Number of Share Holders	From	To	Number of Shares Held
1	1,060,001	- 1,065,000	1,061,676
1	1,065,001	- 1,070,000	1,068,100
1	1,110,001	- 1,115,000	1,110,500
1	1,140,001	- 1,145,000	1,144,850
1	1,195,001	- 1,200,000	1,197,943
1	1,225,001	- 1,230,000	1,226,600
1	1,245,001	- 1,250,000	1,247,472
1	1,255,001	- 1,260,000	1,260,000
1	1,360,001	- 1,365,000	1,364,600
1	1,395,001	- 1,400,000	1,400,000
1	1,400,001	- 1,405,000	1,402,100
1	1,455,001	- 1,460,000	1,460,000
1	1,510,001	- 1,515,000	1,515,000
1	1,610,001	- 1,615,000	1,611,900
1	1,615,001	- 1,620,000	1,615,109
1	1,670,001	- 1,675,000	1,673,000
1	1,770,001	- 1,775,000	1,775,000
1	1,860,001	- 1,865,000	1,863,800
1	1,930,001	- 1,935,000	1,932,902
1	2,005,001	- 2,010,000	2,010,000
1	2,105,001	- 2,110,000	2,105,900
1	2,165,001	- 2,170,000	2,167,750
1	2,180,001	- 2,185,000	2,182,057
1	2,485,001	- 2,490,000	2,487,724
1	2,550,001	- 2,555,000	2,552,029
1	2,840,001	- 2,845,000	2,844,730
1	2,850,001	- 2,855,000	2,854,100
1	3,075,001	- 3,080,000	3,079,050
1	3,495,001	- 3,500,000	3,500,000
1	4,105,001	- 4,110,000	4,109,037
1	4,245,001	- 4,250,000	4,246,704
1	6,030,001	- 6,035,000	6,030,111
1	7,320,001	- 7,325,000	7,323,491
1	7,660,001	- 7,665,000	7,664,064
1	9,215,001	- 9,220,000	9,215,663
1	15,485,001	- 15,490,000	15,489,286
1	16,000,001	- 16,005,000	16,003,000
1	18,560,001	- 18,565,000	18,563,872
1	22,625,001	- 22,630,000	22,626,060
1	26,255,001	- 26,260,000	26,259,109
1	26,515,001	- 26,520,000	26,518,103
1	33,145,001	- 33,150,000	33,149,208
1	36,460,001	- 36,465,000	36,464,760
1	38,995,001	- 39,000,000	39,000,000
1	39,775,001	- 39,780,000	39,779,049
2	49,720,001	- 49,725,000	99,447,622
1	86,185,001	- 86,190,000	86,188,570
15,599			650,000,000

COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS AS AT DECEMBER 31, 2007

S. No.	Shareholder's Category	Number of Shareholders	Number of Shares Held	Percentage
1	Individuals	15,240	495,703,415	76.26
2	Financial Institutions	53	82,458,697	12.69
3	Insurance Companies	13	544,401	0.08
4	Investment Companies	21	7,324,446	1.13
5	Joint Stock Companies	189	13,947,309	2.15
6	Leasing Companies	4	232,513	0.04
7	Modaraba Management Companies	1	150	-
8	Modarabas	5	40,288	0.01
9	Mutual Fund	35	14,763,636	2.27
10	Others	38	34,985,145	5.38
		15,599	650,000,000	100.00

COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS AS AT DECEMBER 31, 2007

Shareholder's Category	Number of Shareholders	Number of Shares Held	Category wise No. of Shares Held	Percentage
1 NIT & ICP	2		1,051,573	0.16
National Bank of Pakistan, Trustee Deptt. Investment Corporation of Pakistan		1,050,000 1,573		
2 Directors, Chief Executive Officer and their Spouse and Minor Children	6		113,463,042	17.46
H.E. Sheikh Hamdan Bin Mubarak Al Nahayan		65,213,097		
Mr. Abdulla Nasser Hawaileel Al Mansoori		44,662,621		
Mr. Abdulla Khalil Al Mutawa		5,460		
Mr. Khalid Mana Saeed Al Otaiba		32,500		
Mr. Ikram Ul-Majeed Sehgal		1,615,109		
Mr. Nadeem Iqbal Shaikh		1,932,902		
Mr. Sirajuddin Aziz - Director / CEO		1,353		
3 Executives	97		934,622	0.14
4 Public Sector Companies and Corporation	1		19,332	0.00
5 Banks, DFIs, NBFIs, Insurance Companies, Modarabas and Mutual Funds	106		97,807,022	15.05
Trading in shares by Directors, CEO, CFO & Company Secretary		Shares Purchased 2007	Shares Sold 2007	
Mr. Sirajuddin Aziz - Director / CEO		1,000	-	
Shareholders holding ten percent or more shares				
Total Paid Up Capital		650,000,000	Shares	
10% of the Paid Up Capital		65,000,000	Shares	
		Holding	%	
H. E. Sheikh Nahayan Mabarak Al Nahayan		108,814,630	16.74	
H. E. Sheikh Hamdan Bin Mubarak Al Nahayan		65,213,097	10.03	

BRANCH NETWORK

KARACHI

Main Branch

B.A. Building, I.I.Chundrigar Road.
Phone : (021) 2414030-39
UAN No. : 111-777-786
Fax : 2417006, 2434181

Cloth Market Branch

Cochinwala Market, Luxmidas Street.
Phone : (021) 2401621-6
Fax : 2401627-2418896

Clifton Branch

World Trade Centre,
Khayaban-e-Romi, Clifton.
Phone : (021) 5833778-82
Fax : 5879175

Shahrah-e-Faisal Branch

Progressive Square,
11-A Block-6 PECHS.
Phone : (021) 4313536-38, 4522441, 4522460
Fax : 4313539

Jodia Bazar Branch

Gulzar Manzil, Jodia Bazar.
Phone : (021) 2532483-4, 2544816-20
Fax : 2532485

Korangi Industrial Area Branch

Aiwan-e-Sanat,
Plot No.ST-4/2, Sector 23,
Korangi Industrial Area.
Phone : (021) 5065701-2
Fax : 5050653

M.A.Jinnah Road Branch

Plot No.23/1, Zelin Place
(Habib Bank Building),
M.A.Jinnah Road/
Abdullah Haroon Road.
Phone : (021)2750627-28,
Fax : 2750629

S.I.T.E. Branch

D-40, Estate Avenue, Siemens Chowrangi, S.I.T.E.
Phone : (021) 2581247,2582114-6
Fax : 2582113, 2581247

North Karachi Industrial Area Branch

Sector 12-B,
North Karachi Industrial Area,
Opp: Police Station Gabol Town.
Phone : (021) 6987644, 6986170
Fax : 6986051

Paper Market Branch

Plot No. S.R.7/23,
Campbell Street, Paper Market.
Phone : (021) 2211353-58
Fax : 2211243

Gulshan-e-Iqbal Branch

Plot No.SB-15, Block 13-B,
KDA Scheme No.24,
University Road, Gulshan-e-Iqbal.
Phone : (021) 4984937, 4984904
Fax : 4984971

Karachi Stock Exchange Branch

18-20,
Karachi Stock Exchange Building,
Stock Exchange Road.
Phone : (021) 2417515-19
Fax : 2418353

North Napier Road Branch

Surv. No. 35 / Sheet No. NP - 10
(Old Surv.No.A26/5),
Napier Quarters.
Phone : (021) 2544021-24, 2540989
Fax : 2540066

Bahadurabad Branch

Prime Arcade, Shop No. 1-3,
Bahadur Shah Zafar Road, Bahadurabad.
Phone : (021) 4129677-81, 4128578-81
Fax : 4129676

Timber Market Branch

Ground Floor, Sur. No. 15,
Siddique Wahab Road,
Lawrence Quarters.
Phone : (021) 2750635-9
Fax : 2750632

Defence Housing Authority Branch

Plot No. C-12-C
26th Commercial St. Phase V,
Defence Housing Authority.
Phone : (021) 5302639-44
Fax : 5302635

PECHS Branch

Shop No. 3, 154-S,
Block-2, P.E.C.H.S.
Phone : (021) 4535861 2 4538423-24
Fax : 4314221

Federal 'B' Area Branch

C-28, Block - 13, Federal 'B' Area.
Phone : (021) 6803041, 6344700, 5 & 6
Fax : 6803043

Eidgah Branch

45/1/2,
Wadhmal Udhamam Quarters,
Near Light House, M.A. Jinnah Road.
Phone : (021) 2217290-4
Fax : 2217244

BRANCH NETWORK

Marriot Road Branch

Karachi Survey # 67, Sheet # M.R.1,
Murad Khan Road, Marriot Road.
Phone : (021) 2414138-40 & 2412080
Fax : 2412082

Hyderi (North Nazimabad) Branch

Plot # ST-4, Al-Burhan Circle Hyderi,
Block 'E', North Nazimabad.
Phone : (021) 6626004
Fax : 6625402

Gulistan-e-Jauhar Branch

30-31, Saima Classic Rashid Minhas Road.
Phone : (021) 4815926-27, 4815930
Fax : 4815924

Tipu Sultan Road Branch

Z-111-112, Adamjee Nagar, Tipu Sultan Road.
Phone : (021) 4398457-9
Fax : 4398456

DHA Phase-I Branch

114, 9th East Street, Phase-I,
Defence Housing Authority, Main Korangi Road.
Phone : (021) 5887571-73
Fax : 5887574

Hawksbay Road Branch

KB-28, Haji Ishaq Market, Main Hawksbay Road,
Opp. Quaid-e-Azam New Truck Stand
Phone : (021) 2355871, 2355872
Fax : 2355873

Shershah Branch

D-283, Main Shershah Road, S.I.T.E.
Phone : (021) 2585001-4
Fax : 2585005

Malir Cantt. Branch

Old Malir Cantonment Library,
Cantt Bazar, Malir Cantt.
Phone : (021) 4904601
Fax : 4904602

Tariq Road Branch

124/A, Block 2, P.E.C.H.S, Main Tariq Road
Phone : (021) 4386052-5
Fax : 4386056

Landhi Branch

Area 5-D, Sector 36-E, Landhi Township
Phone : (021) 5034451-3
Fax : 5030875

Gulshan Chowranghi Branch

Gulshan Chowranghi, Sani Arcade,
Block- 3, Gulshan-e-Iqbal
Phone : (021) 4988695
Fax : 4985729

Garden East Branch

Silver Jubilee Apartment,
194/2/1, Britto Road,
Near Ismailia Jamat Khana,
Garden East
Phone : (021) 2238704, 2238717, 2238722,
2238605
Fax : 2225941

DHA Phase IV, Karachi

Plot No. 80, 10th Commercial Street,
Phase IV, Defence Housing Authority, Karachi
Phone: (021) 5312832 - 35
Fax: 5312837

Gizri

K-4/3, Bazar Area Clifton, Karachi
Phone: 021 - 5868991-93
Fax: 021 - 5867149

Sea View

Sahil Promenade,
Block 3, Scheme 5,
Clifton, Karachi
Phone: 021 - 5364095-97
Fax: 021 - 5371259

Nazimabad

Al-Kausar Homes,
Plot # 2, Block-III,
Sub-Block "E", Nazimabad, Karachi
Phone: (021) 6708980-83
Fax: (021) 6708978

Saddar Branch

Shop # 6, State Life Building # 5,
Abdullah Haroon Road.
Phone: (021) 5658710-11
Fax: (021) 5658717

Johar Chowranghi Branch

Rafi shopping Mall Block
18 Gulistan e Johar
Phone : (021)4638114
Fax : 4638115

Nagan Chowranghi Branch

Plot # SC-28, Sector 11-H,
North Karachi, Karachi
Phone : (021)-6957622
Fax : 6957176

Jamshed Road Branch

Ashfaque Plaza, Jamshed Quarters,
New M.A. Jinnah Road, Karachi
Phone : (021)-4860794-95
Fax : 4860793

BRANCH NETWORK

HYDERABAD

Plot No.476/1 & 476/2,
adjacent to Hotel Faran, Saddar.
Phone : (0221) 786020-22, 784242
Fax : 786023

Grain Market Branch

Aman Center, Price Ali Road Hirabad
Phone : (022)-2660611-5
Fax : 2660620

SUKKUR

B-2823/B-2851, Frere Road, Sarafa Bazar.
Phone : (071) 28173-75,
24753, 24750
Fax : 28176

NAWABSHAH

Municipal Office Chowk, Katchery Road
Phone : (0244)330721-28
Fax : 330729

QUETTA

M.A. Jinnah Road Branch

Property No.2-12(1), M.A.Jinnah Road.
Phone : (081) 2841057, 2841180-83
Fax : 2827562

Hazar Gunji Branch

Plot No. 332, 333, 334, Truck Stand, Hazar Gunji.
Phone : (081) 2460520
Fax : 2460519

Cloth Market Branch

Cut Piece Cloth Market, Shahrah-e-Iqbal
Phone : (081) 4003849
Fax : 2821636

Double Road

Arbab Plaza, Double Road, Quetta
Phone : (081) 2441961-62, 2441662
Fax : (081) 2441665

Model Town Quetta Branch

Plot # 35-B, Model Town,

CHAMAN

Trunch Road,
Phone : (0826) 613440, 612541
Fax : 613488

GAWADAR

Gawadar Palace Motel, Airport Road.
Phone : (0864) 211796-98
Fax : 210185

MIRPURKHAS

Plot # 854/7, Adam Town, Main Mmerkot Road,
Phone : (02338) 74466, 74686
Fax : 75127

LARKANA

Bunder Road
Phone : (074) 4055712, 4055812, 4055360
Fax : 5053962

LAHORE

LDA Plaza Branch

LDA Plaza, Kashmir Road.
Phone : (042)6306201-06
Fax : 6307836, 6368905

Gulberg Branch

125/E-I, Gulberg-III, Main Boulevard.
Phone : (042) 5877800-8
Fax : 5754900, 5877807

Defence Branch

G-9, Commercial Area,
Phase-I, LCCHS.
Phone : (042) 5729772-6, 5729722-26
Fax : 5729727, 5733591

Circular Road Branch

A-43/A, Opp: Mazar Hazrat Shah
Mohammad Ghous, Circular Road.
Phone : (042) 7638256-8
Fax : 7653384

Township Branch

47-B/1, Block 10, Akbar Chowk, Township.
Phone : (042) 5152833-6
Fax : 5113716

Badami Bagh Branch

29-30 PECO Road, Badami Bagh.
Phone : (042) 7704961-66
Fax : 7728636, 7728074

Allama Iqbal Town Branch

36, College Block, Allam Iqbal Town.
Phone : (042) 5432961-5
Fax : 5432960

Shah Alam Market Branch

Hilal-e-Ahmar Health Complex,
Shah Alam Market.
Phone : (042) 7673401-6
Fax : 7673409

Shadman Market Branch

Shop No. 2, Ground Floor,
Business Centre, Shadman Market.
Phone : (042) 7538116-20
Fax : 7538128

BRANCH NETWORK

Tufail Road Branch

50/3, Tufail Road.
Phone : (042) 6689016-19
Fax : 6688374

Lahore Stock Exchange Branch

Basement Level - 2,
Lahore Stock Exchange Building,
19, Khayaban-e-Iqbal.
Phone : (042) 6307461-69
Fax : 6307460

Baghbanpura Branch

G.T. Road, Baghbanpura.
Phone : (042) 6844002-09
Fax : 6844010

Ravi Road Branch

13 Ravi Raod.
Phone : (042) 7708661-65
Fax : 7708660

Liberty Branch

10-C, Commercial Area,
Liberty Market, Gulberg-III.
Phone : (042) 5756288 & 5756355
Fax : 5755226

Raiwind Road Branch

Thoker Niaz Beg, Raiwind Road.
Phone : (042) 5431802-05
Fax : 5431806

Shahdin Manzil Branch

Shahdin Manzil, Faysal Chowk, Mall Road.
Phone : (042) 6012000-30, 6300581, 6300586
Fax : 6300589

DHA Extension Branch

Divine Centre, Near Bhatta Chowk,
New Airport Road, Lahore Cantt
Phone : (042) 5700301-309
Fax : 5700311

Azam Cloth Market Branch

Raheem Centre, Akbar Block, Azam Cloth Market
Phone : (042) 7665526, 7643851-55
Fax : 7643860

Shad Bagh Branch

37, Umer Din Road, Wassanpura
Phone : (042) 7616252-56
Fax : 6260295

Ferozpur Road Branch

18-KM Main Ferozpur Road
Phone : (042) 5807812-14
Fax : 5807811

Shahdara Branch

Main G.T. Road, Shahdara Chowk
Phone : (042) 7900290
Fax : 7900291

Walton Road Branch

E-28/A, Main Walton Road
Phone : (042) 6687390
Fax : 6687391

Urdu Bazar Branch

Main Kabir Street
Phone : (042) 7210644
Fax : 7210647

Brandreth Road Branch

91-A, Brandreth Road, Near Australia Building
Phone : (042) 7674115-18
Fax : 7671633

DHA Phase II Branch

65 CCA, Phase-II, DHA
Phone : (042) 5748846-47
Fax : 5748849

Ghari Shahu Branch

99-A, Allama Iqbal Road, Ghari Shahu
Phone : (042) 6360973
Fax : 6360962

Model Town, Lahore

13 Bank Square, Central Commercial Market,
Model Town Lahore
Phone: (042) 5884670-72
Fax: 5884675

Cavalry Ground, Lahore

35 Main Boulevard, Officers Housing Scheme,
Cavalry Ground Lahore
Phone: (042) 6610531-32, 6610534
Fax: 6610536

Chuburgi

24-Niaz View Scheme, Rewaz Garden,
Chuburji, Lahore
Phone: (042) 7356640-42
Fax: 7222236

Main Market Gulberg

32-E-Main Market, Gulberg II, Lahore
Phone: 042- 5786955- 59
Fax: 042- 5786964

Montgomery Road Branch

65-Montgomery Road, Lahore

Jauhar Town Branch

Plot No. 435, Block G-1
M.A. Johar Town, Lahore
Phone : (042)- 5311632-33

ISLAMABAD

Blue Area Branch

1-B, Awan Arcade, Jinnah Avenue, Blue Area.
Phone : (051) 2206986-7
Fax : 2279897, 2274766



BRANCH NETWORK

I-10 Markaz Branch

4-A, I-10 Markaz
Phone : (051) 4435804-6
Fax : 4435807

F-7 Markaz Branch

5-A, Markaz F-7
Phone : (051) 2653959-63
Fax : 2653964

Stock Exchange Branch

101-W, Waqas Plaza, Blue Area
Phone : (051) 2804102-104
Fax : 2804106

F-10 Markaz Branch

4-D, Urfi Centre
Phone : (051) 2809703
Fax : 2809700

I-8 Markaz Branch

Plot No. 34, I-8 Markaz
Phone : (051) 4862563-6
Fax : 4862567

G-9 Markaz, Islamabad

39-G-9 Markaz, Mauve Area, Islamabad
Phone: (051) 2253002-3
Fax: 2854932

F-8 Markaz, Islamabad

Shop No. 2 & 3, Al-Babar Centre,
F-8 Markaz, Islamabad
Phone: (051) 7151673, 2854615
Fax: 2260270

RAWALPINDI

The Mall Branch

8, The Mall
Phone : (051) 5700038-40
Fax : 5584213, 5567462

Satellite Town Branch

B/20, North Star Plaza, Satellite Town, Murree Road.
Phone : (051) 4424080-6
Fax : 4424087

Jinnah Road Branch

A-351, Jinnah Road (Old City Saddar Road).
Phone : (051) 5775325-8
Fax : 5775324

Lalazar Branch

Tulsa Road, Lalazar
Phone : (051) 3007067-68
Fax : 5568977

Chaklala Branch

59, Shah Plaza, Commercial Area,
Chaklala Scheme III
Phone : (051) 5766003-4
Fax : 576605

College Road Branch

E/20-26, College Road
Phone : 051- 5762008, 5762010
Fax : 5762007

Peshawar Road Branch

Plot No. 400/2, Gammon House, Peshawar Road
Phone : (051) 5468401-2
Fax : 5468403

Airport Road

7-Fazal Town, Airport Link Road, Rawalpindi
Phone: (051) 5781484- 5
Fax: 5781483

Khanna Branch

Adil Tahir Plaza, Service Road,
Al-Noor Colony, Sector 3
Phone: (051) 4479290-3, Fax: (051) 4479295

FATEH JANG

Rawalpindi Road, Fateh Jang,
Phone : (0572)-210837-38 Fax : 210839

WAH CANTT

4-1/100, Officers Colony, The Mall.
Phone : (0514) 539426-28 Fax : 511980

FAISALABAD

Main Branch

Ground Floor, State Life Building, Liaquat Road.
Phone : (041) 617436-9
Fax : 617432, 640834

Peoples Colony Branch

237-B, Commercial Area, D-Ground,
Peoples Colony No. 1.
Phone : (041) 8722636-39
Fax : 8722184

Susan Road Branch

25-Z-101, Susan Road, Madina Town
Phone : (041) 8556673-75 Fax : 8556679

Rail Bazar Branch

Property No. P-81, Rail Bazar
Phone : (041) 2540801-2 Fax : 2540803

Yarn Market Branch

P-229, Tikka Gali No. 2,
Yarn Market, Montgomery Bazar
Phone : (041) 2621486 Fax : 2621487

Minerva Road Branch

Shops No. 16 & 17, Golden Market,
New Grain Market Menerva Road
Phone : (041) 2540763- 5 Fax : 2540759

BRANCH NETWORK

Sheikhupura Road, Faisalabad
P - 352-A, Gulistan Colony II,
Millat Chowk, Sheikhupura Road, Faisalabad
Phone : 041-8582141 - 3
Fax : 041-8582147

Babar Chowk Branch
Peoples Colony Extension, Babar Chowk
Phone : (041)- 8557421-22
Fax : 8557424

PESHAWAR

Peshawar Cantt. Branch
6/38/L-Islamia Road.
Phone : (0915) 5287051-7 Fax : 5287058

Peshawar City Branch
Park Inn Hotel Building,
Khyber Bazar, Peshawar City.
Phone : (0915) 2551794, 2590023-27
Fax : 2551380

Hayatabad Jamrud Road
Shop No. B-29 & 30, J.B. Plaza,
Karkhano Market
Phone : (0915) 5822902-5
Fax : 5822908

G.T. Road Branch
1045-1046, Hashtnagri,
Opp: Sarhad Chamber of Commerce,
G.T. Road
Phone : 091-2593003 Fax : 2593001

Peepal Mandi Branch
Ashraf China Trade Center Peepal Mandi, Peshawar
Phone : 8557421-2
Fax : (091)-2564911

ATTOCK

Zila Council Plaza, Katchery Chowk
Phone : (057) 2701568, 2701557-58
UAN : 111-777-786 Fax : 2700248

KAMARA

Attock Road, Kamara
Phone : (057)-9317423-25 Fax : 9317420

HUNGU

Saif-ur-Rehman Market, Opp:
DCO Bungalow, Kohat Road, Main Bazar
Phone : (0925) 624641-43 Fax : 624644

MULTAN

Abdali Road Branch
62-A, Abdali Road.
Phone : (061) 4546792-6 Fax : 4570233, 4540970

Vehari Road Branch
618/B, Vehari Road.
Phone : (061) 6244492-95 Fax : 6244496

Hussain Agahi Branch
Hussain Agahi Road
Phone : (061) 4577242, 457725
Fax : 4577232

Chowk Shaeedan Branch
Akbar Road, Chowk Shaheedan
Phone : (061) 4579021-23, 4588807
Fax : 4579024

Shahrukn-e-Alam Branch
230-A Main Road Multan.
Phone : (061)-6784201-4 Fax : 6784205

SIALKOT

40/A, Paris Road.
Phone : (0432) 590098, 591741
Fax : 591742, 593210

RAHIM YAR KHAN

City Centre Complex, Shahi Road.
Phone : (068) 5879880-1, 5885970
Fax : 5879882

GUJRANWALA

B XII-7S-145, Krishan Nagar, G.T. Road.
Phone : (055) 3859931-3, 3847031-33
Fax : 3856471, 3255295

SAHIWAL

183-Sarwar Shaheed Road.
Phone : (040) 4467691-95 Fax : 4467696

SARGODHA

Block # 5, Liaqat Road,
Opp: Jamia Mosque Hamid Ali.
Phone : (0451) 724138-9 Fax : 724193

GUJRAT

15/231, Circular Road, Opp: Rampair Mahal
Phone : (053) 3530071-3530219
Fax : 3530319

MARDAN

C-929 to 932 & C-662,
Ex-Arif Hotel Building, Bank Road.
Phone : (0937) 873631-3 Fax : 873733

BRANCH NETWORK

BAHAWALPUR

Ground Floor, Bdg. No. V/912,
Circular Road.
Phone : (062) 2889922-5 Fax : 889874

CHINIOT

1-A, Shahrah-e-Quaid-e-Azam
Phone : (047) 6000712 Fax : 6331322

DASKA

Gujranwala Road
Phone : (052) 6616834-35 Fax : 6619650

HAFIZABAD

BV-BS-26, Railway Road
Phone : (0547) 540801 Fax : 540804

CHICHAWATNI

1-Railway Road, Rai House,
Chichawatni District Sahiwal
Phone : (0405) 487802-6 Fax : 487807

ARIFWALA

47/D, Zain Palace, Qaboola Road
Phone : (0457) 835711-12-13
Fax : 835717

PAKPATTAN

Main College Road
Phone : (0457) 76020-22 Fax : 76024

DERA GHAZI KHAN

24-Block # 15, Liaquat Bazar.
Phone : (064) 2468201-6
Fax : 2468104

MINGORA, SWAT

Khasra No.95, Makan Bagh,
Saidu Sharif Road, Opposite PTCL Office.
Phone : (0946) 726745-6, 726740-4
Fax : 726747

JHELUM

Bungalow No.67, Kazam Kamal Road.
Phone : (0541) 610162, 610172, 610182
Fax : 610050

MIAN CHANNU

Ghazi Morr, G.T. Road.
Phone : (065) 2665301-4 Fax : 2665383

SHEIKHUPURA

Main Lahore-Sargodha Road.
Phone : (056) 3767970-4 Fax : 3614976

DERA ISMAIL KHAN

Plot # 3666-B, Kashmir Chowk,
North Circular Road,
Phone : (0966) 720606-10 Fax : 720612

OKARA

Plot No. 14, Sahiwal Road.
Phone : (0442) 550418-22 Fax : 550423

ABBOTTABAD

191, Supply Bazar,
Main Mansehra Road.
Phone : (0992) 344723-6
Fax : 344728

JHANG

9-D, Yousuf Shah Road,
Jhang Saddar.
Phone : (047) 7624701-3
Fax : 7624704

TOBA TEK SINGH

105-Farooq Road,
Mohallah Jamia Masjid.
Phone : (0462) 517837-9
Fax : 517841

BUREWALA

95-C, Al-Aziz Market, College Road.
Phone : (067) 3771901-4
Fax : 3771905

KOHAT

Bannur Road, Kohat Cantt.
Phone : (0922) 522791-7
Fax : 522798

SADIQABAD

28-29 D, Allama Iqbal Road.
Phone : (068) 5802501-4
Fax : 5802704

BRANCH NETWORK

MANDI BAHAUDDIN

17/207 Alvi Plaza,
Alvi Hospital Chowk, Phalia Road.
Phone : (0546) 520921-23
Fax : 507886

LALA MUSA

G.T. Road.
Phone : (053) 7518068, 7518368,
7518370, 7518780
Fax : 7518070

AHMEDPUR EAST BRANCH

Plot # 188, Block XI, Kutchery Road
Phone : (062) 2275504-8
Fax : 2275503

DAHARKI

1285 - 1287, Zafar Bazar
Phone : (0723) 641255, 641355, 641217
Fax : 644040

GHOTKI

1-13, Station Road
Phone : (0723) 684404, 684483, 684432
Fax : 684296

HAROONABAD

15-C/16-C, Ghalla Mandi
Phone : (063) 2256457
Fax : 2256458

HASILPUR

37-C, Committee Bazar
Phone : (062) 2448078, 2448090, 2448075
Fax : 2441071

KHARIAN

1, Rizwan Plaza, Main G.T. Road
Phone : (053) 7536241-43
Fax : 7536245

GILGIT

Shahrah-e-Quaid-e-Azam, Near Radio Station, Jutial
Phone : (05811) 51904-07
Fax : 51903

CHAKWAL

City Trade Centre, Tehsil Chowk, Rawalpindi Raod
Phone : (0543) 555206-218
Fax : 555220

BHALWAL

Liaqat Shaheed Road,
Phone : (048) 6643709-6644863
Fax : 6624647

KASUR

Shop No. 8-12, Adjacent to Mazar
Hazrat Baba Bulley Shah, Rail Road
Phone : (0492) 765218-9 Fax : 770890

MANSEHRA

Shahrah-e-Resham, Branch
Punjab Chowk, Shahrah-e-Resham
Phone : (0997) 303591, 303592
Fax : 300597

Oghi Branch

Main Bazar, District Mansehra
Phone: (0997) 321949 Fax: (0997) 321357

BANNU

Gowshala Road, Fatima Khel
Phone : (0928) 614633-36 Fax : 614099

CHITRAL

D.C. Office Road, Opposite Mountain Inn Hotel,
Attalique Bazar
Phone : (0943) 414396, 414367
Fax : 412988

HAZRO

273-M, Main Hattian Road
Phone : (057) 2313771-2
Fax : 2313773

KOTLA

Bhimber Road, Kotla Arab Ali Khan,
Tehsil Kharian, Distt. Gujrat
Phone : (0537) 586892, 586915, 586435
Fax : 586337

MIRPUR, AZAD JAMMU & KASHMIR

114, Sector F-1, Kotli Road, Mirpur,
Azad Jammu & Kashmir
Phone : (058610) 36834-7
Fax : 36838

KALLAR SYEDAN

Ghousia Shopping Centre,
Choa Road, Kallar Syedan
Phone : (051) 3570763, 3572016
Fax : 3570227

BRANCH NETWORK

GUJAR KHAN

58-D & 59-C,
Akbar Kiani Shopping Mall,
G.T. Road, Gujar Khan
Phone : 051 - 3515704-707
Fax : 051 - 3515703

GOJRA

P -86, Block III,
Bohar Wali Gali, Gojra
Phone : 046- 3517876-77
Fax : 046- 3517878

MURIDKE

G.T. Road, Muridke
Phone : (042) 7983173-75
Fax : (042) 7983172

JARANWALA

P -813, Street No. 3,
Nia Bazar, Jaranwala
Phone : (041) 4319003-4
Fax : (041) 4319005

BAHAWALNAGAR

Shop # 6, Ghallah Mandi, Bahawalnagar
(063) 2272005-8
(063) 2277437

MUZAFFARGARH

Mauza Taliri, Multan Road, Distt. Muzaffargarh
(0662) 428920-23 (0662) 428931

KHANPUR

Kutchery Road, Model Town, Khanpur
(068)5577502- 3,
5577617, 5577627
(068) 5577805

HARIPUR

Main Shahrah-e-Hazara,
G.T. Road, Haripur
Phone : (0995) 627451-2
Fax : (0995) 627831

DINGA

Thana Road, Dinga, Distt. Gujrat
Phone : (053) 7404844-46
Fax : (053) 7404840

WAZIRABAD

Sialkot Road, Wazirabad,
Distt. Gujranwala
Phone : (055) 6609460, 6609470, 6609480
Fax : (055) 6609450

KHUSHAB

Plot # 2, Block # 2, Janharabad
Phone: (0454) 723761-2
Fax: (0454) 723758

NANKANA SAHIB

Main Jaranwala Road, Mandi Faizabad
Phone: (056) 2881031-4,
Fax: (056) 2882086

MIANWALI

Watta Khel Chowk, Sargodha Road, Mianwali
Phone : (0459) 237794-6, Fax : 237791

BHERA

Circular Road, Darwaza Chakwala, Behra
Phone : (048) 6692162-3, Fax : 6692161

TALAGANG

Taqi Plaza, Chakwal Road,
Talagang Phone : (0543) 410791-4
Fax : (0543) 411030

MURREE

Sharjah Center, Mall Road,
Phone : (051)-3413210-2
Fax : 3413149

DINA

Mahfooz Plaza, G T Road
Phone : (0544)-632723-4 Fax : 632557

KHANEWAL

Cinema Road, Chak # 98-10/R
Phone : (065) 2555701-4, Fax : 2555710

PIR MAHAL

Mohallah Kasurabad,
Rajana Road, Pir Mahal
Phone : (046)-3366430-31 & 3366381
Fax : 3366382

DEPALPUR

Kutchery Road, Depalpur
Phone : (044)-4542223-25 Fax : 4542220

BRANCH NETWORK

ISLAMIC BANKING BRANCHES

Uni-Tower, Karachi 213 - Uni-Towers,
I.I.Chundrigar Road.
Phone : (021) 2472295-8
Fax : 2472141

Shahrah-e-Faisal, Karachi
Ground Floor, Fortune Center, Shahrah-e-Faisal.
Phone : (021) 4315271-4
Fax : 4313581

Jodia Bazar
Plot No. 112, Durya Lal Street,
Jodia Bazar, Karachi
Phone : (021) 2446542 - 5
Fax : (021) 2430492

Gulistan-e-Jauhar
Pakistan Tulip Valley Plot No. SB-1, Block # 1,
Phone : (021) 4661355-7
Fax : (4661359

Korangi Industrial Area
Shop No. 1, Plot # 27/28, Sector-16
Korangi Industrial Area, Karachi
Phone : (021) 5061661-4
Fax : (021) 5067031

Gulshan-e-Iqbal
Plot # 40-B, Block#13-A, KDA Scheme No. 24,
Gulshan-e-Iqbal, Karachi
Phone : (021) 4144650- 52 Fax : (021) 4144653

North Nazimabad, Karachi
D-3, Block A, North Nazimabad
Phone : (021)-6633133 & 6633177
Fax : 6633135

DHA Branch, Karachi
23-C, Main Khayabane-e-Ittehad,
Phase II Extension, DHA, Karachi
Phone : (021)-531873-80
Fax : 5313872

Dhorajee, Karachi
Plot # 35/127 Block 7 & 8
C.P. Berar Cooperative Housing Society
Phone : (021) 4860321-2
Fax : 4860320

Main Branch, Lahore
66-Main Boulevard, Gulberg.
Phone : (042) 5715241-5 Fax : 5715249

McLeod Road, Lahore
Abid Plaza, 13, McLeod Road.
Phone : (042) 7211631-5 Fax : 7211640

New Garden Town, Lahore
Awami Complex Block # 1, New Garden Town.
Phone : (042) 5846374-85
Fax : 5846386

Y Block, Lahore
93-Y, Commercial Area, Phase III,
Defence Housing Authority.
Phone : (042) 5746191-5
Fax : 5746190

Johar Town, Lahore
69-R-I, M.A. Johar Town.
Phone : (042) 5313401-05
Fax : 5313406

Zarrar Shaheed Road
1500-F, Dubai Chowk, Zarrar Shaheed Road,
Lahore Cantt., Lahore
Phone : (042) 6613853-62
Fax : (042) 6673224

Gulshan-e-Ravi
Block F, Main Road, Gulshan-e-Ravi Lahore
Phone : (042) 7404811-20
Fax : (042) 7404821

Qurtaba Chowk
Rehman Chambers, Qurtaba Chowk,
Mozang Chungi, Lahore
Phone : (042) 7114612-16
Fax : (042) 7114618

Mughalpura Branch
Opposite Ialpul, Jehangir Raod
Phone: (042) 6524701-09,
Fax: (042) 6524710

Multan Road, Lahore
Opposite Bex Factory,
Main Multan Road, Lahore
Phone : (042) 7490041-5 Fax : 7490046

Wahdat Road, Lahore
14-Main Wahdat Road, Lahore

Jinnah Avenue, Islamabad
8-E, REDCO Plaza, Jinnah Avenue, Blue Area.
Phone : (051) 2879580-4
Fax : 2879589

G-10 Markaz, Islamabad
20-A, Sardar Plaza, G-10 Markaz
Phone : (0511)-2819101-05 Fax : 2819100

Cantt. Rawalpindi
125-D, Murree Road.
Phone : (051) 5795184-88 Fax : 5795189

BRANCH NETWORK

Satellite Town, Rawalpindi
400-B, Block B, Commerical Market,
Phone : (051)4452048-9 Fax : 4452050

Kutchery Bazar Faisalabad
P - 36, Kutchery Bazar.
Phone : (041) 603021-5
Fax : 603028

Medical College Road, Faisalabad
1-Ramana, Opp: Punjab Medical College, Jail Road.
Phone : (041) 8581602-04
Fax : 8581582

Faisal Arcade G.T. Road, Gujranwala
Phone : (055) 4557301-05
Fax : 4557310

2, Bosan Road, Multan
Phone : (061) 750941-5
Fax : 750885

Jamrud Road, Peshawar
Phone : (0915) 5701385-89
Fax : 5701392

Ali Building, Khadim Ali Road, Sialkot
Phone : (052) 3241302 - 5
Fax : 3241306

**11-12-13, City Centre, Shahi Road
Rahim Yar Khan**
Phone : (068) 5885331 - 2
Fax : (068) 5885668

Dera Islamil Khan
East Circular Road, Toopanwala Gate
Dera Ismail Khan
Phone : (0966) 710141-2 Fax : 710139

OVERSEAS BRANCH

BANGLA DESH

DHAKA

Dhaka Branch
5-Rajuk Avenue, Motijheel C.A.
Phone : (008802) 7168821-05 Fax : 9557413

Gulshan Branch
168, Gulshan Avenue,
Gulshan North, Dhaka 1212, Bangladesh
Phone : 0088 20 8861848, 8861704
Fax : 8850714

CHITTAGONG

Agrabad Branch
57, Agrabad, Chittagong, Bangla Desh
Phone : (0088) 171-888727

Sylhet Branch
Marchant Tower
582 East Mirza Bazar
Phone: (00880821) 2830679
Fax: (00880821) 2830677

Dhanmondi Branch, Bangladesh
81/A- Satmasjid Road, Dhaka City Corporation,
Union Dhanmondi,
Phone : (00880) 0161-001477

AFGHANISTAN

KABUL

Kabul Branch
410, Chahrahi-e-Sadarat,
Shah-e-Nau
Phone : (009375) 2004105-10
Fax : 2002142

HERAT

Herat Branch
Ground Floor,
Chamber of Commerce & Industries,
Heart Blood Bank Street
Phone : (0093-40) 230705-07
Fax : 230704

KINGDOM OF BAHRAIN

MANAMA

1302-Harbour Tower West Bahrain
Financial Herbour P.O. Box # 1375
Phone: (00973) 17203100
Fax; (00973) 17224300



FORM OF PROXY

Folio/CDC Account No.

I/We _____
 of _____ being member(s) of
BANK ALFALAH LIMITED ("the Bank"), holding _____ ordinary
 shares, hereby appoint _____
 of _____ or failing
 him/her _____

of _____, who is also a
 member of the Bank, as my/our proxy to vote for me/ us, and on my/our behalf at the **16th**
 Annual General Meeting of the Bank to be held on **Tuesday, March 25, 2008** and at any
 adjournment thereof.

As witness my/our hand this _____ day of _____, 2008.

Witness:

Name: _____

CNIC No/Passport No.: _____

Address: _____

(Member's signature on
 Rs. 5/- Revenue Stamp)

1. A member entitled to attend, and vote at the Meeting is entitled to appoint another member as a proxy to attend, speak and vote on his/her behalf. A corporation being a member may appoint as its proxy any of its official or any other person whether a member of the Bank or otherwise.
2. 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 Share Registrar of the Bank, M/s. **F. D. REGISTRAR SERVICES (SMC-PVT) LIMITED**, 1700-A, 17th Floor, Saima Trade Towers, I.I. Chundrigar Road, Karachi.. not less than 48 hours before the time of the Meeting.
3. In case of proxy for an individual beneficial owner of CDC, attested copy of beneficial owner's National Identity Card, Account and Participant's ID numbers must be deposited alongwith the form of proxy with the Share Registrar. The proxy must produce his/her original identity card at the time of the Meeting. In case of proxy for corporate members, he/she should bring the usual documents required for such purpose.



AFFIX
CORRECT
POSTAGE

BANK ALFALAH LIMITED
Share Registrar
F. D. REGISTRAR SERVICES (SMC-PVT) LIMITED
1700-A, 17th Floor, Saima Trade Towers, I.I. Chundrigar Road, Karachi.

Fold : Here

Fold : Here

Fold : Here

Fold : Here