Annual Report 2008

Values at work

faysalbank


بسم الله الرحمن الرحيم

Registered Office
Faysal House,
ST-2, Sharae Faisal, Karachi
Telephone: (021) 2795200
Fax: (021) 2795234

Regional Offices
Karachi
Southern Region
Faysal House,
ST-2, Sharae Faisal, Karachi
Telephone: (021) 2795200
Fax: (021) 2795234

Lahore
Central Region
59-A Main Boulevard,Gulberg, Lahore
Telephone: (042) 5872811
Fax: (042) 5872815

Islamabad
Northern Region
F-11 Markaz, Islamabad
Telephone: (051) 2224300
Fax: (051) 2228145

values at work

integrity

We are recognised by our reliability, credibility and character.
We believe in ethical, honourable, time-proven principles of uprightness.
We stand for and abide by honesty, truth and transparency.

Our Integrity: Our Identity.

Chairman's Message

The present year and times ahead are expected to offer more financial pressures on the banking sector. The strategic direction that Faysal Bank has embarked upon aims at meeting these with confidence.

Assalam o Alaikum

Having assumed the office of Chairman of the Board in April 2008, it is my privilege and responsibility to lead Faysal Bank to the next level of sustainable growth.

The year 2008, despite the global economic challenges of the last quarter of the year, showed both growth and profit. The present year and times ahead are expected to offer more financial pressures on the banking sector. The strategic direction that Faysal Bank has embarked upon aims at meeting these challenges with confidence.

Starting from its new vision, mission, values and its new image to the restructuring of its organization, its policies and procedures, all efforts are geared towards placing Faysal Bank on a firm footing for growth and profitability within rules of good corporate governance and best business practices. It is our endeavour to be recognized as a bank of choice by our customers.

Faysal Bank is strengthened by not only its pace of growth locally but also by the commitment of its sponsors. The Bank is 66.9 percent owned by Ithmaar Bank B.S.C., a Bahraini bank. The sponsors have a presence in Pakistan since 1987 when the present Faysal Bank started as a branch operation of a Bahraini bank working on the principles of Shariah compliant finance. We have since evolved into a locally incorporated bank offering practically all banking services allowed under a commercial banking license.

Further the soundness of the Bank is validated by its entity rating of AA for the long-term and A1+ for the short-term assigned to it by both JCR-VIS and PACRA.

As Chairman, I am fully confident that the members of the board, the management and the employees of Faysal Bank shall achieve its planned leadership role in the banking sector and its aspirations to excellence.

Chairman of the Board
Syed Naseem Ahmad

Our Vision

Excellence in all that we do.

Threshold Values

Values at the heart of our brand

Integrity

We are recognised by our reliability, credibility and character.
We believe in ethical, honourable, time-proven principles of uprightness.
We stand for and abide by honesty, truth and transparency.

Our Integrity: Our Identity.

Respect

We hold our customers, investors and regulators in high esteem.
We uphold our customers' rights to demand efficient service.
We appreciate and respect our profession and, above all, our bank.

Our Respect: Our Duty.

Teamwork

We function as a team. Within functions, we cooperate.
Between functions, we collaborate. Together, we aim for excellence and leadership in our chosen markets.

Our Team: Our Asset.

Professionalism

We are proficient and efficient in all that we do.
We provide banking services knowledgeably and skillfully.
We uphold regulatory obligations.

Our Professionalism: Our Competence.

Our Mission

Achieve leadership in providing financial services in chosen markets through innovation.

Differentiator Values

Values that set our brand apart

Passion

We bring zeal and enthusiasm for banking to work.
We are excited to provide customers with the best or the best-suited.
We go the extra mile in legitimate, acceptable ways.

Our Passion: Our Worth.

Responsiveness

We are receptive to the need for change and improvement.
We are proactive and anticipate our customers' needs and wants.
We act quickly to modify, adjust or prepare for new realities.

Our Responsiveness: Our Distinguisher.

Innovation

We pioneer novel and more efficient ways to deliver solutions.
We are dedicated to a culture of improvement and modernisation.
We stand for originality, in thought, in action and in belief.

Our Innovation: Our Strength.

Compassion

Our concern for our customers, our colleagues, our communities, and our country sets us apart. To each other, we are a family.
For each other, we are a meaningful source of shared humanity.

Our Compassion: Our Gift.

The new Mission clarifies the goal of leadership in providing financial services in our chosen markets and the means to get there through innovation.

A New, Energized Identity

The year 2008 was a year of growth and consolidation at Faysal Bank. It was a year to reassess the Bank's strategic position in light of the changed economic conditions and opportunities. The initiatives undertaken during 2008 were rungs on the ladder that would augment and facilitate Faysal Bank's move towards its Vision of Excellence.

Based on extensive and exhaustive strategic plans the Board of Directors approved a new Vision and Mission for the Bank, one leading to "Excellence in all that we do".

The new Mission clarifies the goal of leadership in providing financial services in our chosen markets and the means to get there through innovation.

Arising from the new Vision and Mission, Faysal Bank has embarked upon realigning three core areas; the products and services offered by the bank, the processes adopted to deliver these products and services and the technology updates required to produce the capability for delivering them.

As a result of this fundamental realignment, the Bank is endeavoring on becoming more customer-centric, cost efficient and proactive in risk management; elements necessary for the long term viability of any business.

A New, Dynamic Structure

With a new strategic direction in place, the structure of Faysal Bank underwent a radical metamorphosis during 2008 from being organized regionally to one organized on a functional basis. This new functional structure supports the long term business objectives and increases synergistic efficiencies arising from grouping related functions. It further clarifies roles and responsibilities while empowering managers to perform their assignments with a holistic view. A significant addition to the structure was that of a Strategic Development function that would guide the Bank towards achievement of its objectives and realign these where required.

Another major structural initiative was the renewed empowerment of the Compliance Function to make it truly effective bank-wide. A Compliance Committee chaired by the P&CEO has been instituted to provide better governance over regulatory and compliance matters. The Compliance Policy has been revised to form a consolidated version of the Bank's policies towards compliance standards, code of conduct, ethical standards, whistle blowing, confidentiality of information, risk based client acceptance and anti-money laundering guidelines. These are in line with international best practices on compliance and are also commensurate with the local regulatory requirements.

As part of the long-term strategy, dedicated Special Assets Management and Fraud Investigation Units have been set up, to bring increased focus to the function of recoveries in a recessionary economy. The primary objective remains the recovery of delinquent assets and ensuring efficient and effective remedial measures.

A New, Refreshed Image

One of the major initiatives started during 2008 was to refresh the Bank's image to bring in a contemporary look, more in line with the strategic direction the Bank is aspiring towards and one that would depict an organization evolving with the changing needs of customers.The refreshed look was researched intensively to ensure its market acceptability during the second half of 2008. The new identity of Faysal Bank has retained its original colours of blue and grey and has also retained the octogram (the star shaped logo), as all three elements denote what the bank stands for - integrity, respect and professionalism. The octogram has positive connotations of growth and reliability in almost all cultures of the world and is already recognized widely as identifying Faysal Bank.The refreshed look has been applied through changing;

a) The visual within the octogram to read Faysal in order to bring more relevance to the logo.

b) The typeface in which the bank's name is written, to give it a more modern day look.

c) The new logo is accompanied by a scriptogram on branch signage and other marketing collateral which is a design element derived from the urdu script inside the octogram. This scriptogram denotes the responsiveness of the bank and its innovative character.

This new refreshed look of Faysal Bank is aimed at bringing through an image change and also standardizing the use of the Bank's logo in all its applications towards strengthening the brand.

The new identity of Faysal Bank has retained its original colours and the octogram (the star shaped logo), as all three elements denote what the bank stands for: integrity, respect and professionalism.

Milestones

The Annual Report of Faysal Bank for the year 2007 won the third prize in the financial sector category in the "Best Corporate Reports Awards" organized by a joint committee of the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountants of Pakistan (ICMAP). This joint committee reviews annual reports of all listed companies with a view to rewarding the best in terms of quality of presentation and financial disclosures.

The following print advertisement of Faysal Bank has the privilege of being selected as an example of a good life-style advertisement for the 13th edition of “Marketing Management - A South Asian Perspective” by Philip Kotler co-authored by Abraham Koshy and others. This advertisement shown on page 153 of Chapter 6, 'Analyzing Consumer Markets' is cited as a print advertisement that appeals to the lifestyle characteristics of its target market.

values at work

teamwork

We function as a team. Within functions, we cooperate. Between functions, we collaborate. Together, we aim for excellence and leadership in our chosen markets.

Our Team. Our Asset.

Board of Directors

Farooq Rahmatullah
Director

Mohammed A. Rahman Bucheerei
Director

Mohamed A. R. Hussain
Director

Naved A. Khan
President & CEO

Syed Naseem Ahmad
Chairman

Tariq Iqbal Khan
Director

Graham Roderick Walker
Director

Shahid Ahmad
Director

Board of Directors Committees

Audit Committee

Graham Roderick Walker
Chairman

Tariq Iqbal Khan
Member

Mohammed A. Rahman Bucheerei
Member

Terms of Reference

Formed in compliance with the code of Corporate Governance, the Audit Committee (AC) aims to enhance the Internal Control environment in Faysal Bank. The AC recommends to Directors the appointment of external auditors and considers questions of resignation or removal of external auditors, audit fees and other services and similar initiatives.

Recruitment Nomination and Remuneration Committee

Syed Naseem Ahmad
Chairman

Farooq Rahmatullah
Member

Naved A. Khan
Member

Mohammed A. Rahman Bucheerei
Member

Shahid Ahmad
Member

Terms of Reference

Formed in compliance with the code of Corporate Governance to ensure that the HR policies are in line with market dynamics and the business objectives of the bank. RNRC reviews HR policies and approves the same. RNRC meets at least 3 times in a year for discussing HR related issues and policies.

Board Risk Management Committee

Mohamed A.R.Hussain
Chairman

Naved A. Khan
Member

Syed Naseem Ahmad
Member

Shahid Ahmad
Member

Terms of Reference

The Board Risk Management Committee (BRMC) assists the Board of Directors in fulfilling its responsibilities in relation to statutory, fiduciary and regulatory responsibilities. BRMC performs the duties required by the State Bank of Pakistan such as monitoring the Bank's performance and overall risk portfolio, risk limits in respect of credit, approving policies and procedures, credit reporting, assessment of regulatory compliance and any other matters that are specifically delegated to the BRMC by the Board.

Board Meeting Attendance

Attended by	21/02/08
Ziad H. Rawashdeh	Present
Graham R. Walker	Present
Mohammed A. Rahman Bucheerei	Present
Khalid S. Tirmizey (P&CEO Acting)	Present
Tariq Iqbal Khan	Present
Sanaullah Qureshi	Present
Shahid Ahmad	Present

Board Meeting Attendance For Newly Constituted Board Effective 10/4/08

Attended by	24/04/08	25/04/08	12/08/08	16/10/08
Syed Naseem Ahmad	Present	Present	Present	Present
Naved A. Khan	Present	Present	Present	Present
Farooq Rahmatullah	Present	Present	Present	Present
Graham R. Walker	Present	Present	Present	Present
Mohammed A. Rahman Bucheerei	Present	Present	Leave of Absence	Leave of Absence
Mohamed A. R. Hussain	Leave of Absence	Leave of Absence	Leave of Absence	Present
Tariq Iqbal Khan	Leave of Absence	Leave of Absence	Present	Present
Shahid Ahmad	Did not attend-SBP's clearance not received- in process	Did not attend-SBP's clearance not received- in process	Present	Leave of Absence

Present   Leave of Absence   Did not attend-SBP's clearance not received- in process

Note: The reason for two attendance sheets is on account of the term of previous Board having expired on April 10, 2008 and a new Board was duly constituted/elected in AGM held on March 28, 2008 effective from April 10, 2008.

Management Team

Nauman Ansari
Head of Corporate/
Investment Banking

Syed Majid Ali
Chief Financial Officer

Bashir A. Shaikh
Advisor on Special Assets/
Acting Head of Risk

Aarij Ali
Head of Strategic
Development

Mehreen Amin
Head of Human
Resources

Naved A. Khan
President & CEO

Taimur Afzal
Head of Retail Banking

Nasir Islam
Head of Compliance

Ahmed Kamran
Head of Services

Masroor Ahmed Qureshi
Head of Treasury

Internal Committees

MANCOM

Naved A. Khan
Chairman

Samih Khan
Secretary

Nauman Ansari
Member

Ahmed Kamran
Member

Bashir Shaikh
Member

Mehreen Amin
Member

Taimur Afzal
Member

Masroor Qureshi
Member

Aarij Ali
Member

Syed Majid Ali
Member

Nasir Islam
Member

ALCO

Naved A. Khan
Chairman

Masroor Qureshi
Secretary

Nauman Ansari
Member

Aarij Ali
Member

Syed Majid Ali
Member

Enamullah Khan
Member

Taimur Afzal
Member

Bashir Shaikh
Member

IT Steering Committee

Naved A. Khan
Chairman

Anwer Umed Ali
Secretary

Ahmed Kamran
Member

Nauman Ansari
Member

Taimur Afzal
Member

Aarij Ali
Member

Syed Majid Ali
Member

Iqbal A. Zuberi
Member

Masroor Qureshi
Member

Enamullah Khan
Member

Mehreen Amin
Member

Investment Committee

Naved A. Khan
Chairman

Enamullah Khan
Secretary

Syed Majid Ali
Member

Nauman Ansari
Member

Bashir Shaikh
Member

Masroor Qureshi
Member

Compliance Committee

Naved A. Khan
Chairman

Nasir Islam
Secretary

Ahmed Kamran
Member

Bashir A. Shaikh
Member

Syed Majid Ali
Member

Sajjad Burney
(Acting Head of IAD)
Member

Senior Management

Enamullah Khan
Head of Equity & Capital Market

Irfan A. Khan
Head of Investment Banking

Yousuf Hussain
Head of Corporate Banking North

Khaqan Khan
Head of Corporate Banking South

Naved Inayet
Head of Cash Management and Financial Institutions

Farah Naz
Head of Consumer Finance

Syed Kazim Raza
Head of Branch Distribution South

Ali Raza
Head of Agri Finance

Siraj Ali Mithani
Head of Commercial Banking South

Anwar Ahmed Meenai
Acting Head of Islamic Banking

Anwer Umed Ali
Head of Information Technology

Samih H. Khan
Head of Payment Solutions and Product Development

Seemin Shafi
Head of Corporate Communications

Zafar Bashir
Head of Service Quality

Arif Hasan Khan
Head of Fraud Investigation Unit

Sajjad Burney
Acting Head of Audit

Iqbal Ahmed Zuberi
Head of Operations

Awais Maqsood
Head of General Services

Raza Mohsin Qizilbash
Acting Company Secretary and Head of Legal Affairs

values at work

professionalism

We are proficient and efficient in all that we do.
We provide banking services knowledgeably and skillfully.
We uphold regulatory obligations.

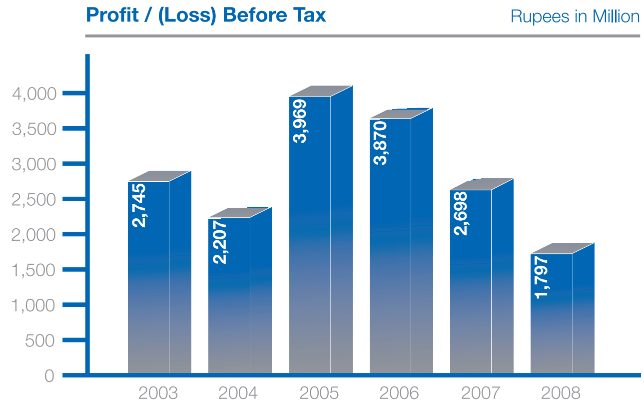
Our Professionalism: Our Competence.

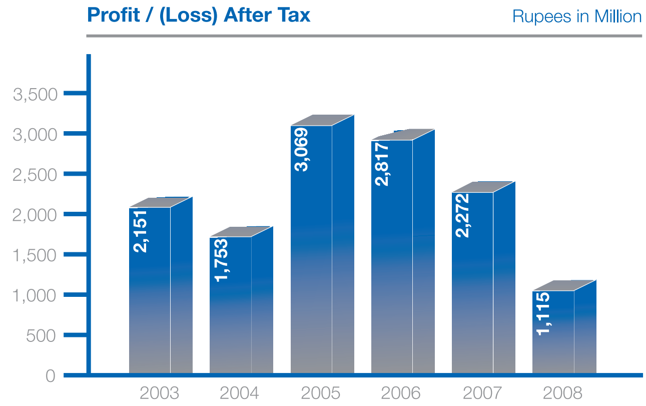
Six Years Financial Summary

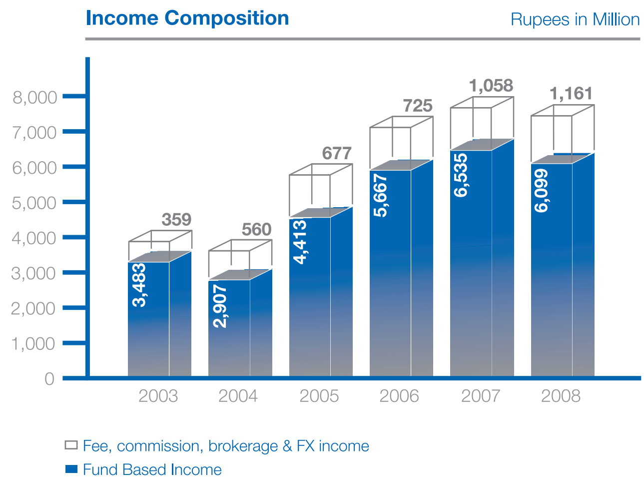
Rupees in Millions

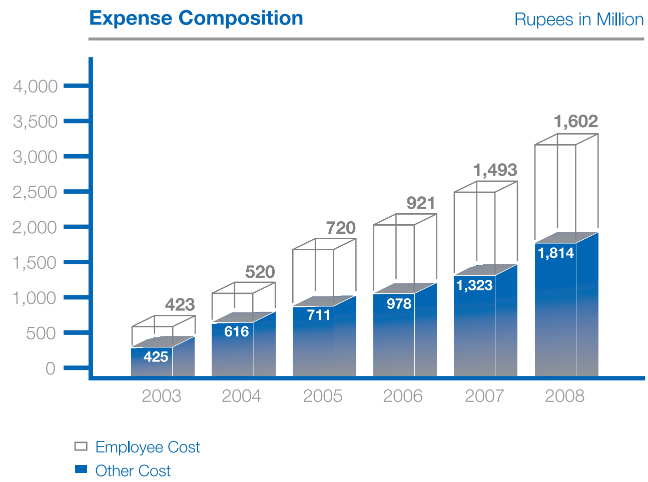
		2008	2007	2006	2005	2004	2003
OPERATIONAL RESULTS							
Mark-up / return / interest earned		13,404	11,611	9,728	6,338	2,753	2,075
Mark-up / return / interest expensed		8,455	7,459	6,089	3,312	1,118	946
Fee, commission, brokerage & FX Income		1,161	1,058	725	677	560	359
Dividend and Capital gains		1,073	2,337	1,580	1,385	1,267	2,353
Total income		7,260	7,593	6,391	5,090	3,467	3,842
Provisions / Write-off		2,047	2,079	622	(310)	124	248
Operating expenses		3,416	2,816	1,899	1,431	1,136	848
Operating profit/(loss) before tax and provision		3,844	4,777	4,492	3,659	2,331	2,994
Profit/(loss) before taxation		1,797	2,698	3,870	3,969	2,207	2,745
Profit/(loss) after taxation		1,115	2,272	2,817	3,069	1,753	2,151
Dividends	%	-	25	50	35	45	45
Bonus shares	%	15	25	-	30	10	10
BALANCE SHEET							
Shareholders’ equity		10,136	10,345	9,132	8,112	6,251	5,610
Revaluation Reserves		636	5,811	4,664	6,148	3,963	2,369
Deposits		102,777	102,067	74,414	74,737	56,460	31,332
Borrowings from financial institutions		13,027	9,996	14,965	15,296	8,478	6,530
Advances - net of provision		89,759	87,346	74,469	62,324	50,542	29,626
Investments - net of provision		30,186	31,553	22,525	24,412	12,334	11,219
Total assets		138,241	141,277	115,470	110,281	78,538	47,606
OTHERS							
Imports		38,089	68,171	70,323	43,836	39,654	22,991
Exports		50,395	52,110	33,815	23,384	18,933	20,293
FINANCIAL RATIOS							
Capital Adequacy ratio	%	9.41	11.76	11.42	13.60	12.20	15.58
Gross spread ratio (Net mark up income / gross mark-up income)	%	36.92	35.75	37.40	47.75	59.39	54.38
Income / Expense ratio	Times	2.13	2.70	3.37	3.56	3.05	4.53
Return on Average Equity (ROE)	%	10.89	23.33	32.67	42.74	29.57	44.22
Return on Average Assets (ROA)	%	0.80	1.77	2.50	3.25	2.78	5.11
Advances / Deposit Ratio (Average)	%	86.46	91.69	91.71	86.03	91.32	92.42
Total assets turnover ratio / Fixed assets turnover ratio (Total assets / Fixed assets)	Times	52.23	56.17	51.57	63.89	67.80	46.20
Price Earning ratio	%	5.45	15.37	9.10	8.89	7.23	4.43
Earning per share (EPS)	Rs.	2.11	4.29	6.65	8.33	6.02	8.12
Net Assets per share	Rs.	20.34	30.50	32.56	38.70	35.07	30.13
Market value per share	Rs.	11.51	65.95	60.50	74.10	43.50	36.00
Dividend Yield Ratio (Cash Dividend)	%	-	3.79	8.26	4.72	10.34	12.50
Dividend pay out ratio (Cash Dividend)	%	-	58.27	75.19	42.01	74.75	55.42
Book value per share	Rs.	19.14	19.53	21.55	22.02	21.46	21.19
Book value per share - including Surplus/(Deficit) on revaluation	Rs.	20.34	30.51	32.56	38.70	35.08	30.13
Number of employees		1,929	1,759	1,463	1,068	899	722
Number of branches		129	105	75	56	50	39

Financial Performance



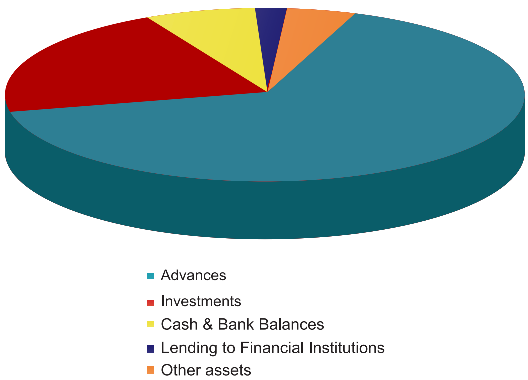






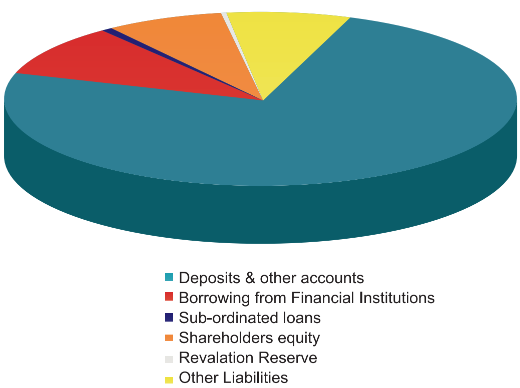
Balance Sheet Composition

Assets



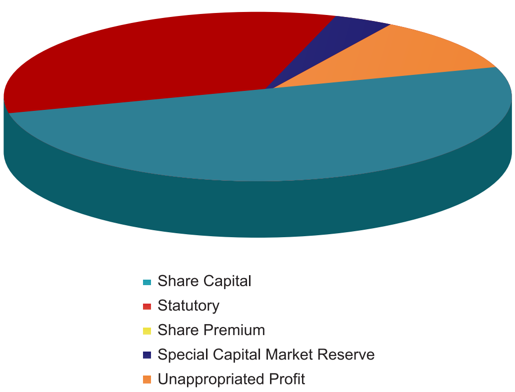
Assets	Rs in Million	%
Advances	89,759	64.9
Investments	30,186	21.8
Cash & Bank Balances	9,805	7.1
Lending to Financial Institutions	2,861	2.1
Other assets	5,630	4.1
	138,241	100.0

Liablities & Equity



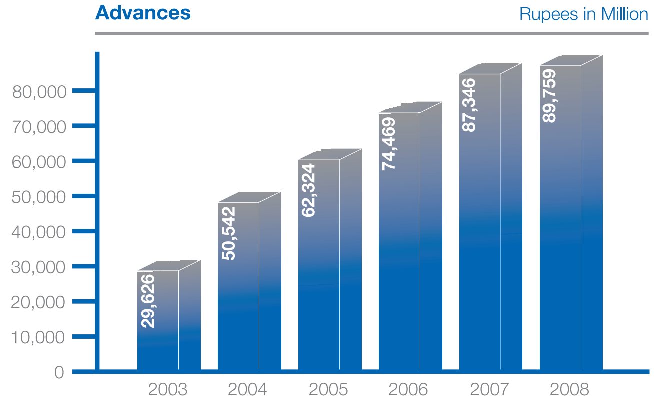
Liabilities & Equity	Rs in Million	%
Deposits & other accounts	102,777	74.3
Borrowing from Financial Institutions	13,027	9.4
Sub-ordinated loans	999	0.7
Shareholders' equity	10,136	7.3
Revaluation Reserve	636	0.5
Other Liabilities	10,666	7.7
	138,241	100.0

Shareholder's Equity



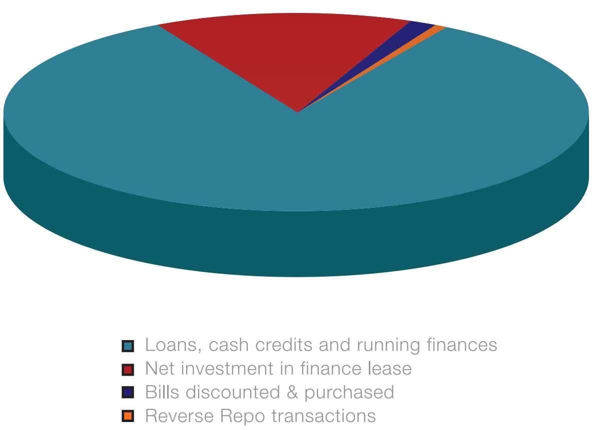
Shareholders' Equity	Rs in Million	%
Share Capital	5,296	52.2
Statutory Reserve	3,400	33.5
Share Premium	-	-
Special Capital Market Reserve	390	3.8
Unappropriated Profit	1,050	10.4
	10,136	100.0

Advances



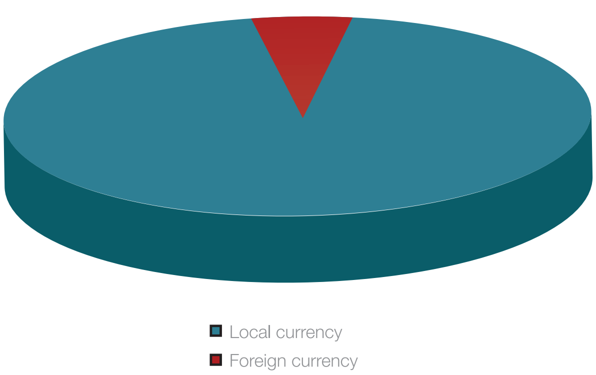
Advances Growth

Year	%
2003	35
2004	71
2005	23
2006	19
2007	17
2008	3



Advances Categorisation

	Rs in Million	%
Loans, cash credits and running finances	79,493	88.6
Net investment in finance lease	13,493	15.0
Bills discounted & purchased	1,273	1.4
Reverse Repo transactions	625	0.7
	94,884	105.7
Provisions	(5,125)	(5.7)
	89,759	100.0

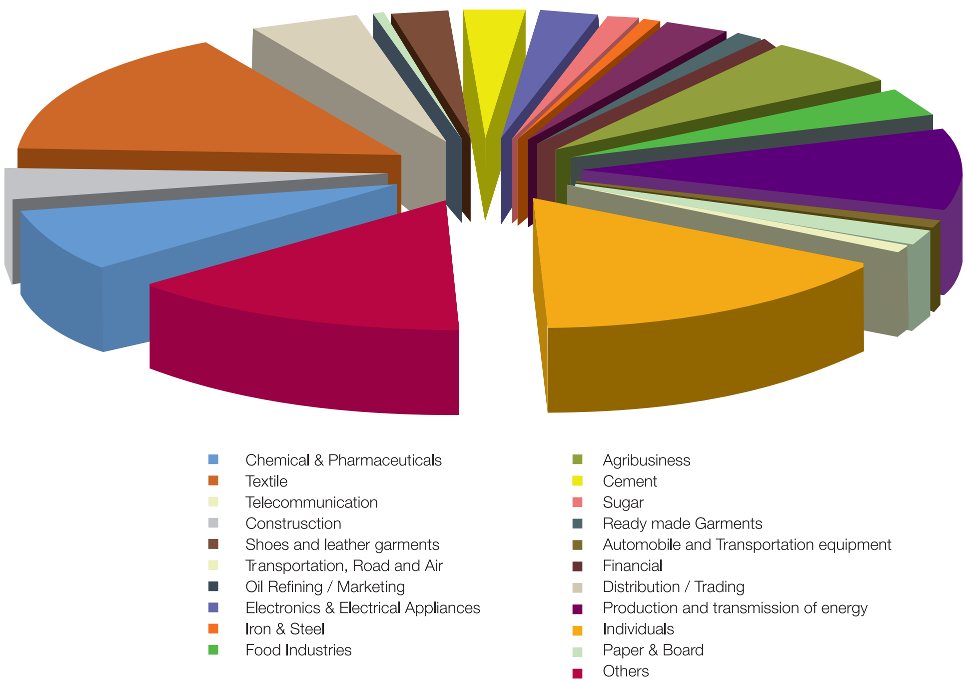


Advances by Currency

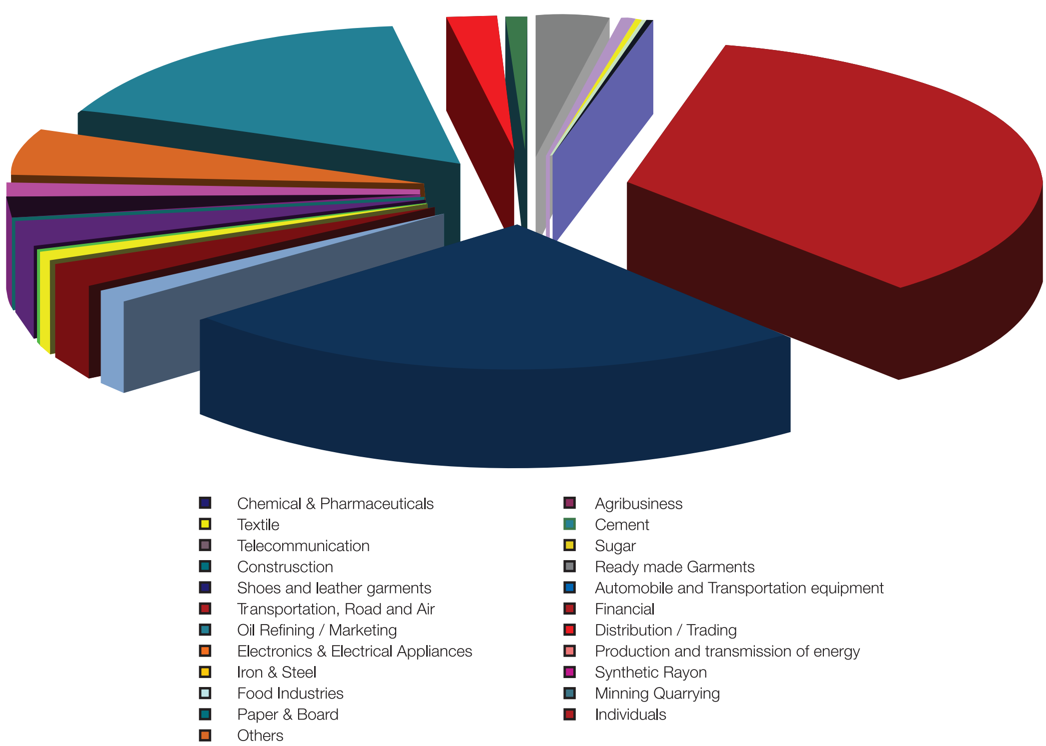
	Rs in Million	%
Local currency	84,941	94.6
Foreign currency	4,818	5.4
	89,759	100.0

Segment Information

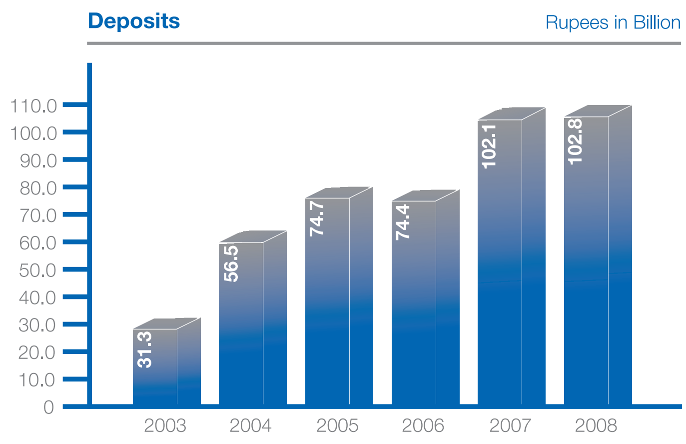
Advances



Deposits

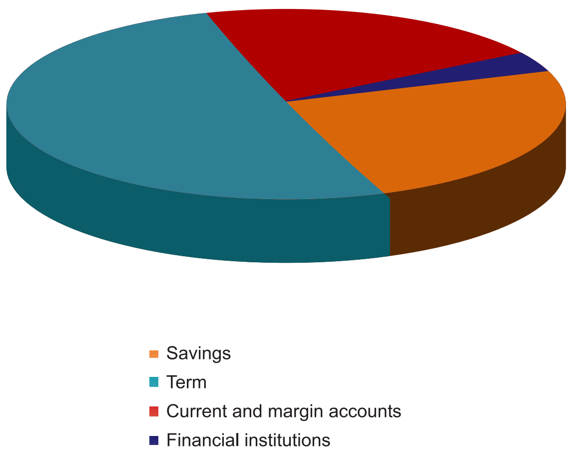


Deposits



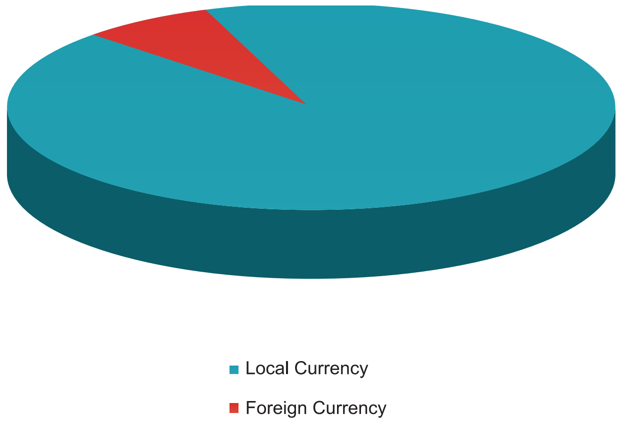
Deposits Growth

Year	%
2003	28
2004	80
2005	32
2006	0.4
2007	37
2008	1



Deposits Categorisation

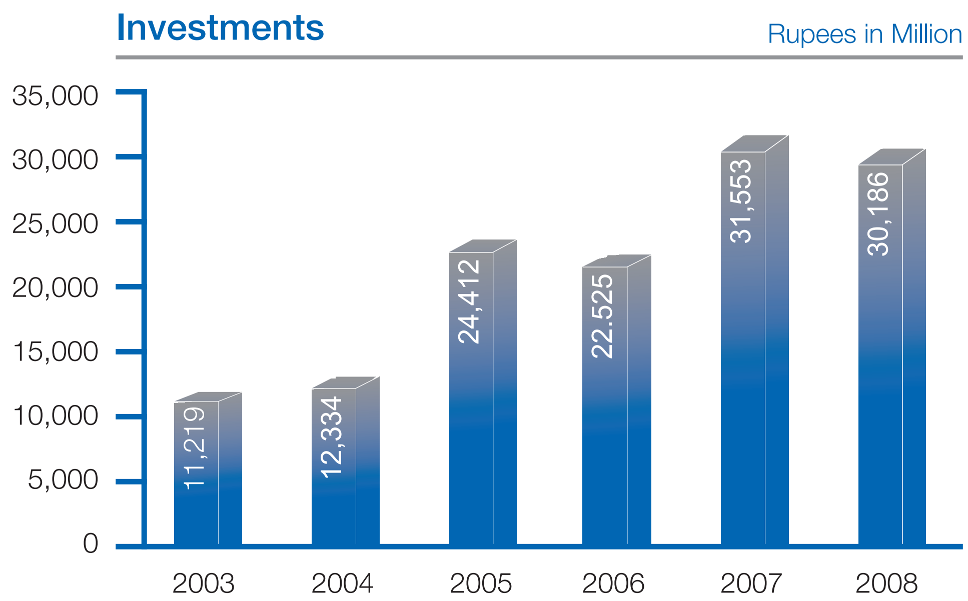
	Rs in Million	%
Savings	25,318	24.6
Term	52,581	51.2
Current and margin accounts	20,491	19.9
Financial Institutions	4,387	4.3
	102,777	100.0

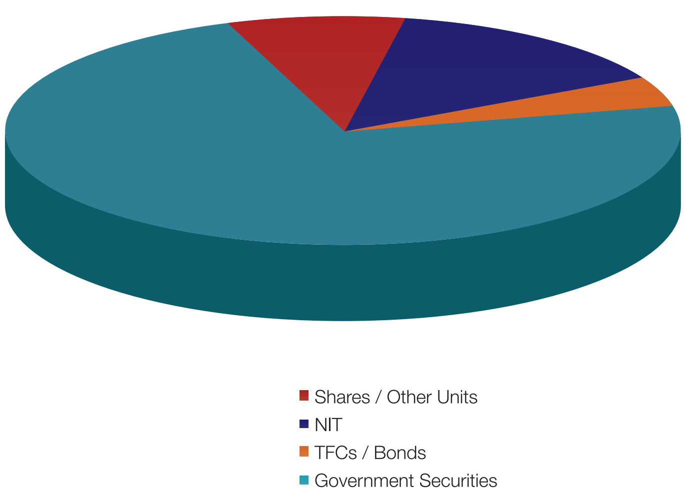


Deposits by Currency

	Rs in Million	%
Local currency	94,972	92.4
Foreign currency	7,805	7.6
	102,777	100.0

Investments





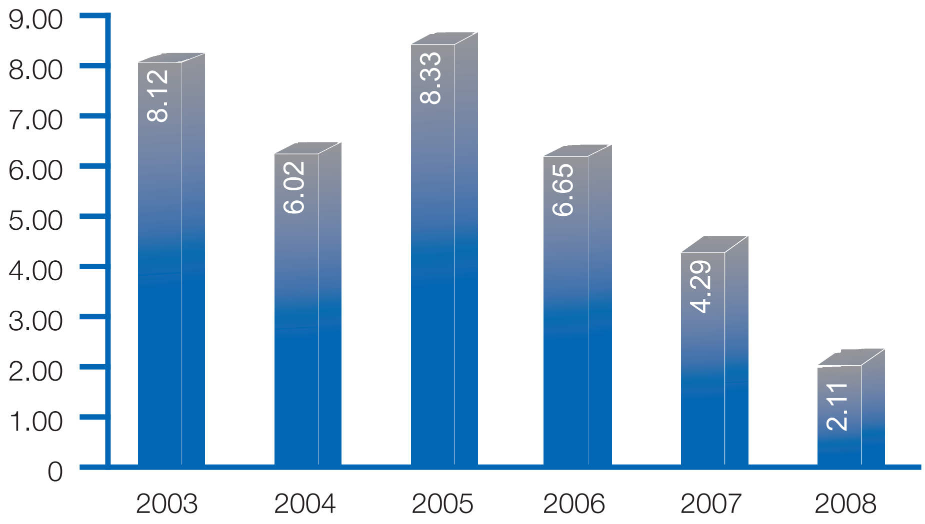
Break up of Investments

	Rs in Million	%
Shares / Other Units	2,544	8.4
NIT	4,389	14.5
TFCs / Bonds	1,205	4.0
Government Securities	22,048	73.0
	30,186	100.0

Earning Per Share & Maturity Profile

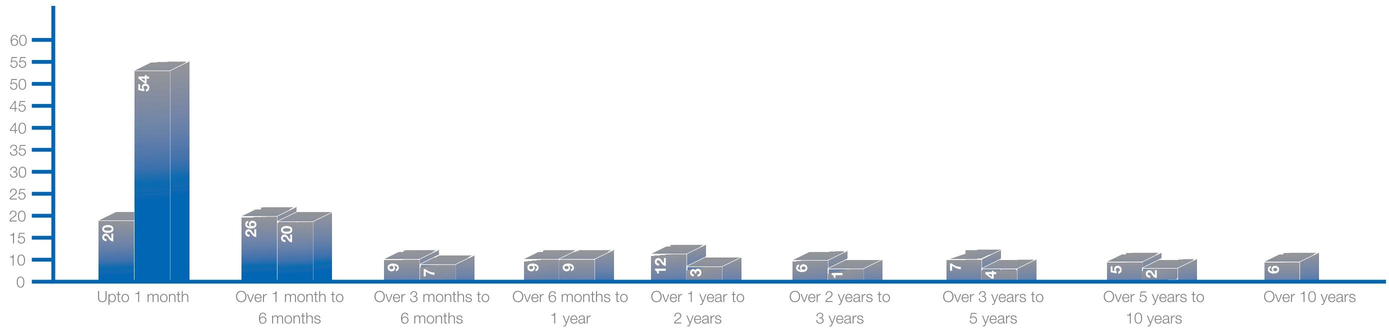
Earning Per Share

Rupees in Million

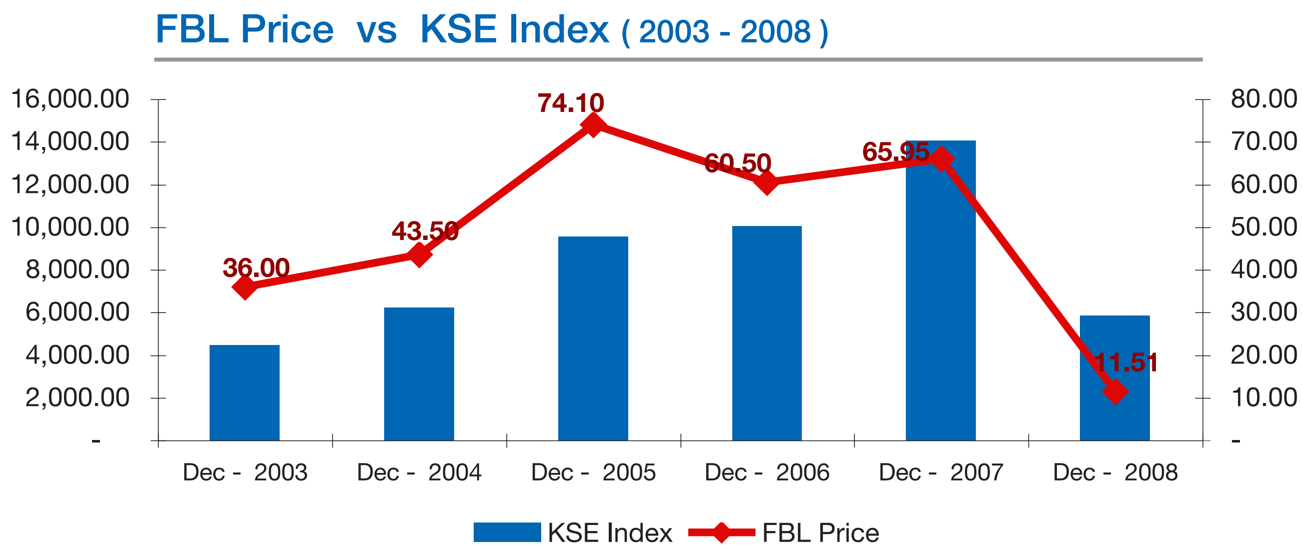


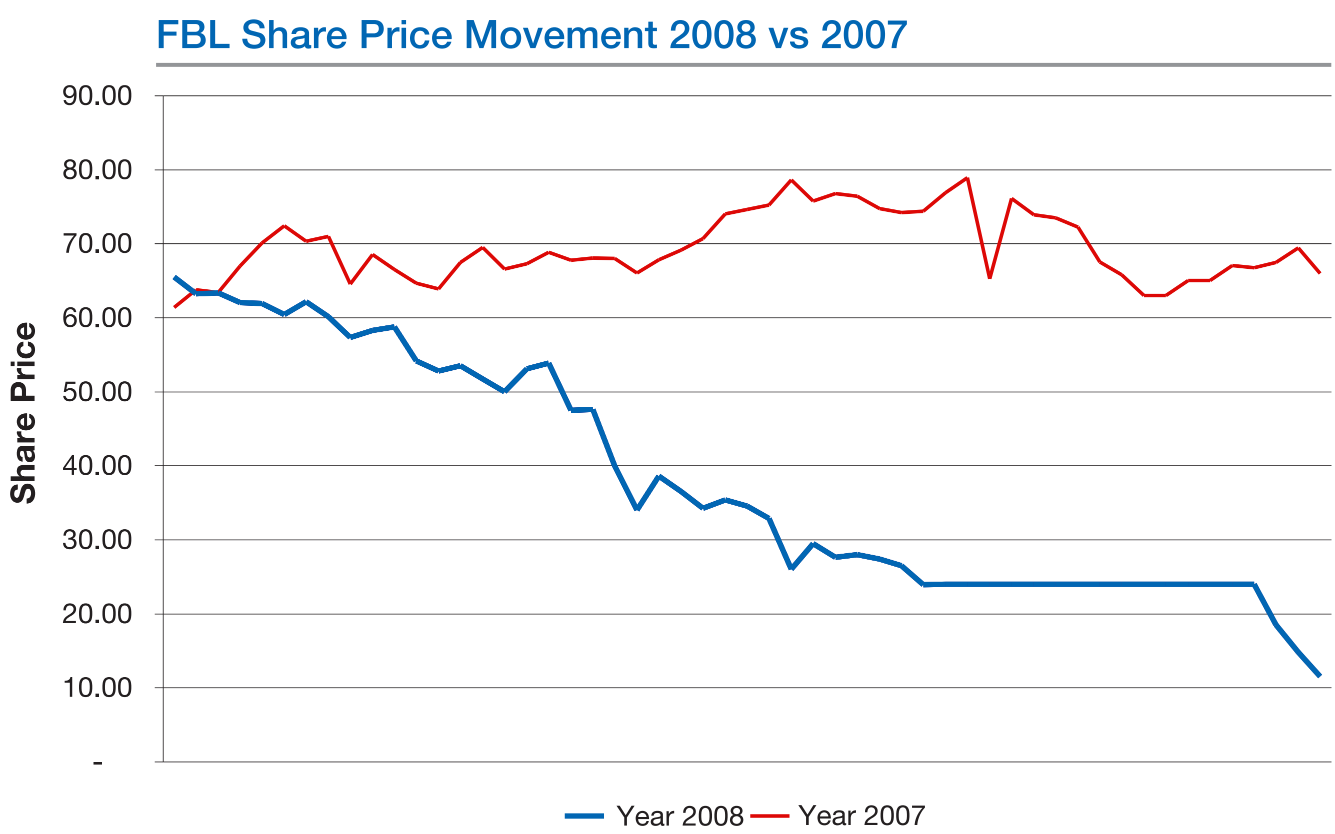
Maturity Profile

Percentage



Stock Price


FBL Price vs KSE Index (2003 - 2008)
16,000.00
14,000.00
12,000.00
10,000.00
8,000.00
6,000.00
4,000.00
2,000.00
-
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
-
36.00
43.50
74.10
60.50
65.95
11.51
Dec - 2003
Dec - 2004
Dec - 2005
Dec - 2006
Dec - 2007
Dec - 2008
KSE Index
FBL Price


FBL Share Price Movement 2008 vs 2007
Share Price
90.00
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
-
Year 2008
Year 2007

values at work

responsiveness

We are receptive to the need for change and improvement.
We are proactive and anticipate our customers' needs and wants.
We act quickly to modify, adjust or prepare for new realities.

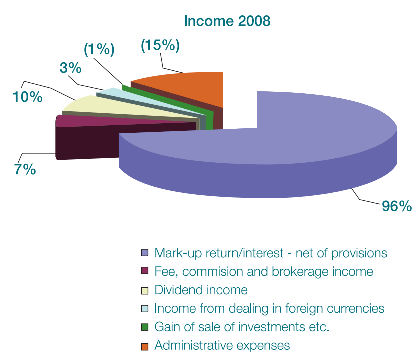
Our Responsiveness: Our Distinguisher.

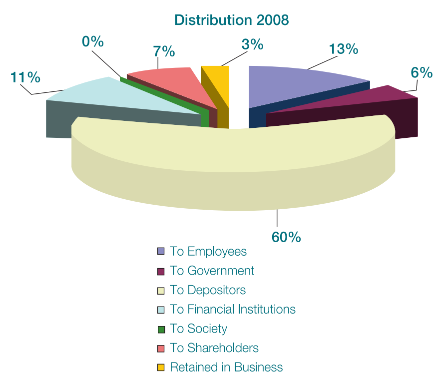
Statement Of Value Added

	2008		2007	
	Rs. '000	%	Rs. '000	%
Mark-up / return / interest earned - net of provisions	11,356,770	96	9,531,737	82
Fee, commission and brokerage income	814,001	7	743,913	6
Dividend income	1,207,366	10	1,221,217	10
Income from dealing in foreign currencies	347,114	3	313,597	3
Gain of sale of investments etc.	(57,888)	(1)	1,162,418	10
	13,667,363		12,972,882	
Administrative expenses	1,813,669	(15)	1,318,028	(11)
Value Added	11,853,694	100	11,654,854	100
Distributed as follows:				
To Employees as remuneration	1,602,242	13	1,493,035	13
To Government as income tax	681,585	6	425,719	4
To Depositors as profit on investments	7,205,154	60	6,179,693	53
To Finanacial Institutions as profit on borrowings	1,249,601	11	1,279,699	11
To Society as donations	160	0	4,600	0
To Shareholders as dividends / bonus	794,467	7	2,118,577	18
Retained in Business as reserves and retained profits	320,485	3	153,531	1
	11,853,694	100	11,654,854	100

Rs. '000

	Public Sector		Private Sector		Total	
	2008	2007	2008	2007	2008	2007
Advances	4,286,700	1,148,481	85,472,089	86,197,920	89,758,789	87,346,401
Investments	22,213,764	29,750,436	7,972,404	1,802,672	30,186,168	31,553,108
Placements / Lendings - SBP	6,667,180	5,193,412	5,998,525	12,465,173	12,665,705	17,658,585
	33,167,644	36,092,329	99,443,018	100,465,765	132,610,662	136,558,094





values at work

respect

We hold our customers, investors and regulators in high esteem.
We uphold our customers' rights to demand efficient service.
We appreciate and respect our profession and, above all, our bank.

Our Respect: Our Duty.

NOTICE OF THE 14TH ANNUAL GENERAL MEETING

Notice is hereby given that the 14th Annual General Meeting of Faysal Bank Limited will be held on Friday, March 27, 2009 at 9:00 a.m. at Jinnah Auditorium, Institute of Bankers of Pakistan, Moulvi Tamizuddin Khan Road, Karachi, to transact the following business:

ORDINARY BUSINESS:

1. To confirm minutes of the Extra-Ordinary General Meeting held on April 28, 2008.

2. To receive and adopt Annual Audited Accounts (Stand-alone and consolidated), Statement of Compliance with Code of Corporate Governance of Faysal Bank for the year ended December 31, 2008 together with the Directors' and Auditors' Reports thereon.

3. To consider and approve as recommended by the Board of Directors to issue Bonus Shares in proportion of 15 shares for every 100 shares held i.e. 15% for the year ended December 31, 2008.

4. To appoint External Auditors to hold office till the conclusion of the next Annual General Meeting of the Bank for the ensuing financial year 2009 at a mutually agreed remuneration. (The present Auditors, KPMG Taseer Hadi & Co., Chartered Accountants being eligible offer themselves for re-appointment).

SPECIAL BUSINESS:

5. To approve disposal of fractional shares created out of the issuance of bonus shares by the Bank for the year 2008 by passing the following resolution with or without amendments:

   "Resolved that in the event of any member holding fraction of a Share, the Company Secretary be and is hereby authorized to consolidate such fractional entitlement and sale in the stock market and the proceeds of sale (less expenses) when realized, be donated to a Charitable Trust "Waqf Faisal".

6. To approve increase in Authorized Capital of the Bank and in this regard amend the Memorandum & Articles of Association by passing the following resolutions as special resolutions with or without amendments:

RESOLVED that:

a) The authorized share capital of the Bank be and is hereby increased from Rs. 6,000,000,000/- (Rupees Six Billion Only) to Rs. 12,000,000,000/- (Rupees Twelve Billion Only) divided into 1,200,000,000 Ordinary Shares of Rs. 10/- each.

b) Clause V of the Memorandum of Association of the Bank be substituted by the following:

   "The capital of the Bank is Rs. 12,000,000,000/- (Rupees Twelve Billion only) divided into 1,200,000,000 ordinary shares of Rs. 10/- each."

c) The Article V (a) of the Memorandum of Association of the Bank be substituted by the following:

   "The capital of the Bank is Rs. 12,000,000,000/- (Rupees Twelve Billion only) divided into 1,200,000,000 ordinary shares of Rs. 10/- each."

d) The Company Secretary of the Bank be and is hereby authorized to sign and execute documents and forms required to be filed at the State Bank of Pakistan and Securities and Exchange Commission of Pakistan and take all other corporate formalities, steps/measures to bring into effect the aforementioned amendments".

7. To transact any other Business with the permission of the Chairman.

By the order of the Board

Raza Mohsin Qizilbash
Acting Company Secretary
& Head Legal

Karachi: February 24, 2009

NOTES:

1. The Share Transfer Books of the Bank shall remain closed from March 20, 2009 to March 27, 2009 (both days inclusive). Transfer received at the Registrar and Share Transfer Agent of the Bank, by the close of business on March 19, 2009 will be treated in time for the purpose of the entitlement of bonus shares.

2. A member entitled to attend and vote at the above Annual General Meeting is entitled to appoint another member as a proxy to attend and vote on his/her behalf, save that a corporation being a member may appoint as it proxy or officer of such corporation whether a member of the company or not. This instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of the power or authority shall be deposited at the office of M/s. Noble Computer Services (Pvt.) Limited, 2nd Floor, Sohni Center, BS 5 & 6, Main Karimabad, Block-4, Federal B. Area, Karachi-75950, the Registrar and Share Transfer Agent of the bank not later than 48 hours before the time of holding the meeting, and must be duly stamped, signed and witnessed.

3. The CDC Account Holders and Sub-account Holders, whose registration details are available in the Share Book Details Reports shall be required to produce their respective original Computerized National Identity Card (CNIC) or original passport at the time of attending the Annual general Meeting to facilitate identification. Such Account Holders and Sub-Account Holders should also bring/know their respective participation I.D. No. and the CDC Account No. In case of proxy, he/she must enclose an attested copy of his/her CNIC or passport. Representative(s) of corporate member(s) should bring usual documents required for such purpose.

4. Members are required to timely notify any change in their address to Bank's Registrar/Share Transfer Agent M/s. Noble Computer Services (Pvt.) Limited, 2nd Floor, Sohni Center, BS 5 & 6, Main Karimabad, Block-4, Federal B. Area, Karachi-75950.

Statement of Material Facts under Section 160(1)(b) of the Companies Ordinance, 1984 relating to said Special Businesses

This statement sets out the material facts concerning the following Special Businesses to be transacted at the Annual General Meeting of Shareholders of Faysal Bank Limited to be held on Friday, March 27, 2009.

1. To approve increase in Authorized Capital of the Bank and in this regard amend the Memorandum & Articles of Association by passing the following the resolutions as special resolution with or without amendments:

   It is proposed to increase authorized capital of the Bank from Rs. 6,000,000,000 to Rs.12,000,000,000.

   The current paid capital of the bank at Rs. 5.3 billion against the Authorised of Rs.6.0 billion leaves little room for any future business growth. Keeping in view future capital requirements of the bank and also to comply with the Minimum Capital Requirements prescribed by the State Bank of Pakistan, it is essential that the Authorised Capital of the bank is increased. It is therefore, proposed that the Authorised Capital of the bank is increased from present level of Rs.6,000,000,000 to Rs.12,000,000,000.

2. To approve disposal of fractional shares created out of the issuance of bonus shares by the Bank for the year 2008 by passing the following resolution with or without amendments:

   That in the event of any member holding fraction of a Share, the Company Secretary be and is hereby authorized to consolidate such Fractional entitlement and sale in the stock market and the proceeds of sale (less expenses) when realized, be donated to a Charitable Trust "Waqf Faisal".

Review Report to the Members on the 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 Faysal Bank Limited to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan, Listing Regulation No. 37 of the Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank 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 2008.

Date: February 24, 2009
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Name of Company: Faysal Bank Limited
Year Ended: December 31, 2008

This statement is being presented to comply with the provisions of Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan (S.E.C.P.) for the purpose of establishing a framework of good corporate governance with best practices for the listed companies. The said Code has also been adopted by SBP and stock exchanges. The Board of Directors of Faysal Bank Limited has adopted and applied the principles contained in the Code of Corporate Governance No. XIV in the following manner:

1. Faysal Bank Limited encourages representation of independent Directors and Directors representing minority interests on its Board of Directors as applicable under the Code. At present the Board includes 6 Independent/Non-Executive Directors and two Executive Directors (including President&CEO).

2. None of the Directors in Faysal Bank is serving as a Director in more than ten listed companies, including this Bank, except Mr. Tariq Iqbal Khan who has been exempted by SECP in this respect.

3. All resident Directors of the Bank are registered taxpayers and to the best of our knowledge none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or being a member of a stock exchange has been declared as a defaulter.

4. Casual vacancies occurring during the year were duly filled in with the approval of State Bank of Pakistan.

5. The Bank has adopted a ‘Statement of Ethics and Business Practices’, which has been signed by all Directors and Employees of the Bank.

6. The Board has adopted a vision/mission statement, overall corporate strategy and significant policies for the Bank.

7. All powers of the Board have been duly exercised and decisions on material transaction, including appointment and determination of remuneration and terms and conditions of employment of President & CEO are approved by the Board and/ or its authorized committees.

8. The Meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose. The Board held five (05) Meetings in the year 2008 including one in every quarter. Written notice of the Board meetings, along with agenda and working papers, were circulated seven (07) days before the Meetings. The Minutes of the Meetings were appropriately recorded and were circulated to all concerned.

9. The Directors of Faysal Bank Limited are professionally qualified and experienced persons and are well aware of their duties and responsibilities. Further an orientation course for Directors was conducted by the Bank to apprise all Directors of their duties and responsibilities.

10. The Board approves appointment of CFO and Company Secretary while Head of Internal Audit is appointed by Audit Committee including their remuneration and terms and conditions of employment.

11. The Directors’ Report for this year has been prepared in compliance with the requirements of Code and fully describes the salient matters required to be disclosed.

12. All financial statements of the Bank were duly endorsed by the President & CEO and CFO before approval of the Board.

13. 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.

14. The Bank has complied with all applicable corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors including the Chairman of the Committee.

16. The Audit Committee held six meetings including one in every quarter prior to approval of quarterly and final results of the Bank as required by the Code. The terms of reference of Audit Committee have been framed and approved by the Board and have been advised to the committee for compliance.

17. The Audit Committee members also met with External Auditors of the Bank without CFO and Head of Internal Audit and with Head of Internal Audit and other members of the Internal Audit function as required under the provisions of Code of Corporate Governance.

Statement of Compliance with the Code of Corporate Governance

18. The Board has set up an effective Internal Audit function. The Bank's Internal Audit Manual is approved by the Board of Directors. The staff of Internal Audit Department are suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Bank and they are involved in the internal audit function on a full time basis. The Internal Audit resources are being reviewed and enhanced regularly to meet continuous business growth.

19. The statutory auditors of the Bank have confirmed that

i) they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan;
ii) they or any of the partners of the firm, their spouses and minor children do not hold shares of Faysal Bank Limited or its associates; and
iii) the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. We confirm that all other material principles contained in the Code and Prudential Regulation No. XXIX have been complied with.

Karachi
Dated: 24 February 2009

Naved A. Khan
President & CEO

values at work

passion

We bring zeal and enthusiasm for banking to work.
We are excited to provide customers with the best or the best-suited.
We go the extra mile in legitimate, acceptable ways.

Our Passion: Our Worth.

Director's Report

Economic and Political Update

The year 2008 was very challenging for Pakistan with the country's political and economic landscape remaining in a state of flux for the most part because of unfavorable domestic and external developments.

With an exponential rise in global commodity prices during the first half of 2008 the country's macroeconomic imbalances reached historic proportions, manifesting in the shape of unsustainably large twin deficits and a soaring inflation rate.

The country's external current account deficit crossed USD 14 billion, nearly 8.4% of GDP, in FY2008 while FX reserves plummeted to only USD 6.7 billion by October 2008, which translates into less than two months of import cover. The fast deteriorating external account position put immense pressure on the Pakistan Rupee, which lost over 30% of its value against the dollar in 2008.

Additionally, the massive buildup of food and energy subsidies pushed the fiscal deficit to a ten-year high of 7.4% of GDP in FY2008. However, even a large fiscal deficit was not enough to prevent a slowdown in GDP growth which fell to 5.8% in FY2008, versus an average of 7.3% in the preceding four years.

Worsening economic conditions resulted in sovereign credit rating downgrades by the international credit rating agencies, causing a slowdown in the international capital inflows while the situation deteriorated further due to global financial crises that started to emerge in the third quarter of 2008.

Recognizing the gravity of economic challenges, the authorities developed an aggressive stabilization plan, endorsed and supported by the IMF, which approved a 23-month Standby loan to the country amounting to USD 7.6 billion in November 2008.

As part of the stabilization program, substantial tightening of monetary and fiscal policies has been undertaken. The benchmark interest rate was raised by 500 basis points (1 basis point = 0.01 percentage points) during 2008 to a level of 15% by the end of the year. Moreover, sharp declines in global commodity prices have taken significant pressure off the external and fiscal balances while also helping contain the upward inflation spiral.

Nevertheless, the growth outlook for 2009 remains weak, reflecting the cost of macroeconomic adjustment and the underlying structural weaknesses of the economy. This emanates from the infrastructure bottlenecks, competitiveness challenges and weak global economic situation.

Banking sector

While escaping completely unscathed from the global subprime mortgage crises, Pakistan's banking sector faced significant pressures resulting from weakening domestic economic conditions during 2008.

Sharp slowdown in deposit growth, deterioration in asset quality and rising deposit and operating costs negatively impacted the banking sector's growth and profitability levels during the year. Domestic deposit growth fell sharply to a multi-year low of only 6.6% during 2008, reflecting slowing money supply due to large external account outflows. Although credit demand had started softening towards the final quarter of 2008 in response to hike in interest rates, it nevertheless increased by 25.3% during the year, mainly due to higher energy sector demand for both working capital and expansion needs.

Given the turbulent economic picture, the banking sector is likely to remain risk-averse during 2009. Surplus liquidity in the banking sector will find its way into government securities rather than credit this year. Overall in terms of credit, this year is likely to see non-performing assets increase across the sector and banks are likely to concentrate more on recovery and re-structuring of outstanding credit rather than credit-expansion.

Strategic Review

Our strategic direction is inspired by our Vision: Excellence. Demonstrating Excellence in all our activities - ranging from pursuing business objectives to achieving our corporate social responsibility goals. We believe that achieving Excellence will lead to sustainable growth over the medium to long term thus serving the interest of all our stakeholders: our shareholders, our clients, employees, and regulators.

Deriving from our vision and starting from last year, we have embarked on implementing a clear, coherent long term strategy. The successful execution of our strategy will place us amongst the top three players in our peer set of financial institutions. During 2008, we re-shaped our strategy, considering how we should shape Faysal Bank for the future. Our deliberations were influenced by some fundamental long-term trends that will shape tomorrow's market place. Our thinking was based on a clear understanding of Faysal Bank's strengths: our time to market vis-a-vis products and customized solutions, national foot print in terms of distribution, strong core client base, solid financial base and our main asset - our employees.

Our strategy revolves around three main businesses-Corporate and Investment Banking, Commercial Banking and Retail Banking. Providing critical support to these businesses are Risk Management, Treasury, Equity Capital Markets, Human Resources, Services, Strategic Development, Compliance and Audit. As a first step toward executing our strategy we re-organized ourselves last year from being a geographic based structure to being business / function based.

> Our strategic direction is inspired by our Vision: Excellence. We believe that achieving Excellence will lead to sustainable growth over the medium to long term, thus serving the interest of all our stakeholders: our shareholders, our clients, employees, and regulators.

Corporate and Investment Banking

In 2008, we have set the platform from which we will ensure that Faysal Bank achieves leadership position in Corporate and Investment Banking business in our peer group by:

- Utilizing our extensive distribution network and relationship with major liquidity providers;

- Continuing to build capabilities and product capacities to support the delivery of an advanced suite of services to corporate, institutional and public sector clients. Of particular focus has been developing product capabilities in Structured and Project Finance, Fixed Income & Loan Syndications and Agency & Trustee Functions;

- Ensuring that this combination of product depth and distribution strength meets the needs of existing and new clients and allows CIBG to achieve its strategic goals.

Commercial Banking

Our extensive geographical network together with our plans to build product expertise in payments, trade, receivables finance and foreign exchange to support customers' operations aims to be the best bank for small businesses in target markets, building national scale and creating efficiencies by sharing best practices. Commercial Banking will focus enhancing the customer experience through a strong multi-channel approach to customer relationships, leveraging Faysal Bank's IT platforms and operational processing capabilities. Additional value will be captured through strong connectivity with each of the other client groups.

Retail Banking

Within the last three years the network has more than doubled and today provides Faysal Bank the foot print to not only provide a growing bouquet of financial services to its target customer segments but also the ability to improve its financial strength by providing the bank with diverse and cheaper sources of liquidity.

This will require a multi-pronged strategy, covering:

- Research based product innovation and refinement including electronic banking products and channel integration for enhancing convenience.

- Consistent customer experience managed through a structured quality assurance programme.

- Multi selling capability in our sales teams and at our touch points.

- Multi tasking at our branch operations and centralization initiative will have an attendant positive impact on our turnaround time and product pricing.

- The Corporate Communication structures and capability is being enhanced to support the brand building activities and internal and external business development initiatives in a coherent fashion.

This will be achieved with the deployment of a globally acclaimed CRM Platform integrated with our recently installed core banking solution.

Operational Efficiency / Infrastructure

We will aim to shape our business operations so that we use our scale to deliver better, more efficient services to our customers. The use of technology increasingly dictates how they interact with us. We increasingly employ technology to create better products which we can deliver at lower cost. As we grow our banking business, we will create opportunities to meet more of our customers' financial needs.

Human Resources

It is people who define an organization and any business's success is dependent on the calibre of its staff. The year 2008 was a demanding year in many respects and it is a testament to the talent and professionalism of our colleagues around the country that Faysal Bank successfully

We will aim to shape our business operations so that we use our scale to deliver better, more efficient services to our customers. As we grow our business, we will create opportunities to meet our customers financial needs.

met its challenges and excelled in so many areas. We would like to take this opportunity to extend our heartfelt and sincere gratitude to our colleagues. Their commitment and expertise have greatly benefited our shareholders.

Corporate Social Responsibility

Faysal Bank is fully aware of its corporate social responsibilities. Our strategy is to allocate a percentage of our earnings to meet our obligations to the society with a view to medium and long term stability.

Gauging the results of our strategy

We are publishing the key criteria which we will used to measure our performance in future. These include a number of measures that cover financial performance, customer recommendation and employee engagement. In financial terms we have set our minimum benchmark for return on equity, return on assets, cost efficiency and capital adequacy. Financial measures are important but not sufficient. It is our people and our relationship with customers that will drive our business and ultimately determine our success. For the first time all our colleagues will complete people survey, allowing us to benchmark ourselves and, over time, raise our game. Similarly, we plan to introduce client engagement criteria which will help enable us to measure and improve our service to them. We have set ourselves challenging targets to increase both employee and client engagement helping us build on our position as a formidable player in the market place.

Future Outlook

The outlook for 2009 is uncertain. The sentiment is unequivocally bearish. The economic slowdown and the credit outlook globally may well get worse before getting better. With significant parts of the international financial system in developed markets still in difficulty, 2009 is likely to be a year of caution in the local financial sector as well until liquidity, transparency and the proper pricing of risk return to financial markets. We expect to be able to improve margins on the use of our capital and we will continue to invest in building selective and measured market presence at a time when others with marginal capital positions are constrained. The fundamentals of Faysal Bank remain solid. We will continue to invest for profitable growth in line with our strategy, and we will do so while maintaining our financial strength.

Faysal Bank is fully aware of its corporate social responsibilities. Our strategy is to allocate a percentage of our earnings to meet our obligations to the society with a view to medium and long term stability.

Bank's Performance

As you know 2008 was an economically challenging year for the country in general and for the banking industry in particular. Banking sector went through a serious liquidity crisis in the last quarter. By the grace of God your bank with a sharp focus on its strengths has been able to do well in these difficult times. Realizing the liquidity management challenges coming ahead, we improved our liquidity profile by increasing our core deposit base and managing asset growth. On the revenue side we focused on further developing stable earning streams and reducing reliance on volatile and riskier market segments.

In 2008 we continued to position ourselves for the future business opportunities. We changed the organization structure of the bank from regional to functional. This new structure supports the long term business objectives, increases business focus and clarifies roles and responsibilities Another organizational initiative was strengthening of the compliance function to make it more effective bank wide. A compliance committee chaired by the President & CEO was formed to oversee matters relating to regulatory compliance. A separate Special Assets Management Department was also formed to have a sharper focus on the function of recoveries. Also a dedicated Fraud Investigation Unit was established for prevention and investigation of frauds.

In line with the strategic direction of the bank the initiative of refreshing image was started. The new image incorporates refreshment of banks logo without compromising its heritage.

The bank during 2008 continued to enhance its customer reach by increasing branch and ATM network, opening 25 new branches and adding 12 ATMs. Your bank now has a network of 129 branches, 2 sub branches, 93 ATMs, and 1 Sales and Service Centre spread over 38 cities across Pakistan.

In 2008 we, with a view to provide convenience to our valued customers, rolled out a number of initiatives on Alternate Delivery Channels. These include launch of PocketMate Debit Card, SMS Alert Service and Fund Transfer and Utility Bills Payment facilities through ATMs. The Call Centre of the bank went through a major expansion to cater the needs of growing customer base.

Our support to Agricultural Sector of the country continued in 2008 and we added 4 new branches to our Agri Business Network taking the number of such branches to 30. Our focus on supporting this pivotal sector of the economy is evident from the fact that we surpassed by more than 35% the Agri Finance disbursement target allocated to us by SBP.

On consumer finance front we continued to strengthen our market standing. We concluded an arrangement with Pak Suzuki Motor Company wherein your bank is one of the two banks with a right to extend auto finance facilities to customers of Pak Suzuki Motor Company under joint labeling through its exclusive dealership outlets.

We remained active throughout the year in Corporate and Investment Banking business and arranged / participated in a number of high value transactions with the leading business groups of the country covering power, sugar, oil & gas, fertilizer and other sectors. We added agency and Trustee Function Desk to our set up to cater fiduciary responsibility falling under the agency and trustee function. We also started cash management custody services in 2008.

Last but not the least, our Annual Report for 2007 won the third prize in the financial sector category in the "Best Corporate Reports Awards" organized by a joint committee of the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountants of Pakistan (ICMAP). This joint committee reviews annual reports of all listed companies with a view to rewarding the best in terms of quality of presentation and financial disclosures.

Financial Highlights

Operating profit for 2007 included one-off capital gain on redemption of NIT Units amounting to Rs.762 million as such the above figures are not comparable. We are pleased to inform you that as a result of our continuous effort to increase stable revenue streams, net mark up income witnessed a strong growth of 18% in 2008.

Financial Highlights

	Rupees in Millions	
	2008	2007
Operating Profit	3,843	4,776
Provision for non performing advances	1,456	1,871
Provision for diminution in value of investments	591	207
	2,047	2,078
Profit before tax	1,796	2,698
Provision for taxation	681	426
Profit after tax	1,115	2,272
Unappropriated Profit brought forward	1,482	1,816
	2,597	4,088
Appropriations	223	455
Transfer to statutory reserve		33
Transfer to capital market reserve		1,059
Bonus shares issued (interim 2007 @ 25%)		
Final cash dividend for 2007 at Rs.2.50 per share (paid subsequent to year end)	1,324	
Cash dividend final 2006 @ 25%		1,059
	1,547	2,606
Unappropriated Profit carried forward	1,050	1,482
Earning per share - Rupees	2.11	4.29

In view of global and domestic economic conditions the level of Non-Performing Loans (NPLs) is increasing in the banking industry. The bank with a view of cleaning its loan portfolio and increasing its risk absorbing capacity prudently made provision for NPLs as shown above.

The profitability of the banking industry in 2008 was also impacted by impairment losses on the equity portfolio. State Bank of Pakistan vide BSD Circular No 04 of 2009, dated February 13, 2009 allowed banks to defer booking of such losses. We are pleased to inform you that the profitability of your bank was strong enough to fully absorb the impact of equity portfolio impairment yet allowing a good return to shareholders. As such full impact of equity portfolio impairment loss has been booked in 2008.

The focus of the bank on liquidity management is reflected in its balance sheet. Our deposit strategy of improving mix while sustaining current levels although resulted in nominal growth in deposit levels however, our reliance on volatile deposits has considerably reduced. On advances side we continued to take short term exposure resulting in a managed growth of 8% at gross level. Overall reduction in net assets is attributable to reduction in revaluation surplus on investment caused by unfavourable economic conditions.

Corporate Social Responsibility

Faysal Bank continued sponsoring and partnering with social and welfare organizations to lend support to causes that fall beyond the Bank's area of competence in both education and health.

Faysal Bank takes its role as a responsible corporate entity seriously not only by making contributions to deserving causes but by actively participating when the need so arises. The bank and its employees once again generously stepped forward to help those affected by the Baluchistan Earthquake tragedy by the employees contributing to a fund and the bank matching the amount collected therein. Employees then personally delivered tents and blankets to some of the most difficult to reach areas before the onslaught of the harshness of winter set in.

Promotion of education remained the focus of the banks corporate contribution, followed by health.

Credit Rating

JCR-VIS Credit Rating Company Limited has re-affirmed the following entity rating as on June 30, 2008:

Long-Term	AA
Short-Term	A1+

Definitions of JCR-VIS for the assigned rating are:

AA: High credit quality.
Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A1+: High certainty of timely payment. Short term liquidity including internal operating factors and/or access to alternative sources of funds is outstanding and safety is just below risk free Government of Pakistan short-term obligations.

PACRA (Pakistan Credit Rating Agency Limited) has also assigned the same entity rating to the Bank as follows:

Long-Term	AA
Short-Term	A1+

Definitions of PACRA for the assigned rating are:

AA: Very high credit quality. “AA” ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A1+ : Obligations supported by the highest capacity for timely repayment.

Corporate Governance

i. The Bank has implemented the requirements of the Code of Corporate Governance (the Code) relevant to the year ended December 31, 2008. A prescribed statement by the management along with the auditor's review report thereon forms part of this Annual Report.

ii. Statement under clause xix of the code:

a. The financial statement prepared by the management of the bank present fairly the state of affairs, the results of its operations;

b. Proper books of account of the bank have been maintained;

c. Appropriate accounting policies have consistently been applied in preparation of the financial statement and accounting estimates are based on reasonable and prudent judgment;

d. International Financial Reporting Standard, as applicable to banks in Pakistan, have been followed in preparation of financial statements without any material departure;

e. The system of internal control is sound in design and has been effectively implemented and monitored. Measures are being considered to further strengthen it;

f. There are no doubts about the bank continuing as a going concern;

g. There has been no material departure from the best practices of corporate governance as detailed in listing regulations:

h. Summarized key operating and financial data of the last six years is tabulated on the initial pages of this Annual Report;

i. The value of investment of provident and gratuity funds are Rs.278 million and Rs.107 million respectively as per the unaudited financial statements;

j. The details of Board Meetings held and attended by the directors' form part of this Annual Report;

The system of internal control is sound in design and has been effectively implemented and monitored.

Measures are being considered to further strengthen it.

k.The prescribed pattern of shareholding is given as part of this Annual Report. The movement in the directors' shareholding, if any, is disclosed in the footnote to the pattern of shareholding.

Statement of Internal Control

Management of Faysal Bank is fully responsible for establishing and maintaining adequate controls and procedures.

The management of the bank fully recognizes this responsibility and appreciates its value and significance. Accordingly, policies and procedures encompassing various functional and administrative areas have been developed and circulated across all pertinent levels of the organization. These policies and procedures are approved by the senior management and ratified by the Board of Directors as and when developed. The bank's Internal Audit function keeps monitoring compliance with these policies and procedures and regularly apprises the Board on the same through the Audit Committee. Similarly, financial performance is kept under regular review and the Board is kept updated on the same.

Further recognizing it to be an ongoing process, the bank has issued revised internal policy guidelines on COSO pattern and is actively pursuing additional measures towards strengthening Internal Controls through adoption of guidelines issued by the SBP on the subject on a regular basis. As for the evaluation of controls a formal mechanism is in place to ensure continuous review of processes and effective existence of required controls.

The management feels confident that through adoption of these measures, the bank's internal control environment is maintained at a satisfactory level.

The Board of Directors endorses the above stated management's evaluation of internal controls.

Risk Management Framework

All Faysal Bank activities involve the measurement, evaluation, acceptance and management of some degree of risk, or combination of risks. The most important risk categories that the Bank is exposed to are credit risk, liquidity risk, market risk, operational risks in various forms and reputational risk. A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk at all levels under authority delegated by the Board of Directors. It is the responsibility of all Bank officers to identify, assess, mitigate and manage risk within the scope of their assigned responsibilities. Personal accountability, reinforced by the Bank's governance structure and instilled by training, will help to foster a disciplined and constructive culture of risk management and control.

Within Head Office, the Chief Risk Officer's (CRO) function, interalia, provides high-level centralized oversight and management of credit risk. Its responsibilities include:

- Formulating credit policy.

- Guiding the Bank's business units on the Bank's appetite for, and attitude to, credit risk exposure to specified market sectors, activities and banking products.

- Management and oversight of exposures to certain higher-risk sectors and closely monitors exposure to others.

- Undertaking independent review and objective assessment of risk.

- Monitoring the performance and management of client group portfolios.

- Establishing and maintaining the Bank's policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the Bank's capital base and remain within internal and regulatory limits.

- Maintaining and developing the Bank's risk rating framework and systems, to classify exposures meaningfully and enable focused management of the risks involved, giving and directing credit risk management systems initiatives.

All Faysal Bank activities involve the measurement, evaluation, acceptance and management of some degree or combination of risks. A well-established risk governance and ownership structure ensures oversight of, and accountability for, the effective management of risk at all levels under authority delegated by the Board of Directors.

- Special attention is paid to problem exposures, which are subject to more frequent and intensive review and reporting, in order to accelerate remedial action.

Holding Company

Ithmaar Bank B.S.C., an investment Bank listed in Bahrain is the ultimate holding company of Faysal Bank. DMI Group continues to be the largest shareholder of Ithmaar Bank B.S.C.

Subsidiary Company

Faysal Bank has one subsidiary Faysal Management Services (Pvt.) Limited (FMSL) with 60% holding. Till 2006 Fayzan Manufacturing Modaraba (FMM) managed by FMSL was also a subsidiary and on completing its term FMM was liquidated. All winding up formalities of FMM have been completed. Due to winding up of Modaraba, FMSL is now expected to launch another venture in the near future.

In 2008 FMSL earned profit before tax of Rs.18.1 million (2007: Rs.14.4 million), whereas profit after tax amounted to Rs.11.8 million (2007: Rs.10.1 million), FMSL declared dividends of Rs.15.8 million (2007: Rs.40.9 million) during the year.

Board Meetings and Attendance

Details about the number of Board meetings and attendance by directors during the year 2008 have been appended separately as part of corporate information.

Auditors

The present auditors, Messrs KPMG Taseer Hadi & Co. Chartered Accountants, retire and being eligible, offer themselves for reappointment. The directors endorse the recommendation of the Audit Committee for the reappointment of Messrs KPMG Taseer Hadi & Co. Chartered Accountants as the auditors for the financial year 2009.

Acknowledgement

I would like to take this opportunity to thank on behalf of the Board and Management of the bank the shareholders for the trust they have reposed in the Bank. I am also grateful to the State Bank of Pakistan and Securities and Exchange Commission of Pakistan for their continued support and guidance and the customers for their patronage. I would also like to express sincere appreciation for the employees of the Bank for their dedication and hard work.

On behalf of the Board of Directors

President & CEO
Naved A Khan
Dated: February 24, 2009

values at work

compassion

Our concern for our customers, our colleagues, our communities, and our country sets us apart. To each other, we are a family. For each other, we are a meaningful source of shared humanity.

Our Compassion: Our Gift.

Faysal Bank Limited
Auditors' Report to the Members

We have audited the annexed balance sheet of Faysal Bank Limited as at 31 December 2008 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 ended 31 December 2008, in which are incorporated the unaudited certified returns from the branches except for 15 branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in case of financing covered more than 60% of the total financing of the bank, we report that:

a) in our opinion, proper books of accounts 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 the 31 December 2008, and its true balance of 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

Date: February 24, 2009

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Faysal Bank Limited

Balance Sheet

As at December 31, 2008

	Note	2008	2007
		Rupees '000	
ASSETS			
Cash and balances with treasury banks	8	**8,927,524**	6,872,032
Balances with other banks	9	**876,780**	3,708,451
Lendings to financial institutions	10	**2,861,401**	7,078,102
Investments	11	**30,186,168**	31,553,108
Advances	12	**89,758,789**	87,346,401
Operating fixed assets	13	**2,646,978**	2,514,959
Deferred tax assets - net		**-**	-
Other assets	14	**2,983,846**	2,204,368
		138,241,486	141,277,421
LIABILITIES			
Bills payable	15	**1,536,517**	2,406,927
Borrowings from financial institutions	16	**13,027,468**	9,995,855
Deposits and other accounts	17	**102,776,793**	102,067,422
Sub-ordinated loans	18	**999,600**	1,000,000
Liabilities against assets subject to finance lease	19	**4,103**	7,827
Deferred tax liabilities - net	20	**2,483,355**	2,691,466
Other liabilities	21	**6,641,542**	6,951,421
		127,469,378	125,120,918
NET ASSETS		**10,772,108**	16,156,503
REPRESENTED BY			
Share capital	22	**5,296,445**	5,296,445
Reserves	23	**3,790,023**	3,567,033
Unappropriated profit		**1,049,519**	1,481,668
		10,135,987	10,345,146
Surplus on revaluation of assets	24	**636,121**	5,811,357
		10,772,108	16,156,503
CONTINGENCIES AND COMMITMENTS	25		

The annexed notes 1 to 49 form an integral part of these financial statements.

President & CEO Director Director Director

Faysal Bank Limited

Profit and Loss Account

For the year ended December 31, 2008

	Note	2008	2007
		Rupees '000	
Mark-up / return / interest earned	27	13,404,132	11,610,781
Mark-up / return / interest expensed	28	8,454,755	7,459,392
Net mark-up / interest income		4,949,377	4,151,389
Provision against non-performing loans and advances	12.5	1,561,016	1,797,432
(Reversal) / Provision for consumer loans - general	12.6	(104,822)	74,537
Provision for diminution in the value of investments	11.3	591,168	207,075
Bad debts written off directly		-	-
		2,047,362	2,079,044
Net mark-up / interest income after provisions		2,902,015	2,072,345
Non mark-up / interest income			
Fee, commission and brokerage income		814,001	743,913
Dividend income		1,207,366	1,221,217
Income from dealing in foreign currencies		347,114	313,597
(Loss) / Gain on sale of securities	29	(133,881)	1,115,613
Unrealized (loss) / gain on revaluation of investments classified as held for trading		(3,410)	2,984
Other income	30	79,403	43,821
Total non mark-up / interest income		2,310,593	3,441,145
		5,212,608	5,513,490
Non mark-up / interest expenses			
Administrative expenses	31	3,257,843	2,799,747
Other provisions	14.3	96,864	6,061
Other charges	32	61,364	9,855
Total non mark-up / interest expenses		3,416,071	2,815,663
		1,796,537	2,697,827
Extraordinary items / unusual items		-	-
Profit before taxation		1,796,537	2,697,827
Taxation - Current	33	155,956	282,381
- Prior years		100,000	(48,433)
- Deferred		425,629	191,771
		681,585	425,719
Profit after taxation		1,114,952	2,272,108
Basic and diluted earnings per share - Rupees	34	2.11	4.29

The annexed notes 1 to 49 form an integral part of these financial statements.

President & CEO   Director   Director   Director

Faysal Bank Limited

Cash Flow Statement

For the year ended December 31, 2008

	Note	2008	2007
		Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		**1,796,537**	2,697,827
Less: Dividend income		**(1,207,366)**	(1,221,217)
Profit on available for sale securities		**(1,766,069)**	(1,333,820)
		(1,176,898)	142,790
Adjustments for :			
Depreciation / Amortisation		**447,629**	339,198
Provision against non-performing advances		**1,561,016**	1,797,432
(Reversal) / Provision for consumer loans - general		**(104,822)**	74,537
Provision for diminution in value of investments		**591,168**	207,075
Provision for other assets		**96,864**	6,061
Unrealised loss / (gain) on revaluation of held-for-trading financial instruments		**3,410**	(2,984)
Gain on disposal of fixed assets		**(10,761)**	(3,171)
Finance charges on leased assets		**208**	725
Exchange gain		**(535,801)**	(349,848)
		2,048,911	2,069,025
		872,013	2,211,815
(Increase) / Decrease in operating assets			
Lendings to financial institutions		**3,416,701**	(1,669,897)
Held-for-trading securities		**(19,104)**	26,960
Advances		**(3,868,582)**	(14,749,726)
Other assets (excluding advance taxation)		**(820,586)**	(676,151)
		(1,291,571)	(17,068,814)
Increase / (Decrease) in operating liabilities			
Bills payable		**(870,410)**	(2,109,198)
Borrowings from financial institutions		**3,031,613**	(4,969,182)
Deposits		**709,371**	27,653,781
Other liabilities		**(228,130)**	1,793,867
		2,642,444	22,369,268
		2,222,886	7,512,269
Income tax paid		**(340,640)**	(250,182)
Net cash flow from operating activities		**1,882,246**	7,262,087
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities and associates		**3,787,735**	(7,451,916)
Net investments in held-to-maturity securities		**(8,805,245)**	-
Dividends received		**1,192,875**	1,228,194
Profit received on available for sale securities		**1,724,803**	1,330,329
Fixed capital expenditure		**(611,191)**	(634,972)
Sale proceeds from disposal of fixed assets		**42,304**	23,378
Net cash flow from investing activities		**(2,668,719)**	(5,504,987)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments of lease obligations		**(3,932)**	(7,562)
Sub-ordinated loan		**(400)**	250,000
Dividends paid		**(1,321,175)**	(1,059,941)
Net cash used in financing activities		**(1,325,507)**	(817,503)
(Decrease) / Increase in cash and cash equivalents		**(2,111,980)**	939,597
Cash and cash equivalents at beginning of the year as previously reported		**11,380,483**	10,091,038
Effects of exchange rate changes on cash and cash equivalents		**535,801**	349,848
Cash and cash equivalents at beginning of the year as restated		**11,916,284**	10,440,886
Cash and cash equivalents at end of the year	35	**9,804,304**	11,380,483

The annexed notes 1 to 49 form an integral part of these financial statements.

President & CEO   Director   Director   Director

Faysal Bank Limited

Statement of Changes In Equity

For the year ended December 31, 2008

	Share capital	Reserves: Capital: Share premium	Reserves: Capital: Reserve for issue of bonus shares	Reserves: Statutory reserve	Reserves: Revenue: Capital market reserve	Unappro-priated profit	Total
	Rupees ' 000						
Balance as at December 31, 2006	4,237,157	-	-	2,723,070	356,457	1,815,643	9,132,327
Changes in equity for 2007:							
Final dividend for the year ended December 31, 2006 at Rs. 2.50 per share approved subsequent to the year end	-	-	-	-	-	(1,059,289)	(1,059,289)
Transfer to capital market reserve	-	-	-	-	33,085	(33,085)	-
Profit after tax for the year ended December 31, 2007	-	-	-	-	-	2,272,108	2,272,108
Transfer to reserve for issue of bonus shares	-	-	1,059,288	-	-	(1,059,288)	-
Issue of bonus shares	1,059,288	-	(1,059,288)	-	-	-	-
Transfer to statutory reserve	-	-	-	454,421	-	(454,421)	-
Balance as at December 31, 2007	5,296,445	-	-	3,177,491	389,542	1,481,668	10,345,146
Changes in equity for 2008:							
Final dividend for the year ended December 31, 2007 at Rs. 2.50 per share approved subsequent to the year end	-	-	-	-	-	(1,324,111)	(1,324,111)
Profit after tax for the year ended December 31, 2008	-	-	-	-	-	1,114,952	1,114,952
Transfer to statutory reserve	-	-	-	222,990	-	(222,990)	-
Balance as at December 31, 2008	5,296,445	-	-	3,400,481	389,542	1,049,519	10,135,987

The annexed notes 1 to 49 form an integral part of these financial statements.

President & CEO | Director | Director | Director

Faysal Bank Limited

Notes to the Financial Statements
For the year ended December 31, 2008

1. STATUS AND NATURE OF BUSINESS

Faysal Bank Limited (the Bank) was incorporated in Pakistan on October 3, 1994 as a public limited company under the Companies Ordinance, 1984. Its shares are listed on Karachi, Lahore and Islamabad Stock Exchanges. The Bank is engaged in Commercial, Consumer and Corporate banking activities. The Bank has a branch network of 129 branches (2007: 105 branches) and operates 2 (2007: 5) service centres.

The Registered Office (Head Office) of the Bank is located at Faysal House, ST-02, Shahra-e-Faisal, Karachi.

Ithmaar Bank B.S.C., an Investment Bank listed in Bahrain, is the ultimate holding company of Faysal Bank Limited.

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) 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 and the Banking Companies Ordinance, 1962 and the directives issued by SBP. In case the requirements differ, the provisions of and directives issued under the Companies Ordinance,1984 and the Banking Companies Ordinance, 1962 and the directives issued by the SBP shall prevail.

SBP vide BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Accordingly, the requirements of these standards and their relevant interpretations (issued by the Standards Interpretation Committee - SICs, and the International Financial Reporting Interpretations Committee - IFRICs) have not been considered in the preparation of these financial statements. However, the investments have been classified and valued in accordance with the requirements prescribed by the SBP through various circulars.

In addition, Securities and Exchange Commission of Pakistan (SECP) has notified the Islamic Financial Accounting Standard (IFAS) 1 - Morabaha and IFAS 2 - Ijara issued by the Institute of Chartered Accountants of Pakistan. IFAS 1 was effective for financial periods beginning on or after January 1, 2006 and IFAS 2 was effective for leases entered into after July 1, 2007, subsequently extended to January 1, 2009. These standards are not applicable on the Bank.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for the following financial instruments:

- Derivative financial instruments are measured at fair value; and

- Investments classified as held for trading and available-for-sale are also measured at fair values.

5. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements have been presented in Pakistani Rupee, which is the Bank's functional as well as the reporting currency.

Notes to the Financial Statements

For the year ended December 31, 2008

6. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses in the current and future reporting periods. The actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates (other than adjusting events) are recognized prospectively commencing from the period of revision.

Judgements made by the management that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 41 to these financial statements.

7 SIGNIFICANT ACCOUNTING POLICIES

7.1 Financial assets and liabilities

The Bank initially recognizes financial assets and liabilities on the date at which they originate except for investments which are recognized on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are transferred. The Bank also enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or part of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

Financial liabilities are derecognised when the contractual obligations expire, or are discharged or cancelled.

7.2 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash, money at call and balances with treasury and other banks.

7.3 Lendings to / borrowings from financial institutions

The Bank enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

(a) Sale under repurchase obligation
Securities sold subject to a re-purchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The differential between sale and re-purchase value is accrued over the period of the contract and recorded as an expense.

(b) Purchase under resale obligation
Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions or financing as appropriate. The underlying security is not recognised as a separate asset in the financial statements. The difference between the contracted price and resale price is amortised over the period of the contract and recorded as income.

(c) Other borrowings
These are recorded at the proceeds received. Mark-up paid on such borrowings is charged to the profit and loss account over the period of borrowings on time proportion basis.

Notes to the Financial Statements
For the year ended December 31, 2008

7.4 Investments

Investments in securities, other than investments in subsidiaries and associates are classified as follows:

(a) Held for trading
These represent securities, which are either acquired for the purpose of generating profit from short-term fluctuations in prices or dealer's margin or are securities included in the portfolio in which a pattern of short-term profit making exists.

(b) Held to maturity
These are securities with fixed or determinable payments and maturity in respect of which the Bank has the positive intent and ability to hold to maturity.

(c) Available-for-sale
These represent securities, which do not fall under the held for trading or held to maturity categories.

Investments other than those classified as held for trading and investments in subsidiaries or associates, are initially recognised at fair value including transaction costs associated with such investments. Investments classified as held for trading are initially recognised at fair value. Subsequently, aforesaid quoted securities are stated at market value. Held to maturity investments are carried at amortised cost as per the requirements laid down in BSD Circular No. 14 dated September 24, 2004, issued by SBP. As per SBP directives, the surplus / deficit arising on revaluation is taken to the profit and loss account for trading securities, while for available for sale securities, it is reported below equity.

In accordance with SBP's BSD Circular No. 11 of 2004 and BSD Circular No. 06 of 2007, investments in subsidiaries and associates, as defined in approved accounting standards are stated at cost less impairment loss (if any) and are not subject to mark to market.

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

Premium or discount on acquisition of investments is amortised through the profit and loss account over the remaining period till maturity using effective interest method.

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying value is recognised in the profit and loss account. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Provision for diminution in the value of securities (except term finance certificates) is made for impairment, if any. Provision for diminution in value of term finance certificates is made as per the aging criteria prescribed by the Prudential Regulations issued by the SBP.

7.5 Advances

These are stated net of specific and general provision.

Specific provision is made for non-performing advances in accordance with the requirements of the Prudential Regulations issued by SBP. The Bank also maintains general provision in accordance with the requirements of the Prudential Regulations and for present potential losses on performing loans, finance leases and consumer loan portfolio.

Notes to the Financial Statements
For the year ended December 31, 2008

Non-performing advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful. The Bank determines write-offs in accordance with the criteria prescribed by the SBP vide BPRD Circular No. 06 of 2007 dated June 05, 2007.

7.6 Operating fixed assets

Owned

Items of property and equipment are stated at cost less accumulated depreciation and impairment (if any) except freehold and leasehold land which are stated at cost.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Capital work in progress is stated at cost.

Assets subject to finance lease

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as assets subject to finance lease. These are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments including any guaranteed residual value, at inception of the lease, less accumulated depreciation and impairment losses (if any). Financial charges are allocated over the period of the lease term so as to provide a constant periodic rate of financial charge on the outstanding liability.

Intangibles

Intangible assets with finite useful lives are stated at cost less accumulated amortization and impairment losses (if any). Intangible assets with indefinite useful lives are stated at cost less impairment losses (if any).

Subsequent costs

Renewals and improvements are included in an 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. All other expenses are charged to income during the financial period in which they are incurred.

Depreciation and amortisation

Depreciation on property and equipment other than freehold and leasehold land, and amortisation on intangibles is charged to income using the straight-line method so as to write off the depreciable amount of an asset over its estimated useful life
at the rates given in notes 13.2 and 13.3. The residual value, useful life and depreciation method is assessed annually.

A full month's depreciation / amortisation is charged in the month of addition and no depreciation / amortisation is charged in the month of disposal.

Impairment of operating fixed assets

The carrying amounts of the Bank's operating fixed assets are regularly reviewed to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Such losses are recognised directly in the profit and loss account.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. Such reversals are only made to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

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7.7 Operating leases

Lease payments under operating leases are charged to income on straight line basis over the lease term.

7.8 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity or below equity, in which case it is recognised in equity or below equity.

Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the prevailing laws for taxation on income. The charge for the current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date. The charge for current tax also includes adjustments, where considered necessary relating to prior years.

Deferred

Deferred tax is recognised using the balance sheet method on all temporary differences arising between tax base of assets and liabilities and their carrying amounts appearing in the financial statements. No deferred tax is provided on the initial recognition of assets and liabilities that affect neither accounting nor taxable profits. A deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

7.9 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognised separately as part of other liabilities and is charged to the profit and loss account over the period.

7.10 Provisions and Impairment

Provisions are recognised when the Bank has a legal or constructive obligation as a result of past events and 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.

The carrying amount of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss is recognized.

7.11 Staff retirement benefits

The Bank operates:

a) an approved funded gratuity scheme for all its permanent employees. Contributions are made to cover the obligations under the scheme on the basis of actuarial valuation using Projected Unit Credit Method and are charged to income. Cumulative net unrecognized actuarial gains and losses at the end of the previous year are charged or credited to income over the expected average remaining working lives of the employees.

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b) an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Bank and the employees at the rate of 10 percent of basic salary.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

7.12 Revenue recognition

a) interest / mark-up and return on regular advances and investments is recognised on time proportion basis. Interest / mark-up on classified advances and investments is recognised on receipt basis. Gains and losses on termination and documentation charges are recognised on receipt basis.

b) Fee, commission and brokerage income is recognised when earned.

c) Dividend income from investments is recognised when the Bank's right to receive the dividend is established.

d) Gains and losses on sale of investments and operating fixed assets are recognised in the profit and loss account, when the risks and rewards of ownership are transferred.

e) All exchange differences are recognised in income.

7.13 Dividends and appropriation to reserves

Dividend and appropriation to reserves are recognised in the year in which these are approved, except appropriations required by the law, which are recorded in the period to which they pertain.

7.14 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as assets when net fair value is positive and liabilities when net fair value is negative. Any change in the fair value is recognised in the profit and loss account.

7.15 Foreign currencies

All monetary assets, liabilities and commitments for letters of credit, acceptances and guarantees in foreign currencies are translated at rates of exchange approximating those prevailing at the balance sheet date. Foreign currency transactions are translated at the rates prevailing on the transaction date.

Foreign bills purchased and forward contracts and swaps are valued at forward rates applicable to the respective maturities of the relevant contracts.

7.16 Off Setting

Financial assets and liabilities are set off and the net amount is reported in the balance sheet when and only when, the Bank has a legal right to set off the amounts and it intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted by the approved accounting standards, or for gains and losses arising from a group of similar transactions.

Notes to the Financial Statements
For the year ended December 31, 2008

7.17 Segment Reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products 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. Segment information is presented as per the Bank's functional structure and the guidance of SBP. The Bank comprises of the following main business segments:

7.17.1 Business Segments

Corporate finance

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

Trading and Sales

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

Retail banking

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

Commercial banking

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

7.17.2 Geographical segment

The Bank conducts all its operations in Pakistan.

8. CASH AND BALANCES WITH TREASURY BANKS

	Note	2008	2007
		Rupees '000	
In hand			
- local currency		**2,331,104**	1,190,472
- foreign currency		**425,575**	334,029
With the State Bank of Pakistan in			
- local currency current account	*8.1*	**4,061,066**	4,302,738
- foreign currency current account	*8.2*	**400,691**	434,975
- foreign currency deposit account	*8.3*	**1,214,245**	455,699
With the National Bank of Pakistan in			
- local currency current account		**493,628**	154,119
- local currency deposit account		**-**	-
National Prize Bonds		**1,215**	-
		8,927,524	6,872,032

8.1 This represents current account maintained with SBP under the requirements of section 22 (Cash Reserve Requirement) of the Banking Companies Ordinance, 1962.

8.2 This represents cash reserve of 5% on FE 25 deposits, maintained with SBP under the requirements of BSD Circular No. 18 dated March 31, 2001.

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8.3 This represents special cash reserve maintained with SBP under the requirements of BSD Circular No. 14 of 2008 dated June 21, 2008 and local USD clearing account maintained with SBP to facilitate USD Clearing. Profit rates on these balances are fixed on monthly basis by SBP. Profit ranging between 0.90% to 3.60% per annum (2007: 3.71% to 4.72% per annum) was earned during the year.

	Note	2008	2007
		Rupees '000	
9. BALANCES WITH OTHER BANKS			
In Pakistan			
- Current accounts		**163,851**	18,583
- Deposit accounts		**-**	-
Outside Pakistan			
- Current accounts		**712,929**	869,753
- Deposit accounts		**-**	2,820,115
		876,780	3,708,451
10. LENDINGS TO FINANCIAL INSTITUTIONS			
Call money lendings	*10.2*	**-**	800,000
Repurchase agreement lendings (Reverse Repo)	*10.3*	**2,861,401**	4,578,102
Certificates of investment	*10.4*	**-**	1,700,000
		2,861,401	7,078,102
10.1 Particulars of lending			
In local currency		**2,861,401**	7,078,102
In foreign currencies		**-**	-
		2,861,401	7,078,102

10.2 Call money lendings were extended to banks at rates ranging from 9.8% to 10.0% per annum, maturing upto March, 2008.

10.3 Securities held as collateral against lendings to financial institutions

	2008			2007		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	Rupees '000					
Market Treasury Bills - note 10.3.1	**2,861,401**	**-**	**2,861,401**	2,504,602	-	2,504,602
Pakistan Investments Bonds - note 10.3.2	**-**	**-**	**-**	2,073,500	-	2,073,500
	2,861,401	**-**	**2,861,401**	4,578,102	-	4,578,102

10.3.1 Market Treasury Bills have been purchased under resale agreements at rates ranging from 14.0% to 14.9% (2007: 8.90% to 9.95% per annum) with maturities up to January 2009. The market value of these securities is Rs. 2.9 billion (2007 : Rs 2.56 billion).

10.3.2 Pakistan Investment Bonds were purchased under resale agreements at the rates ranging from 9.30% to 9.55% per annum with maturities up to March 2008. The market value of these securities was Rs 2.19 billion.

10.4 These represent placements in certificates of investments with banks and financial institutions at rates ranging from 10.4% to 11.0% per annum with maturities up to March 2008.

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11. INVESTMENTS

Investments by type and segment are given below while the detailed break down is contained in Annexure I to these financial statements.

11.1 Investments by type

	2008			2007		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	Rupees '000					
Held for trading securities						
Fully paid up ordinary shares	19,104	-	19,104	-	-	-
Available-for-sale securities						
Market Treasury Bills	11,345,480	1,122,183	12,467,663	16,899,271	-	16,899,271
Pakistan Investment Bonds	1,154,312	-	1,154,312	1,174,945	-	1,174,945
Units of open end mutual funds						
- National Investment (Unit) Trust - note 11.2.5	3,475,056	-	3,475,056	2,670,544	-	2,670,544
- First Habib Income Fund	25,000	-	25,000	-	-	-
- Faysal Balanced Growth Fund	80,374	-	80,374	80,374	-	80,374
- Faysal Income Growth Fund	200,000	-	200,000	-	-	-
- Faysal Savings Growth Fund	207,411	-	207,411	207,411	-	207,411
- NAFA Cash Fund	50,000	-	50,000	-	-	-
- Atlas Income Fund	35,000	-	35,000	-	-	-
- United Money Market Fund	25,000	-	25,000	-	-	-
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	1,750,640	-	1,750,640	1,421,466	-	1,421,466
Fully paid up preference shares	492,677	-	492,677	517,677	-	517,677
Term finance certificates and bonds	1,540,859	-	1,540,859	2,350,039	-	2,350,039
	20,381,809	1,122,183	21,503,992	25,321,727	-	25,321,727
Held to maturity						
Market Treasury Bills	8,805,245	-	8,805,245	-	-	-
Associates						
Shares of						
- Faysal Asset Management Ltd.	45,000	-	45,000	15,000	-	15,000
Subsidiaries						
Shares of Faysal Management Services (Private) Ltd.	108,000	-	108,000	108,000	-	108,000
Investments at cost	29,359,158	1,122,183	30,481,341	25,444,727	-	25,444,727
Provision for diminution in the value of investments - note 11.3	(871,481)	-	(871,481)	(280,313)	-	(280,313)
Investments (Net of Provisions)	28,487,677	1,122,183	29,609,860	25,164,414	-	25,164,414
Surplus / (Deficit) on revaluation of held for trading securities - note 11.5	(3,410)	-	(3,410)	-	-	-
Surplus / (Deficit) on revaluation of available for sale securities (net) - note 24	579,718	-	579,718	6,388,694	-	6,388,694
Total investments at market value	29,063,985	1,122,183	30,186,168	31,553,108	-	31,553,108

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11.1.1 Strategic Investments

	2008	2007
	Rupees '000	
Available-for-sale securities - Listed		
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	238,981	238,981
Units of open ended mutual funds	80,374	80,374
Available-for-sale securities - Unlisted		
Fully paid up ordinary shares	853,750	966,936
Associate	45,000	15,000
Subsidiary	108,000	108,000
	1,326,105	1,409,291
Provision for diminution in the value of investments	(175,517)	(160,440)
	1,150,588	1,248,851
(Deficit) / Surplus on revaluation of investments	(11,945)	133,960
	1,138,643	1,382,811

Strategic investments are those which the Bank makes with the intention of holding them for a long term duration and are marked as such at the time of investment. Disposals of such investments can only be made subject to fulfilments of criteria prescribed by SBP in the Prudential Regulations. The overall exposure limit for equity investments prescribed by SBP does not apply to these investments. Further, as per SBP instructions in BPD Circular Letter No 16 of 2006 dated August 01, 2006, investments marked as strategic have a minimum retention period of 5 years from the original purchase date, however, these can be sold before the stipulated period with the prior permission of the SBP. During the current year the Bank has entered into an agreement for sale of one of strategic investment after taking approval from SBP. Part of that investment has been disposed of and its respective provision is derecognized in the current year.

11.2 Investments by segment

	Note	2008	2007
		Rupees '000	
Federal Government Securities			
- Market Treasury Bills	*11.2.1*	21,272,908	16,899,271
- Pakistan Investment Bonds	*11.2.2*	1,154,312	1,174,945
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units			
- Listed companies/ modarabas/ mutual funds		914,207	452,743
- Unlisted companies		1,008,537	1,091,723
Fully Paid up Preference Shares			
- Listed companies		266,427	266,427
- Unlisted companies	*11.2.3*	226,250	251,250
Term Finance Certificates and Bonds			
- Listed TFCs		1,040,859	1,443,237
- Unlisted TFCs	*11.2.4*	500,000	906,802
Open end Mutual Fund Units		4,097,841	2,958,329
		30,481,341	25,444,727
Provision for diminution in the value of investments	*11.3*	(871,481)	(280,313)
Investments (Net of Provisions)		29,609,860	25,164,414
Deficit on revaluation of held for trading securities	*11.5*	(3,410)	-
Surplus on revaluation of available-for-sale securities	*24*	579,718	6,388,694
Total investments at market value		30,186,168	31,553,108

11.2.1 Market Treasury Bills have tenures of three months to one year. The Bank's yield on these instruments ranges from 10.1% to 13.6% per annum (2007: 9.0% to 9.4% per annum) with maturities up to March 2009.

Notes to the Financial Statements
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11.2.2 Pakistan Investment Bonds are for periods of 10 years. The Bank's return on these investments ranges from 4.6% to 6.3% per annum (2007: 4.6% to 6.3% per annum) with maturities from June 30, 2013 to October 10, 2013.

11.2.3 This include advance of Rs. 126.25 million (2007: Rs. 126.25 million) to a company for the future issue of preference shares.

11.2.4 This represent advance in respect of Pre IPO issue of listed Term Finance Certificates (TFCs) of Dewan Cement Ltd which has not been issued in the current year. The old TFCs have been repaid by Dewan Cement Ltd in the current year, however as per the directives of the State Bank of Pakistan (SBP) vide letter no. BPD/PU-22/22.03/15749/2005/8720 dated July 14, 2005, the new TFCs have also been classified as investment.

11.2.5 This includes 150,268,315 NIT Units (2007:150,268,315 NIT units) covered under Letter of Comfort (LOC) dated December 30, 2008 issued by the Federal Government with an expiry / renewal date of June 30, 2009. Furthermore, the dividend of NIT units were settled by 20% cash and 80% NIT non LOC units which has been classified as investment in NI(U)T.

In accordance with the policy decision of the Government of Pakistan (GoP) and approval of the Board of Directors of National Investment Trust (Pvt) Limited, management company of National Investment Unit Trust (NI(U)T), the NI(U)T was split in two broad segments from April 01, 2007 i.e. one belonging to the LOC holders and the other segment belonging to the non-LOC holders. The two segments are being managed separately from April 01, 2007.

So far both GoP as well as the Bank have exchanged proposals offering various exit options but the matter is yet to be finalised. However in December 2007, the parties agreed and executed the redemption of 10% of portfolio at the prevailing repurchase price.

11.3 Particulars of provision for diminution in the value of investments

	Note	2008	2007
		Rupees '000	
Opening balance		**280,313**	73,238
Charge for the year	*11.3.2*	**751,667**	239,137
Reversals	*11.3.3*	**(160,499)**	(32,062)
		591,168	207,075
Closing balance		**871,481**	280,313

11.3.1 Particulars of Provision in respect of Type and Segment

	2008	2007
Available-for-sale securities		
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units		
- Listed companies / modarabas / mutual funds	**513,046**	50,670
- Unlisted companies	**102,516**	162,218
Term Finance Certificates and Bonds		
- Listed TFCs	**5,919**	8,800
- Unlisted TFCs	**250,000**	58,625
	871,481	280,313

11.3.2 During the current year, the State Bank of Pakistan (SBP) vide BSD circular no 4 dated 13 February, 2009, allowed Banks to adopt the notification issued by the Securities and Exchange Commission of Pakistan (SECP) on 13 February 2009. As per the notification impairment loss recognized due to the valuation of listed equity investment held as available for sale may be shown as equity. However the circular issued by the SBP has encouraged banks to recognize the full impairment loss in the current year. The Bank did not adopt the notification of SECP and regonized impairment loss of Rs. 477.199 million, which is included in the charge for the year. Furthermore, a provision of Rs. 250 million has also been recognized in respect of an advance against pre - IPO of the listed Term Finance Certificate of Dewan Cement Ltd which has not been issued.

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11.3.3 This includes reversal of Rs. 63.293 million on account of disposal of investment in Sukh Chyan Gardens (Private) Limited and Rs. 58.625 million on account of repayment of old TFCs by Dewan Cement Limited.

11.4 Quality of Available-for-Sale Securities

The details regarding the quality of available-for-sale securities is contained in Annexure I, which forms an integral part of these financial statements.

11.5 Unrealized Loss on revaluation of investments classified as held for trading

	Note	2008	2007
		Rupees '000	
Fully paid up ordinary shares		(3,410)	-

12. ADVANCES

	Note	2008	2007
Loans, cash credits, running finances, etc. - In Pakistan		79,492,629	68,955,681
Net investment in finance lease - In Pakistan	12.2	13,493,087	15,885,502
		92,985,716	84,841,183
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan	12.3	675,771	790,852
Payable outside Pakistan		596,917	991,364
		1,272,688	1,782,216
		94,258,404	86,623,399
Margin Financing / reverse repo transactions		625,367	4,392,879
Provision for non-performing advances	12.5	(4,908,184)	(3,348,257)
Provision for consumer loans - general	12.6	(216,798)	(321,620)
		89,758,789	87,346,401

12.1 Particulars of advances

		2008	2007
12.1.1	In local currency	84,940,955	82,500,881
	In foreign currency	4,817,834	4,845,520
		89,758,789	87,346,401
12.1.2	Short term (for upto one year)	39,130,286	56,578,273
	Long term (for over one year)	50,628,503	30,768,128
		89,758,789	87,346,401

12.2 Net investment in finance lease

	2008				2007			
	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	5,560,987	6,350,315	-	11,911,302	6,195,668	9,521,760	27,533	15,744,961
Residual value	1,016,576	2,559,573	-	3,576,149	643,043	3,019,995	6,608	3,669,646
Minimum lease payment	6,577,563	8,909,888	-	15,487,451	6,838,711	12,541,755	34,141	19,414,607
Finance charge for future period	(1,010,978)	(983,386)	-	(1,994,364)	(1,511,987)	(2,014,059)	(3,059)	(3,529,105)
Present value of minimum lease payment	5,566,585	7,926,502	-	13,493,087	5,326,724	10,527,696	31,082	15,885,502

12.3 This included receivable of a customer discounted by the Bank in 2007 amounting to Rs. 45.922 million. The amount was received from National Bank of Pakistan during the year.

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12.4 Advances includes Rs. 7.479 billion (2007: Rs. 4.753 billion) which have been placed under non-performing status as detailed below:

	2008								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees '000								
Category of classification									
Other assets especially mentioned (Agri)	242,329	-	242,329	-	-	-	-	-	-
Substandard	1,882,120	-	1,882,120	655,627	-	655,627	655,627	-	655,627
Doubtful	1,553,008	-	1,553,008	658,836	-	658,836	658,836	-	658,836
Loss	3,801,842	-	3,801,842	3,535,045	-	3,535,045	3,535,045	-	3,535,045
	7,479,299	-	7,479,299	4,849,508	-	4,849,508	4,849,508	-	4,849,508

	2007								
	Classified Financing			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees '000								
Category of classification									
Other assets especially mentioned (Agri)	123,930	-	123,930	-	-	-	-	-	
Substandard	1,527,739	-	1,527,739	489,878	-	489,878	489,878	-	489,878
Doubtful	567,431	-	567,431	236,502	-	236,502	236,502	-	236,502
Loss	2,534,315	-	2,534,315	2,473,201	-	2,473,201	2,473,201	-	2,473,201
	4,753,415	-	4,753,415	3,199,581	-	3,199,581	3,199,581	-	3,199,581

12.4.1 In accordance with the directives issued by SBP, the Bank has considered the benefit of 30% of FSV of pledged stocks and mortgaged commercial and residential properties held as collateral against all Non Performing Loans (NPLs), except consumer financing, for three years from the date of classification for calculating provisioning requirements. This change in directives has resulted in reversal of provision of Rs. 136 million. The increase in profit amounting to Rs. 136 million is not available for payment of cash or stock dividend. For Non Performing Loans in respect of consumer financing, benefit of 50% of the FSV of mortgage property is considered in the first two years of classification and 30% in the third year of classification.

12.5 Particulars of provision for non-performing advances - in local currency

	2008			2007		
	Specific	General	Total	Specific	General	Total
	Rupees '000					
Opening balance	3,199,581	148,676	3,348,257	1,304,339	263,952	1,568,291
Charge for the year	1,973,009	-	1,973,009	1,977,376	58,676	2,036,052
Transfer to specific provision from general provision	90,000	(90,000)	-	173,952	(173,952)	-
Reversals	(411,993)	-	(411,993)	(238,620)	-	(238,620)
	1,651,016	(90,000)	1,561,016	1,912,708	(115,276)	1,797,432
Amounts written off - note 12.7	(1,089)	-	(1,089)	(17,466)	-	(17,466)
Closing balance	4,849,508	58,676	4,908,184	3,199,581	148,676	3,348,257

12.5.1 Particulars of provision for non-performing advances:

	2008			2007		
	Specific	General	Total	Specific	General	Total
	Rupees '000					
In local currency	4,849,508	58,676	4,908,184	3,199,581	148,676	3,348,257
In foreign currencies	-	-	-	-	-	-
	4,849,508	58,676	4,908,184	3,199,581	148,676	3,348,257

12.5.2 General provision represents provision made for potential losses and has been determined on the basis of management's best estimate.

Notes to the Financial Statements
For the year ended December 31, 2008

12.6 Particulars of provision for consumer loans - general - in local currency

	2008	2007
	Rupees '000	
Opening balance	321,620	247,083
Charge for the year	-	74,537
Reversals	(104,822)	-
Closing balance	216,798	321,620

12.6.1 General provision against consumer loans has been determined in accordance with the requirements of the Prudential Regulations issued by SBP (i.e. 1.5% of secured loans and 5% of unsecured loans).

12.7 Particulars of write-off

		Note	2008	2007
			Rupees '000	
12.7.1	Against provisions	12.5	1,089	17,466
	Directly charged to profit and loss account		-	-
			1,089	17,466
12.7.2	Write offs of Rs. 500,000 and above	12.8	1,089	17,466
	Write offs below Rs. 500,000		-	-
			1,089	17,466

12.8 Details of loans written off of Rs 500,000 and above

The statement in respect of write-offs or any other financial relief of five hundred thousand rupees or above as required under sub-section (3) of section 33A of the Banking Companies Ordinance, 1962 is given as "Annexure II" to these financial statements.

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

	2008	2007
	Rupees '000	
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	407,271	363,749
Loans granted during the year	259,903	254,881
Repayments	(162,248)	(211,359)
Balance at end of year	504,926	407,271
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	-	-
Loans granted during the year	-	-
Repayments	-	-
Balance at end of year	-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at beginning of year	806,989	975,060
Loans granted during the year	529	31,576
Repayments	(75,954)	(199,647)
Balance at end of year	731,564	806,989
	1,236,490	1,214,260

Notes to the Financial Statements
For the year ended December 31, 2008

		Note	2008	2007
			Rupees '000	
12.9.1	**Maximum total amount of advances including temporary advances granted during the year**			
	Debts due by directors, executives or officers of the Bank or any of them either severally or jointly with any other persons		**504,926**	411,166
	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		**-**	-
	Debts due by subsidiaries, controlled firms, managed modarabas and other related parties		**806,989**	975,060
			1,311,915	1,386,226
13.	**OPERATING FIXED ASSETS**			
	Capital work-in-progress	*13.1*	**241,253**	397,485
	Property and equipment	*13.2*	**2,250,594**	1,976,095
	Intangible assets	*13.3*	**155,131**	141,379
			2,646,978	2,514,959
13.1	**Capital work-in-progress**			
	Civil works		**32,911**	179,612
	Equipment		**64,022**	-
	Advances to suppliers and contractors		**144,320**	217,873
			241,253	397,485

Notes to the Financial Statements
For the year ended December 31, 2008

13.2 Property and equipment

	COST					ACCUMULATED DEPRECIATION					Book value at		Rate of
	As at January 1, 2007	Additions/ (deletions)	As at January 1, 2007	Additions/ (deletions)	As at December 31, 2008	As at January 1, 2007	Charge/ (on deletions)	As at January 1, 2008	Charge/ (on deletions)	As at December 31, 2008	December 31, 2008	December 31, 2007	depreciation % per annum
	Rupees '000												
Owned													
Freehold land	40,184	-	40,184	-	40,184	-	-	-	-	-	40,184	40,184	-
Leasehold land	381,651	35,357	417,008	-	417,008	19,206	-	19,206	-	19,206	397,802	397,802	-
Building on freehold land note- 13.2.2	41,648	-	41,648	-	41,648	11,862	2,736	14,598	833	15,431	26,217	27,050	2
Leasehold property and improvement	993,393	74,853 (1,879)	1,066,367	238,680 (49)	1,304,998	106,236	90,623 (763)	196,096	96,285 (7)	292,374	1,012,624	870,271	2 to 20
Office furniture, fixtures, equipments and computers	889,274	237,151 (13,292)	1,113,133	316,807 (14,987)	1,414,953	463,472	183,248 (9,275)	637,445	250,236 (5,260)	882,421	532,532	475,688	20 to 33.33
Vehicles	199,330	75,156 (32,838)	241,648	144,035 (40,699)	344,984	62,365	40,689 (19,995)	83,059	44,628 (20,094)	107,593	237,391	158,589	20
	2,545,480	422,517 (48,009)	2,919,988	699,522 (55,735)	3,563,775	663,141	317,296 (30,033)	950,404	391,982 (25,361)	1,317,025	2,246,750	1,969,584	
Assets subject to finance lease													
Vehicles	21,410	- (5,411)	15,999	- (1,169)	14,830	8,749	3,919 (3,180)	9,488	1,498 -	10,986	3,844	6,511	20
	2,566,890	422,517 (53,420)	2,935,987	699,522 (56,904)	3,578,605	671,890	321,215 (33,213)	959,892	393,480 (25,361)	1,328,011	2,250,594	1,976,095	

13.2.1 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 514.722 million (2007: Rs. 357.849 million).

13.2.2 One of these properties is encumbered to the extent of Rs. 34 million on account of a claim by a local bank in settlement of its second charge, and two floors of the said property have been restricted from sale by the High Court.

13.3 Intangible assets

	COST					ACCUMULATED AMORTISATION					Book value at		Rate of
	As at January 1, 2007	Additions/ (deletions)	As at January 1, 2007	Additions/ (deletions)	As at December 31, 2008	As at January 1, 2007	Charge/ (on deletions)	As at January 1, 2008	Charge/ (on deletions)	As at December 31, 2008	December 31, 2008	December 31, 2007	amortisation % per annum
	Rupees '000												
Computer software	26,824	138,566	165,390 -	67,901	233,291 -	6,028	17,983	24,011	54,149 -	78,160	155,131 -	141,379	20 to 33.33

Notes to the Financial Statements
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13.4 Details of disposal of fixed assets to executives, and other persons having cost of more than Rs.1 million or net book value Rs. 250,000 or above are as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser / addresses
	------------------------	Rupees '000	----------------			
Owned - Vehicles						
Suzuki Cultus	555	200	355	348	Policy	Mr. Raja Imran Naseeb (Employee)
Suzuki Cultus	560	224	336	336	Policy	Mr. Riaz Ismail (Employee)
Suzuki Cultus	560	134	426	426	Policy	Mr. Azim Ahmad (Employee)
Suzuki Cultus	560	187	373	373	Policy	Mr. Muhammad Akhtar (Employee)
Suzuki Cultus	560	217	343	395	Policy	Mr. Najmus Saqib (Employee)
Suzuki Cultus	560	149	411	510	Bid	Mr. Wasim Mirza (Individual) Karachi.
Suzuki Cultus	560	164	396	485	Bid	Mr. Noman Ahmed Siddiqui (Individual) House# A-98, Block 2, Gulshan-e-Iqbal, Karachi
Suzuki Cultus	560	179	381	500	Bid	Mr. Taimur Dyer (Individual) Bungalow# 282, D'Souza Road, Garden East, Karachi
Suzuki Cultus	560	134	426	426	Policy	Mr. Saleem Shaffi (Employee)
Suzuki Cultus	560	142	418	485	Bid	M/s Car Advisor 608 - Show Room # 2 Fatima Jinah Colony, New M.A.Jinah Road, Karachi
Suzuki Cultus	583	148	435	439	Policy	Mr. Naveed Inayat (Employee)
Suzuki Cultus	595	190	405	490	Bid	Mr. Taimur Dyer Bungalow# 282, D'Souza Road, Garden East, Karachi
Suzuki Cultus	598	199	399	329	Policy	Mr. Sajjad Tanoli (Employee)
Suzuki Cultus	604	258	346	314	Policy	Mr. Rhooh Ul Amin (Employee)
Suzuki Cultus	610	211	399	399	Policy	Mr. Adeel Ali Khan (Employee)
Suzuki Cultus	620	190	430	445	Bid	Mr. Imran Sheikh (Individual) Karachi.
Suzuki Cultus	625	233	392	432	Bid	Mr. Nouman Ahmad Siddique (Individual) Karachi. House# A-98, Block 2, Gulshan-e-Iqbal, Karachi
Suzuki Cultus	630	252	378	378	Policy	Mr. M.Ashfaq Ahmad (Employee)
Suzuki Cultus	635	186	449	434	Bid	M/s. Ithehad Motors House # A-329, Block# 3, Gulshan-e-Iqbal, Karachi
Suzuki Cultus	635	161	474	423	Policy	Mr. Ahmad Waheed (Employee)
Suzuki Cultus	638	272	366	400	Bid	Mr. Muhammad Mumtaz Ahmed (Individual) Mudh Post Office, Shahpur, Sargodha
Suzuki Cultus	650	286	364	373	Policy	Mr. Asim Barar (Employee)
Suzuki Cultus	650	208	442	445	Bid	Mr. Kh. Sajjad Ahmed (Individual) 5 Hide Market, Lahore
Toyota Corolla	846	90	756	765	Bid	M/s Ithehad Motors House # A-329, Block# 3, Gulshan-e-Iqbal, Karachi
Toyota Corolla	849	566	283	306	Policy	Mr. Akhlaq Ahmad Buttar (Employee)
Toyota Corolla	849	555	294	306	Policy	Mr. Syed Javaid Akhtar (Employee)
Toyota Corolla	849	543	306	306	Policy	Mr. Sheraz Akhtar Chaudry (Employee)
Toyota Corolla	849	487	362	362	Policy	Mr. Sajjad Burney (Employee)
Toyota Corolla	849	577	272	260	Policy	Mr. Jahangir Ghulam Hussain (Employee)
Toyota Corolla	849	543	306	306	Bid	Mr. Pervaiz Siddiqui (Individual), Lahore
Toyota Corolla	881	223	658	860	Bid	M/s Argosy Enterprises 77 B-3, Gulberg, Lahore
Toyota Corolla	881	294	587	602	Bid	Mr. Mohsin Mumtaz (Individual) 24/2 Samanabad, Lahore
Honda City	884	330	554	616	Bid	Mr. Malik Ishaq (Individual), Rawalpindi
Honda City	885	319	566	600	Bid	Mr. Muhammad Azha Anees (Individual), Karachi
Honda City	886	343	543	620	Policy	Mr. Arif Hasan Khan (Employee)
Honda City	886	343	543	532	Policy	Mr. Azhar Hussain Dilawari (Employee)
Toyota Corolla	900	168	732	744	Policy	Mr. Taimur Hassan (Ex Employee)
Honda Civic	914	500	414	645	Bid	Mr Athar Gulzar (Individual) Karachi.
Honda City	936	300	636	695	Bid	Mr Shahzad Usman (Individual) Karachi. Flat # 08, Lalwani Building Outram Road, Hawani Chowk, Karachi
Honda Civic	1,169	935	234	421	Policy	Mr. Abadullah (Employee)
Honda Civic	1,169	748	421	421	Policy	Mr. Khawaja Khalil Shah (Employee)
Honda Civic	1,237	495	742	745	Policy	Mr. Col. Tanveer (Employee)
Honda Civic	1,288	755	533	700	Insurance Claim	UBL Insurers Limited, Karachi.
Owned - Office furniture, fixtures, equipments and computers						
Generator	1,305	1,305	-	400	Bid	Mr. Muhammad Ashraf (Individual) Karachi.
Generator	11,925	3,975	7,950	8,220	Bid	M/s Orient Engineers, Karachi.

Notes to the Financial Statements
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14. OTHER ASSETS

	Note	2008	2007
		Rupees '000	
Income/mark-up accrued in local currency		1,960,726	1,323,986
Income/mark-up accrued in foreign currency		42,475	44,056
Advances, deposits, advance rent and other prepayments		216,155	202,778
Non-banking assets acquired in satisfaction of claim	14.1	307,376	307,376
Branch adjustment account		-	91,173
Suspense account		22,181	24,242
Others	14.2	542,966	221,926
		3,091,879	2,215,537
Less: Provision held against other assets	14.3	(108,033)	(11,169)
		2,983,846	2,204,368

		2008	2007
14.1	Market value of non-banking assets acquired in satisfaction of claim - determined by professional valuer	596,964	542,780

14.2 This includes an amount of Rs. 445 million, receivable from National Clearing Company of Pakistan Limited in accordance with CFS MK II square up scheme and receivable of Rs. 0.339 million in respect of asset recognized under defined benefit plan (note 37.5).

14.3 Provision against other assets

	2008	2007
	Rupees '000	
Opening balance	11,169	5,108
Charge for the year	96,864	6,061
Reversals	-	-
Closing balance	108,033	11,169

15. BILLS PAYABLE

	2008	2007
In Pakistan	1,523,430	2,396,076
Outside Pakistan	13,087	10,851
	1,536,517	2,406,927

16. BORROWINGS FROM FINANCIAL INSTITUTIONS

	2008	2007
In Pakistan	13,019,090	9,733,864
Outside Pakistan	8,378	261,991
	13,027,468	9,995,855

16.1 Particulars of borrowings from financial institutions

	2008	2007
In local currency	12,860,893	9,733,864
In foreign currencies	166,575	261,991
	13,027,468	9,995,855

Notes to the Financial Statements
For the year ended December 31, 2008

		Note	2008	2007
16.2	**Details of borrowings from financial institutions**		**Rupees '000**	
	Secured			
	Borrowings from the State Bank of Pakistan			
	- Under Export Refinance Scheme - Part I and II	*16.3*	**7,568,725**	4,992,256
	- Under Locally Manufactured Machinery (LMM) scheme		**-**	-
	- Under scheme for Long Term Financing of Export Projects - (LTF-EOP)	*16.4*	**2,086,845**	2,642,084
	- Under Long Term Financing Facility (LTFF)	*16.5*	**95,002**	-
	Repurchase agreement borrowings	*16.6*	**1,110,321**	-
			10,860,893	7,634,340
	Unsecured			
	Interbank borrowings	*16.7*	**2,158,197**	2,080,600
	Overdrawn nostro accounts		**8,378**	280,915
			2,166,575	2,361,515
			13,027,468	9,995,855

16.3 These represent borrowings from SBP under export refinance scheme at 6.50% per annum (2007: 6.50% per annum) maturing within six months up to June 2009. As per the terms of the agreement, the Bank has granted SBP a right to recover the outstanding amount from the Bank at the date of maturity of finances by directly debiting the current account of the Bank maintained with SBP.

16.4 These represent borrowings from SBP under scheme for Long Term Financing of Export Oriented Projects at rates ranging from 4% to 5% per annum (2007: 4.0% to 5.0% per annum), and have varying long term maturities stipulated by SBP. As per the terms of the agreement, the Bank has granted SBP a right to recover the outstanding amount from the Bank at the respective date of maturity of finances, by directly debiting the current account of the Bank maintained with SBP.

16.5 This represents borrowings from SBP under scheme for Long Term Financing Facility at rates ranging from 6.50% to 7.00% per annum (2007:Nil), and have varying long term maturities stipulated by SBP. As per the terms of the agreement, the Bank has granted SBP a right to recover the outstanding amount from the Bank at the respective date of maturity of finances by directly debiting the current account of the Bank maintained with SBP.

16.6 This represents collateralized borrowings against market treasury bills at rates ranging from 12.75% to 14.90% per annum (2007: Nil) maturing upto January 2009.

16.7 These borrowings are from various institutions in the interbank market, made at rates ranging from 6.00% to 14.10% per annum (2007: 4.90% to 9.25% per annum) maturing up to January 2009.

		2008	2007
17.	**DEPOSITS AND OTHER ACCOUNTS**	**Rupees '000**	
	Customers		
	Fixed deposits	**52,580,898**	56,600,711
	Saving deposits	**25,317,608**	25,848,248
	Current accounts - Remunerative	**-**	-
	Current accounts - Non-remunerative	**18,472,499**	18,032,874
	Margin accounts	**2,018,677**	875,641
		98,389,682	101,357,474
	Financial Institutions		
	Remunerative deposits	**4,349,693**	579,657
	Non-remunerative deposits	**37,418**	130,291
		4,387,111	709,948
		102,776,793	102,067,422

Notes to the Financial Statements
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		2008	2007
		Rupees '000	
17.1	**Particulars of deposits**		
	In local currency	**94,971,578**	93,286,214
	In foreign currencies	**7,805,215**	8,781,208
		102,776,793	102,067,422

17.2 The above includes deposits of related parties amounting to Rs. 1.542 billion (2007 : Rs. 297.28 million).

18. SUB-ORDINATED LOANS

This represents listed, rated and un-secured Term Finance Certificates (TFCs). The salient features of the issue are as follows:

	2008	2007
	Rupees '000	
Outstanding amount	**999,600**	1,000,000
Total Issue Amount	**1,000,000**	1,000,000

Rating	“AA-” (Double A Minus) by JCR-VIS
Rate	Base Rate Plus 1.40% The Base Rate is defined as the Ask Side of Six Months Karachi Inter-bank Offered Rate (KIBOR).
Subordination	The TFCs is subordinated to all other indebtedness of the Bank including deposits.
Tenure and maturity	7 years from the date of issue
Principal Repayment	0-60 months 0.2% 66-84 months 24.95%
Profit Payment	Profit is payable semi-annually in arrears.

19. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	Rupees '000					
Not later than one year	**4,147**	**44**	**4,103**	3,932	239	3,693
Later than one year and not later than five years	**-**	**-**	**-**	4,147	13	4,134
	4,147	**44**	**4,103**	8,079	252	7,827

19.1 The Bank has entered into agreements with a modaraba for lease of vehicles on commercial terms. Lease rentals are payable periodically and include finance charges at 8.0% per annum (2007: 8.0% per annum) which has been used as the discounting factor. There are no financial restrictions in the lease agreements.

Notes to the Financial Statements
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20. DEFERRED TAX LIABILITIES

	2008			
	Opening Balance	Recognised in profit and loss	Recognised in surplus on revaluation	Closing Balance
	Rupees '000			
Deferred credits arising in respect of:				
- Finance lease arrangements	**2,378,019**	**455,000**	**-**	**2,833,019**
- Accelerated depreciation allowance	**173,055**	**21,026**	**-**	**194,081**
- Surplus on revaluation of securities	**663,666**	**-**	**(587,406)**	**76,260**
Deferred debits arising in respect of:				
- Provision against non-performing advances	**(29,258)**	**36,689**	**-**	**7,431**
- Provision for diminution in the value of investments	**(51,958)**	**(22,004)**	**-**	**(73,962)**
- Taxable business losses	**(355,729)**	**(65,082)**	**-**	**(420,811)**
- Deficit on revaluation of government securities	**(86,329)**	**-**	**(46,334)**	**(132,663)**
	2,691,466	**425,629**	**(633,740)**	**2,483,355**

	2007			
	Opening Balance	Recognised in profit and loss	Recognised in surplus on revaluation	Closing Balance
	Rupees '000			
Deferred credits arising in respect of:				
- Finance lease arrangements	1,779,162	598,857	-	2,378,019
- Accelerated depreciation allowance	158,744	14,311	-	173,055
- Surplus on revaluation of securities	-	-	663,666	663,666
Deferred debits arising in respect of:				
- Provision against non-performing advances	(15,548)	(13,710)	-	(29,258)
- Provision for diminution in the value of investments	-	(51,958)	-	(51,958)
- Taxable business losses	-	(355,729)	-	(355,729)
- Deficit on revaluation of government securities	(82,498)	-	(3,831)	(86,329)
	1,839,860	191,771	659,835	2,691,466

21. OTHER LIABILITIES

	Note	2008	2007
		Rupees '000	
Mark-up / return payable in local currency		**1,418,833**	1,714,329
Mark-up / return payable in foreign currency		**48,651**	50,027
Unearned commission / income		**75,277**	105,041
Accrued expenses		**299,487**	191,209
Current taxation (provisions less payments)		**460,904**	545,588
Unclaimed dividends		**43,128**	40,192
Branch adjustment account		**3,776**	-
Exchange difference on revaluation of forward foreign exchange contracts		**23,849**	-
Withholding tax payable		**66,089**	38,101
Central Excise Duty payable		**9,266**	-
Security deposits against finance leases		**3,576,148**	3,669,646
Payable to brokers	*21.1*	**8,517**	11,883
Others		**607,617**	585,405
		6,641,542	6,951,421

21.1 This represents amounts payable to brokers against purchase of shares.

Notes to the Financial Statements
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22. SHARE CAPITAL

22.1 Authorised capital

2008	2007		2008	2007
Number of Shares			Rupees '000	
600,000,000	600,000,000	Ordinary shares of Rs. 10 each	**6,000,000**	6,000,000

22.2 Issued, subscribed and paid-up capital

2008	2007	Ordinary shares		
Number of Shares				
201,451,420	201,451,420	Fully paid in cash	**2,014,514**	2,014,514
312,533,051	312,533,051	Issued as bonus shares	**3,125,331**	3,125,331
15,660,000	15,660,000	Issued for consideration other than cash	**156,600**	156,600
529,644,471	529,644,471		**5,296,445**	5,296,445

As at December 31, 2008, Ithmaar Bank (the ultimate holding company of the Bank) through its subsidiaries and nominees held 354,558,660 ordinary shares of Rs. 10 each (2007: 354,556,291 ordinary shares).

23. RESERVES

	Note	2008	2007
		Rupees '000	
Statutory reserve	*23.1*	**3,400,481**	3,177,491
Capital market reserve	*23.2*	**389,542**	389,542
		3,790,023	3,567,033

23.1 Appropriations are made to statutory reserve as required by section 21 of the Banking Companies Ordinance, 1962, @ 20% of profit after tax for the year.

23.2 This represents reserve created to meet unforeseen future contingencies in the capital market.

24. SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - BY TYPE AND SEGMENT

	Note	2008	2007
		Rupees '000	
Available-for-sale Securities			
Federal Government Securities			
- Market Treasury Bills		**(27,831)**	(50,478)
- Pakistan Investment Bonds		**(351,207)**	(197,477)
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units			
- Listed companies/ modarabas/ mutual funds		**(32,402)**	58,262
- Unlisted companies		**-**	-
Fully Paid up Preference Shares			
- Listed companies		**(2,586)**	(28,326)
- Unlisted companies		**-**	-
Term Finance Certificates and Bond			
- Listed TFCs		**(79,836)**	(52,836)
- Unlisted TFCs		**-**	-
Open end Mutual Fund Units		**1,073,580**	6,659,549
		579,718	6,388,694
Deferred tax asset / (liability)	*24.1*	**56,403**	(577,337)
		636,121	5,811,357

24.1 This represents deferred tax on surplus / (deficit) on revaluation of federal government securities, quoted securities and funds.

Notes to the Financial Statements
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25. CONTINGENCIES AND COMMITMENTS

	2008	2007
	Rupees '000	
25.1 Direct credit substitutes		
Contingent liability in respect of guarantees favouring:		
i) Government	**-**	-
ii) Banking companies and other financial institutions	**11,314**	3,275
iii) Others	**2,298,364**	1,479,270
	2,309,678	1,482,545
Acceptances		
i) Government	**8,903**	2,998
ii) Banking companies and other financial institutions	**-**	-
iii) Others	**2,115,242**	2,361,363
	2,124,145	2,364,361
25.2 Transaction-related contingent liabilities		
Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:		
i) Government	**3,940,271**	3,976,830
ii) Banking companies and other financial institutions	**121,645**	76,236
iii) Others	**13,053,502**	14,055,339
	17,115,418	18,108,405
25.3 Trade-related contingent liabilities		
Letters of credit		
i) Government	**302,870**	222,008
ii) Banking companies and other financial institutions	**115,210**	-
iii) Others	**8,378,903**	10,885,832
	8,796,983	11,107,840
25.4 Other Contingencies		
i) Suit filed by a customer for recovery of alleged losses suffered which is pending in the High Court of Sindh; the Bank's legal advisors are confident that the Bank has a strong case	**2,500,000**	2,500,000
ii) Indemnity issued favouring the High Court in above case	**457,543**	457,543
iii) Claims against the Bank not acknowledged as debt	**1,126,990**	839,454
25.5 Commitments in respect of forward lending / purchase		
Commitment to extend credit - advances	**3,179,852**	1,200,000
Commitment to invest in securities	**330,000**	1,000,000
25.6 Commitments in respect of forward exchange contracts		
Purchase		
- Customers	**1,103,966**	734,181
- Banks	**4,905,443**	1,940,112
	6,009,409	2,674,293
Sale		
- Customers	**-**	136,434
- Banks	**3,224,281**	3,887,537
	3,224,281	4,023,971

Notes to the Financial Statements
For the year ended December 31, 2008

		2008	2007
		Rupees '000	
25.7	**Commitments for the acquisition of operating fixed assets**	**196,637**	67,860
25.8	**Commitments in respect of repo transactions**		
	Repurchase	**3,448,631**	-
	Resale	**1,122,184**	4,736,709

26. DERIVATIVE INSTRUMENTS

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The principal derivatives used by the Bank are forward foreign exchange contracts and equity futures. The Bank at this stage does not engage in Interest Rate Swaps, Forward Rate Agreements and FX Options.

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Equity futures are exchange traded contractual agreements to either buy or sell a specified security at a specific price and date in the future.

"All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations. The principal amount of the derivative contract does not represent real exposure to credit risk, which is limited to the positive fair value of instruments.

The details of commitments under forward foreign exchange contracts outstanding at year-end have been given in note 25. There was no equity futures position at the year end.

27. MARK-UP / RETURN / INTEREST EARNED

	2008	2007
	Rupees '000	
a) On financing to:		
i) customers	**10,268,030**	8,633,779
ii) financial institutions	**131,226**	137,274
b) On investments in:		
i) available for sale securities	**1,766,069**	1,333,820
ii) held to maturity securities	**77,497**	-
c) On deposits with treasury bank and financial institutions	**364,823**	460,837
d) On securities purchased under resale agreements	**796,487**	1,045,071
	13,404,132	11,610,781

Notes to the Financial Statements
For the year ended December 31, 2008

		Note	2008	2007
			Rupees '000	
28.	**MARK-UP / RETURN / INTEREST EXPENSED**			
	Deposits		**7,205,154**	6,179,693
	Securities sold under repurchase agreements		**306,768**	111,927
	Other short term borrowings		**695,823**	986,304
	Long term borrowings		**116,209**	90,321
	Sub-ordinated debt		**130,801**	91,147
			8,454,755	7,459,392
29.	**(LOSS) / GAIN ON SALE OF SECURITIES**			
	(Loss) / Gain on sale of shares - listed		**(133,881)**	1,115,613
			(133,881)	1,115,613
30.	**OTHER INCOME**			
	Profit on disposal of fixed assets		**10,761**	3,171
	Rent on property		**52,670**	37,389
	Maintenance charges on property rented		**15,972**	3,261
			79,403	43,821
31.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other employee benefits		**1,529,231**	1,435,750
	Charge for defined benefit plan	*37.6*	**30,195**	23,917
	Contribution to defined contribution plan		**42,816**	33,368
	Rent, taxes, insurance, electricity, etc.		**456,511**	291,267
	Legal and professional charges		**33,721**	48,810
	Communications		**79,760**	56,079
	Repairs and maintenance		**99,997**	73,956
	Donations	*31.1*	**160**	4,600
	Finance charge on leased assets		**208**	725
	Stationery and printing		**74,899**	62,409
	Advertisement and publicity		**38,925**	58,085
	License and technical fee		**19,969**	47,896
	Auditors' remuneration	*31.2*	**4,700**	4,135
	Depreciation	*13.2*	**393,480**	321,215
	Amortisation	*13.3*	**54,149**	17,983
	Travelling, conveyance and entertainment		**34,663**	32,544
	Vehicle running expenses		**69,378**	43,091
	Books, periodicals and subscription		**54,977**	17,387
	Brokerage and commission		**18,453**	34,057
	Others		**221,651**	192,473
			3,257,843	2,799,747

Notes to the Financial Statements
For the year ended December 31, 2008

		Note	2008	2007
			Rupees '000	
31.1	**Donations made in the year were as follows:**			
	Donee			
	Health Oriented Preventive Education (HOPE)		**50**	-
	All Pakistan Women's Association (APWA)		**10**	-
	Rotary Metropolitan Trust (President & CEO of the Bank is the President of the Trust)		**100**	-
	Waqf Faisal (Trust) (President & CEO of the Bank is the Managing Trustee of the Trust)		**-**	4,600
			160	4,600
31.2	**Auditors' remuneration**			
	Audit fee		**1,825**	1,610
	Review of half yearly financial statements		**350**	275
	Special certifications and sundry advisory services		**2,250**	1,900
	Out-of-pocket expenses		**275**	350
			4,700	4,135
32.	**OTHER CHARGES**			
	Penalties imposed by the State Bank of Pakistan against non-compliance of SBP regulations		**61,364**	9,855
33.	**TAXATION**			
	For the year			
	Current	*33.1*	**155,956**	282,381
	Deferred	*20*	**425,629**	191,771
			581,585	474,152
	For prior year			
	Current		**100,000**	(48,433)
	Deferred		**-**	-
			100,000	(48,433)
		33.2	**681,585**	425,719

33.1 This includes charge amounting to Rs. 35.930 million (2007: Nil) in respect of worker's welfare fund.

33.2 Relationship between tax expense and accounting profit

	2008	2007
Profit before tax	**1,796,537**	2,697,827
Tax calculated at the rate of 35% (2007: 35%)	**628,788**	944,239
Effect of :		
- permanent differences	**21,477**	79,650
- income chargeable to tax at reduced rate	**(154,050)**	(317,499)
- income exempt from tax	**-**	(232,238)
- charge in respect of WWF	**35,930**	-
- prior year charge	**100,000**	(48,433)
- others	**49,440**	-
Tax charge for the year	**681,585**	425,719

Notes to the Financial Statements
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33.3 Income tax assessments of the Bank have been finalised upto the tax year 2005 (Accounting year 2004). Returns filed upto tax year 2008 (Accounting year 2007) are also deemed to have been assessed as per tax law, unless selected for detailed audit.

33.4 The Bank and the Income Tax department have filed appeals against various issues which are at various levels of appellate forums. The management is of the view that adequate provision has been made for any potential tax liability arising out of these appeals.

34. BASIC AND DILUTED EARNINGS PER SHARE

	Note	2008	2007
		Rupees '000	
Profit for the year		**1,114,952**	2,272,108
		In thousands	
Weighted average number of ordinary shares	*22.2*	**529,644**	529,644
		Rupees	
Basic and diluted earnings per share		**2.11**	4.29

35. CASH AND CASH EQUIVALENTS

	Note	2008	2007
		Rupees '000	
Cash and balance with treasury banks	*8*	**8,927,524**	6,872,032
Balances with other banks	*9*	**876,780**	3,708,451
Call money lendings	*10*	**-**	800,000
		9,804,304	11,380,483

36. STAFF STRENGTH

	Note	2008	2007
		In Numbers	
Permanent		**1,749**	1,394
Temporary / on contractual basis		**180**	365
Bank's own staff strength at the end of the year		**1,929**	1,759
Outsourced	*36.1*	**990**	716
Total Staff Strength		**2,919**	2,475

36.1 Outsourced represent employees hired by an outside contractor/agency and posted in the Bank to perform various tasks / activities of the Bank.

Notes to the Financial Statements
For the year ended December 31, 2008

37. DEFINED BENEFIT PLAN

37.1 Principal actuarial assumptions

The latest actuarial valuation of the Bank's defined benefit plan based on Projected Unit Credit Actuarial Cost Method was carried out as at December 31, 2008. Following are the significant assumptions used in the valuation:

	Note	2008	2007
Discount factor used (%age per annum)		**15**	10
Expected long term rate of return on plan assets (%age per annum)		**15**	10
Salary increase (%age per annum)		**15**	10
Normal retirement age (Years)		**60**	60

37.2 Reconciliation of payable to defined benefit plan

	Note	2008	2007
		Rupees '000	
Present value of defined benefit obligations	*37.3*	**167,125**	123,141
Fair value of plan assets	*37.4*	**(107,351)**	(97,739)
		59,774	25,402
Net actuarial gain/(loss) not recognised		**(60,113)**	(25,402)
	37.5	**(339)**	-

37.3 Movement in present value of defined benefit obligation

	2008	2007
Opening balance	**123,141**	118,509
Current service cost	**22,567**	20,406
Interest cost	**12,829**	12,385
Loss on defined benefit obligation	**30,928**	2,818
Actual benefits paid during the year	**(25,862)**	(30,977)
Past Service Cost - contractual employees	**3,522**	-
Closing balance	**167,125**	123,141

37.4 Movement in fair value of plan assets

	Note	2008	2007
Opening balance		**97,739**	97,253
Expected return on plan assets		**10,417**	10,291
Contribution made		**30,534**	23,917
Benefits paid by the fund		**(25,862)**	(30,977)
Loss on plan assets		**(5,477)**	(2,745)
Closing balance	*37.4.1*	**107,351**	97,739

37.4.1 Plan assets consist of the following:

	2008	2007
Balances with banks and financial institutions	**31,753**	38,383
Certificates of investment	**-**	-
Units of open end mutual funds	**60,994**	40,000
Term finance certificates	**14,604**	19,356
	107,351	97,739

Notes to the Financial Statements
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37.5 Movement in payable to defined benefit plan

	Note	2008	2007
		Rupees '000	
Opening balance		**-**	-
Charge for the year	*37.6*	**30,195**	23,917
Contribution to fund made during the year		**(30,534)**	(23,917)
Closing balance		**(339)**	-

37.6 Charge for defined benefit plan

	2008	2007
Current service cost	**22,567**	20,406
Interest cost	**12,829**	12,385
Expected return on plan assets	**(10,417)**	(10,291)
Amortisation of loss	**1,694**	1,417
Vested Past Service Cost - contractual employees	**3,522**	-
	30,195	23,917

37.7 Actual return on plan assets

	2008	2007
Actual return on plan assets	**5,093**	8,189

37.8 Historical information

	2008	2007	2006	2005	2004
			Rupees '000		
Defined Benefit Obligation	**(167,125)**	(123,141)	(118,509)	(93,553)	(79,512)
Fair value of plan assets	**107,351**	97,739	97,253	79,134	64,070
Surplus/ (Deficit)	**(59,774)**	(25,402)	(21,256)	(14,419)	(15,442)
Experience adjustments on plan liabilities	**(30,928)**	(2,818)	(4,231)	581	(17,557)
Experience adjustments on plan assets	**(5,477)**	(2,745)	888	767	397

38. DEFINED CONTRIBUTION PLAN

The Bank operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Bank and the employees at the rate of 10 % of basic salary. The financial statements of the fund are separately prepared and audited and are not included as part of these financial statements.

39. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Chief Executive Officer*		Executives	
	2008	2007	2008	2007
		Rupees '000		
Managerial remuneration	**60,577**	48,586	**228,249**	125,978
Payments to Ex President for past services	**-**	304,200	**-**	-
Charge for defined benefit plan	**1,861**	2,206	**12,481**	6,631
Contribution to defined contribution plan	**2,219**	2,649	**14,939**	7,960
Rent and house maintenance	**1,161**	6,329	**74,699**	36,741
Utilities	**243**	2,649	**14,004**	8,132
Medical	**107**	147	**10,727**	5,718
Leave fare assistance	**1,545**	8,217	**24,769**	12,589
Others	**4,602**	1,944	**30,150**	33,949
	72,315	376,927	**410,018**	237,698
Number of persons	**2**	2	**167**	83

* Remuneration of the Chief Executive Officer in the year 2008 includes Ex-Acting Chief Executive Officer and present President & CEO

Notes to the Financial Statements
For the year ended December 31, 2008

39.1 In addition to the above, the Chief Executive and Executives are provided with free use of the Bank's maintained cars and security services.

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest financial statements.

Fair value of fixed term advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of advances has been calculated in accordance with the Bank's accounting policy as stated in note 7.5 of these financial statements.

The maturity and repricing profile and effective rates are stated in note 46.6.1 and 46.5 respectively.

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

41. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Some of the critical accounting estimates and judgements are as follows:

41.1 Provision against advances portfolio

The Bank reviews its advances portfolio to assess amount of non-performing advances and provision required there against on a quarterly basis. The provision is made in accordance with Prudential Regulations issued by the State Bank of Pakistan (SBP). The SBP vide BSD circular No.2 of 2009 dated January 27, 2009 has allowed banks to avail the benefit of 30% of FSV of pledged stock and mortgaged commercial and residential properties held as collateral against all NPLs for three years from the date of classification for calculating provision w.e.f. December 31, 2008. Further as per SBP directives, for non performing loans in respect of consumer financing, benefit of 50% of FSV of mortgaged property is considered in the first and second year and 30% in the third year of classification. The management has revised its accounting estimate for determining provisions in the light of the State Bank of Pakistan's directives, the impact of which is given in note 12.4.1. The forced sale values in respect of collaterals in the case of home mortgage loans are estimated by independent valuations of the assets mortgaged / pledged.

General provision in respect of unidentified loan losses is made based on historical experience for assets with credit risk characteristics.

41.2 Income taxes

In making the estimates for income taxes currently payable by the Bank, the management looks at the current income tax law and the decisions of appellate authorities on disputed issues in the past. However, the Bank has made adequate provision in this respect. The allocation of expenses between income chargeable to tax under final tax regime (FTR) and normal tax regime (NTR) is based on the assessment order of the Bank.

41.3 Impairment in respect of listed securities

The Bank determines that listed AFS securities are impaired when there has been a significant or prolonged decline in fair value below its cost. In making this judgement, the Bank evaluates among other factors volatility in share prices in normal course.

41.4 Gratuity

The Bank has adopted certain actuarial assumptions as disclosed in note 37.1 to the financial statements for determining present value of defined benefit obligations and fair value of plan assets, based on actuarial advice. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

41.5 Segmentation

As per the requirements of SBP, the management has divided the Bank into four functional segments. The basis of segmentation and related assumptions are disclosed in note 7.17.

Notes to the Financial Statements
For the year ended December 31, 2008

41.6 Fair value

The Karachi Stock Exchange (Guarantee) Limited ("KSE") placed a "Floor Mechanism" on the market value of securities based on the closing prices of securities prevailing as on August 27, 2008. Under the "Floor Mechanism", the individual security price of equity securities could vary within normal circuit breaker limit, but not below the floor price level. The mechanism was effective from August 28, 2008 and remained in place until December 15, 2008. Consequent to the introduction of 'floor mechanism' by KSE, the market volume declined significantly during the period from August 27, 2008 to December 15, 2008. There were lower floors on a number of securities at December 31, 2008. The equity securities have been valued at prices quoted on the KSE on December 31, 2008 without any adjustment as allowed by the State Bank of Pakistan (SBP) BSD Circular Letter No. 2 dated January 27, 2009.

42. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Primary segment information

For management purposes the Bank is organised into four major business segments

Corporate Finance;
Trading and Sales;
Retail Banking; and
Commercial Banking.

All assets, liabilities, off balances sheet items, and items of income and expense are distributed in primary segments in accordance with the core functions performed by the business groups.

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	Rupees '000			
2008				
Total income	**811,944**	**2,417,389**	**4,683,320**	**7,802,072**
Total expenses	**(658,759)**	**(2,306,964)**	**(4,300,561)**	**(7,333,489)**
Net income (loss)	**153,185**	**110,425**	**382,759**	**468,583**
Segment assets (Gross)	**7,187,378**	**17,816,850**	**47,952,947**	**71,280,774**
Segment non performing Assets	**1,734,787**	**1,408,147**	**3,112,530**	**4,366,769**
Segment provision required	**(354,452)**	**(517,029)**	**(1,797,676)**	**(3,327,306)**
Segment liabilities	**(1,468,576)**	**(16,274,040)**	**(42,275,906)**	**(67,450,856)**
Segment return on assets (ROA) (%) *	**11.30**	**13.57**	**9.77**	**10.95**
Segment cost of funds (%) *	**10.46**	**9.57**	**6.14**	**6.46**
2007				
Total income	1,041,294	2,601,331	4,051,249	7,362,924
Total expenses	(673,875)	(1,731,629)	(3,644,489)	(6,734,697)
Net income (loss)	367,419	869,702	406,760	628,227
Segment assets (Gross)	7,657,073	17,730,889	46,120,943	73,718,706
Segment non performing Assets	273,186	91,460	2,105,390	2,648,025
Segment provision required	(160,440)	(61,248)	(1,188,153)	(2,540,349)
Segment liabilities	(1,301,319)	(6,848,633)	(44,593,360)	(73,377,603)
Segment return on assets (ROA) (%) *	13.60	14.67	8.78	9.99
Segment cost of funds (%) *	7.60	15.26	5.32	5.45

* These percentages have been computed based on closing assets / liability figure instead of average balances.

Note: The above table is based on best estimates / assumptions and other segments (Payment & Settlement and Agency Services) as required to be disclosed are not material.

Notes to the Financial Statements

For the year ended December 31, 2008

43. TRUST ACTIVITIES

The Bank is not engaged in any significant trust activities. However, it acts as security agent for various Term Finance Certificates it arranges and distributes on behalf of its customers.

44. RELATED PARTY TRANSACTIONS

The Bank has related party relations with its associated undertakings, subsidiary companies (refer note 11.1), group companies, employee benefit plans (refer note 7.11) and its directors and executive officers (including their associates). Transactions with key management personnel and entities in which the Bank has a strategic investment are also disclosed as part of related party transactions.

Banking transactions with the related parties are executed substantially on the same terms, except transaction with directors and executive officers that are as per their terms of employment, including mark-up rates and collateral, as those prevailing at the time of comparable transactions with unrelated parties and do not involve more than a normal risk. Details of advances to the companies or firms in which the directors of the Bank are interested as directors, partners or in case of private companies as members are given in note 12.9 to these financial statements.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of contribution plan (refer note 7.11 and note 37 to these financial statements for the details of the plans). Remuneration of key management personnel, including salaries and other short-term employee benefits and post-employee benefits is given below. Remuneration to executives (including key management personnel) of the Bank is disclosed in note 39 to these financial statements. Such remuneration is determined in accordance with the terms of their appointment. Strategic investments are disclosed in note 11.1.1.

	2008					
	Directors and Key Management Personnel	Group Companies	Associates	Subsidiaries	Strategic Investments	Retirement Benefit Plan
	Rupees '000					
Deposits						
Balance at the beginning of the year	48,487	2,028	73	8,218	135,480	102,998
Placements during the year	560,812	60,476,240	235,824	2,536,663	859,183	757,198
Withdrawals during the year	(588,218)	(59,303,812)	(234,939)	(2,360,830)	(981,251)	(711,308)
Balance at end of the year	21,081	1,174,456	958	184,051	13,412	148,888
Advances						
Balance at the beginning of the year	4,146	-	-	-	806,989	-
Disbursement during the year	74,641	-	-	-	529	-
Repayment during the year	(6,980)	-	-	-	(75,954)	-
Balance at the end of the year	71,807	-	-	-	731,564	-

	2007					
	Directors and Key Management Personnel	Group Companies	Associates	Subsidiaries	Strategic Investments	Retirement Benefit Plan
	Rupees '000					
Deposits						
Balance at the beginning of the year	71,086	1,187	5,287	240,690	223,589	197,384
Placements during the year	1,131,960	51,010	833,046	2,957,224	4,229,246	703,411
Withdrawals during the year	(1,154,559)	(50,169)	(838,260)	(3,189,696)	(4,317,355)	(797,797)
Balance at end of the year	48,487	2,028	73	8,218	135,480	102,998
Advances						
Balance at the beginning of the year	25,489	-	-	-	975,060	-
Disbursement during the year	-	-	-	-	31,576	-
Repayment during the year	(21,343)	-	-	-	(199,647)	-
Balance at the end of the year	4,146	-	-	-	806,989	-

Balances pertaining to parties that were related at the beginning of the year but ceased to be so related during any part of the current period are not reflected as part of the closing balance. The same are accounted for through the movement presented above.

Notes to the Financial Statements
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	2008	2007
	Rupees '000	
Foreign Currency Placement of funds / Nostro balances with group companies	**15,238**	5,147
Transactions involving Sale / Purchase of investments with related parties		
Shares / Units purchased during the year	**550,383**	250,000
Shares / Units / Term Finance Certificates sold during the year	**428,411**	364,852
Income on foreign currency placement of funds	**-**	10,215
Profit paid/ accrued	**152,937**	11,223
Profit return/ earned	**86,537**	70,480
Technical Fee paid	**-**	46,472
Dividend income from subsidiaries	**9,504**	32,684
Dividend paid to holding company and associates	**870,266**	709,117
Remuneration of key management personnel		
- Salaries and other short-term employee benefits	**122,177**	97,633
- Post-employment benefits	**35,056**	7,003
- Payment to Ex President	**-**	304,200
Contribution to staff retirement benefits	**73,350**	57,286

Disposal of vehicles to key management personnel and other executives is disclosed in note 13.4 to these financial statements.

45. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

45.1 Capital Management

Basel II capital adequacy framework applies to all Banks and DFIs on stand-alone as well consolidated basis.

The Bank's objectives when managing its capital are:

a) To comply with the capital requirements set by the SBP;
b) 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
c) To maintain a strong capital base to support the development of its business.

Capital adequacy is monitored periodically by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and as mandated by the SBP for supervisory purposes. The required information is submitted to the SBP on a quarterly basis. The disclosure given is based on the Basel II standardised approach.

The SBP requires each Bank or Banking group to: (a) hold the minimum level of the paid up capital and (b) maintain a ratio of total regulatory capital to the risk-weighted assets at or above the required minimum of 9% as prescribed for the year 2008.

The Bank's regulatory capital is divided into two tiers:

a) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings;
b) Tier 2 capital: qualifying subordinated loan capital, general provision and unrealised gains arising on the fair valuation of equity instruments held as available for sale; and
c) Tier 3 capital: the Bank has no eligible Tier 3 capital.

Notes to the Financial Statements
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Book value of Goodwill, other intangible assets including software, brand value etc are deducted from Tier 1 capital whereas Investments in associates and subsidiaries, as disclosed in note 11.1 are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential future exposure.

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.

The State Bank has prescribed a minimum paid-up capital requirement (net of losses) of Rs. 5 billion for all Banks to be achieved by December 31, 2008. The required minimum Capital Adequacy Ratio (CAR), on consolidated as well as on stand alone basis is 9%.

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

45.2 Capital Structure

	2008	2007*
	Rupees '000	
Tier I Capital		
Share Capital	**5,296,445**	5,296,445
Reserves	**3,790,023**	3,567,033
Unappropriated / unremitted profits (Net of Losses)	**1,049,519**	1,481,668
	10,135,987	10,345,146
Less: Book value of Intangible assets	**(155,131)**	(141,379)
Other deductions (50% of the amount as calculated on CAP 2)	**(76,500)**	(61,500)
	(231,631)	(202,879)
Total Tier I Capital	**9,904,356**	10,142,267
Tier II Capital		
Subordinated Debt (upto 50% of total Tier 1 Capital)	**999,600**	1,000,000
General Provisions subject to 1.25% of Total Risk Weighted Assets	**275,474**	470,296
Revaluation Reserve (upto 45%)	**286,254**	2,615,111
	1,561,328	4,085,407
Less: Other deductions (50% of the amount as calculated on CAP 2)	**(76,500)**	(61,500)
Total Tier II Capital	**1,484,828**	4,023,907
Eligible Tier III Capital	**-**	-
Total Regulatory Capital Base	**11,389,184**	14,166,174

* The comparative figures have not been audited by the external auditors.

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45.3 Capital Adequacy

	Capital Requirements		Risk Weighted Assets	
	2008	2007*	2008	2007*
	Rupees in '000			
Credit Risk				
Sovereign	2,470	-	27,440	-
Public Sector Enterprise	-	-	-	-
Financial Institution	65,691	96,349	729,899	1,204,365
Corporate	6,122,741	5,965,133	68,030,460	74,564,166
Retail	1,449,705	860,132	16,107,828	10,751,649
Past Due Loans	377,381	304,067	4,193,126	3,800,840
Other	464,115	419,800	5,156,831	5,247,503
	8,482,103	7,645,481	94,245,584	95,568,523
Equity Exposure Risk in the Banking Book				
Equity portfolio subject to market-based approaches				
Public Sector Enterprise	87,158	-	968,425	-
	87,158	-	968,425	-
Total Credit Risk	8,569,261	7,645,481	95,214,009	95,568,523
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	209,679	247,304	2,329,763	3,091,300
Equity position risk	264,986	1,612,512	2,944,288	20,156,400
Foreign Exchange risk	731,218	675,195	8,124,650	8,439,938
Total Market Risk	1,205,883	2,535,011	13,398,701	31,687,638
Operational Risk				
Capital Requirement for operational risks	1,121,181	957,874	12,457,562	10,643,046
Total Operational Risk	1,121,181	957,874	12,457,562	10,643,046
Total	10,896,325	11,138,366	121,070,271	137,899,207

Capital Adequacy Ratio	Note	2008	2007
Total eligible regulatory capital held	45.2 (a)	11,389,184	14,166,174
Total Risk Weighted Assets	(b)	121,070,271	137,899,207
Capital Adequacy Ratio	(a) / (b)	9.41%	10.27%

* The comparative figures have not been audited by the external auditors.

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46. RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks. The management's aim is to achieve an appropriate balance between risk and return, and minimise potential adverse effects on its financial performance.

The Bank's risk management policies are designed to identify and analyse financial and non-financial risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to risk limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Bank under policies approved by the Board of Directors. The principal risks associated with the banking business are credit risk, market risk, liquidity risk and operational risk.

The Bank is focused to further refine its risk management processes in line with the changing economic scenario and Bank's business expansions. The Bank is taking many initiatives including assessments of various risks through self-assessment questionnaire, stress testing, scenarios analysis, portfolio review, early warning indicators and alerts, and business process re-engineering.

46.1 Credit Risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit exposures arise principally in lending activities that lead to loans and advances. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

Credit risk management and control are carried out by credit risk management teams, which report to the Board of Directors through risk management committees. The Bank has well defined credit structures under which credit committees, comprising of senior officers with requisite credit background, critically scrutinise and sanction financing. The Bank's exposure to credit is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. To reduce the potential of risk concentration, counterparty limits, group exposure limits, and industry limits are established and monitored in light of changing counterparty and market conditions.

Besides financial, industry and transaction analysis, the credit evaluation also includes risk rating systems, which gauge risk rating of customers. This rating process encompasses relevant criteria including macro factors enabling the Bank to factor in the dynamics and influence of operating environment as well. More specifically, due consideration is given to industry sector (growing/saturated/decline), other competitors and threats / vulnerability to changes in environment such as changes in government policy, tariff structure, taxation rates, etc.

46.1.1 Segment by class of business

Portfolio management is an integral part of the Bank's credit process. Risk concentration may arise where total exposure to a particular group or industry is high in relation to shareholders' equity. The Bank has set up a portfolio strategy and planning function with an aim to monitor the overall risk and to avoid high exposure to a single group or industry.

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Segmental information in respect of the class of business and geographical distribution of advances, deposits, and contingencies and commitments is given below:

	2008					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and Pharmaceuticals	7,042,513	7.85	1,664,015	1.62	2,299,415	7.46
Agribusiness	3,622,330	4.04	2,901,940	2.82	87,394	0.28
Textile	14,152,639	15.77	888,011	0.86	1,385,165	4.50
Cement	4,198,980	4.68	351,138	0.34	563,411	1.83
Telecommunication	430,843	0.48	3,018,489	2.94	1,438,728	4.67
Sugar	2,157,503	2.40	35,958	0.03	15,924	0.05
Construction	2,278,952	2.54	2,033,544	1.98	2,784,768	9.04
Ready made garments	2,204,814	2.46	247,763	0.24	246,645	0.80
Shoes and leather garments	1,176,004	1.31	204,694	0.20	145,504	0.47
Automobile and transportation equipment	557,690	0.62	799,902	0.78	226,863	0.74
Transportation, Road and Air	2,488,700	2.77	22,659	0.02	292,264	0.95
Financial	1,040,300	1.16	5,574,602	5.42	964,594	3.13
Oil Refining / Marketing	140,461	0.16	16,655,678	16.21	1,931,310	6.27
Distribution / Trading	5,440,244	6.06	1,985,012	1.93	584,988	1.90
Electronics and electrical appliances	3,363,931	3.75	849,693	0.83	951,559	3.09
Production and transmission of energy	8,919,741	9.94	2,846,412	2.77	10,150,425	32.95
Iron and Steel	734,798	0.82	566,888	0.55	2,345,450	7.61
Synthetic and Rayon	-	-	102,094	0.10	-	-
Food Industries	1,680,318	1.87	273,678	0.27	97,093	0.32
Minning and Quarrying	-	-	40,072	0.04	-	-
Paper and Board	766,843	0.85	56,073	0.05	24,394	0.08
Individuals	14,335,240	15.97	35,664,466	34.70	73,820	0.24
Others	13,025,945	14.50	25,994,012	25.30	4,194,053	13.62
	89,758,789	100.00	102,776,793	100.00	30,803,767	100.00

	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and Pharmaceuticals	2,732,554	3.13	1,584,505	1.55	975,247	2.91
Agribusiness	2,806,910	3.21	2,032,446	1.99	509,423	1.52
Textile	12,627,595	14.46	1,091,039	1.07	2,470,765	7.37
Cement	5,575,180	6.38	302,128	0.30	1,714,023	5.11
Telecommunication	-	-	8,721	0.01	1,567,209	4.68
Sugar	1,624,007	1.86	37,345	0.04	9,894	0.03
Construction	2,781,506	3.18	2,487,339	2.44	2,581,411	7.70
Ready made garments	2,084,721	2.39	135,991	0.13	18,896	0.06
Shoes and leather garments	1,143,908	1.31	234,294	0.23	115,293	0.34
Automobile and transportation equipment	222,376	0.25	167,730	0.16	422,533	1.26
Transportation, Road and Air	2,384,186	2.73	-	-	-	-
Financial	5,096,307	5.83	3,911,522	3.83	772,154	2.30
Oil Refining / Marketing	198,073	0.23	19,277,956	18.89	2,032,669	6.06
Distribution / Trading	5,871,123	6.72	1,961,520	1.92	442,716	1.32
Electronics and electrical appliances	942,614	1.08	565,494	0.55	1,304,608	3.89
Production and transmission of energy	5,368,869	6.15	2,391,451	2.34	13,197,524	39.37
Iron and Steel	747,497	0.86	427,948	0.42	344,834	1.03
Food and Allied	-	-	-	-	190,200	0.57
Synthetic and Rayon	-	-	59,184	0.06	44,408	0.13
Food Industries	4,669,556	5.35	311,716	0.31	40,171	0.12
Paper and Board	639,559	0.73	431,083	0.42	177,486	0.53
Individuals	15,589,414	17.85	28,328,709	27.75	73,103	0.22
Others	14,240,446	16.30	36,319,301	35.59	4,516,127	13.48
	87,346,401	100.00	102,067,422	100.00	33,520,694	100.00

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46.1.2 Segment by sectort

	2008					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	**4,286,700**	**4.78**	**3,998,961**	**3.89**	**11,992,200**	**38.93**
Private	**85,472,089**	**95.22**	**98,777,832**	**96.11**	**18,811,567**	**61.07**
	89,758,789	**100.00**	**102,776,793**	**100.00**	**30,803,767**	**100.00**

	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	1,148,481	1.31	4,505,076	4.41	11,497,679	34.30
Private	86,197,920	98.69	97,562,346	95.59	22,023,015	65.70
	87,346,401	100.00	102,067,422	100.00	33,520,694	100.00

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

	2008		2007	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	Rupees '000			
Chemical and Pharmaceuticals	**822,855**	**738,069**	727,617	699,000
Agribusiness	**325,491**	**23,813**	144,720	7,271
Textile	**1,642,258**	**1,210,950**	874,729	669,981
Transportation, Road and Air	**356,856**	**200,578**	170,402	116,857
Construction	**273,023**	**120,686**	50,028	34,420
Ready Made Garments	**143,755**	**109,561**	79,659	61,279
Shoes and leather garments	**8,836**	**1,398**	-	-
Telecommunication	**736**	**440**	-	-
Automobile and Transport Equipment	**150,202**	**115,653**	-	-
Financial	**-**	**-**	7,750	7,750
Distribution / Trading	**545,661**	**384,018**	357,896	284,857
Electronics and electrical appliances	**662,871**	**497,287**	5,791	1,274
Production and transmission of energy	**149,538**	**149,538**	970,355	516,663
Iron & Steel	**143,949**	**71,974**	5,448	1,362
Food Industries	**123,154**	**106,396**	83,769	33,875
Paper & Board	**54,993**	**54,993**	49,743	49,743
Individuals	**935,943**	**373,855**	546,656	183,638
Others (including manufacturing, and real estate)	**1,139,178**	**690,299**	678,852	531,611
	7,479,299	**4,849,508**	4,753,415	3,199,581

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

Public/ Government	**-**	**-**	-	-
Private	**7,479,299**	**4,849,508**	4,753,415	3,199,581
	7,479,299	**4,849,508**	4,753,415	3,199,581

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46.1.5 Geographical segment analysis

	2008			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees '000			
Pakistan	**1,796,537**	**138,241,486**	**10,772,108**	**30,803,767**
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	1,796,537	**138,241,486**	**10,772,108**	**30,803,767**

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees '000			
Pakistan	2,697,827	141,277,421	16,156,503	33,520,694
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	2,697,827	141,277,421	16,156,503	33,520,694

Total assets employed shown above mean total assets shown on the balance sheet and intra group items. Net assets employed mean net assets shown on the balance sheet.

46.2 Market Risk

Market risk is the risk of loss due to unfavourable movements in market factors such as interest rates, exchange rates and equity prices. Market risks arise generally from trading activities due open positions in currency, holding common equity, and other products. All such instruments and transactions are exposed to general and specific market movements.

The Bank seeks to mitigate market risk by employing strategies that correlate rate, price, and spread movements of its earning assets, liabilities and trading activities. Treasury Front Office (TFO) and Treasury Middle Office (TMO) divisions perform market risk management activities within the Bank. The Bank has Market Risk Management Committee which is responsible for reviewing and approving market risk policies, strategies. The details of market risk faced by the Bank are discussed in the following notes:

46.3 Foreign Exchange Risk / Currency Risk

Currency risk is the risk of loss resulting from fluctuations in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealing.

The Bank undertakes currency risk mostly to support its trade services and maintains overall foreign exchange risk position to the extent of statutory Net Open Position limit prescribed by SBP. Foreign Exchange Risk exposures are managed by matching future maturities.

Exposure limits such as counterparty and stop loss limits are also in place in accordance with the Bank's approved Standard Operating Procedures to limit risk and concentration to the acceptable tolerance levels.

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46.3.1 Currency Risk

	2008			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net currency exposure
	Rupees '000			
Pakistan rupee	130,635,253	130,182,632	425,349	877,970
United States dollar	6,989,917	6,334,032	680,312	1,336,197
Great Britain pound	174,805	979,128	(803,251)	(1,607,574)
Japanese yen	20,272	6	14,022	34,288
Euro	428,078	739,611	(316,432)	(627,965)
Other currencies	(6,839)	6,077	-	(12,916)
	138,241,486	138,241,486	-	-

	2007			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net currency exposure
	Rupees '000			
Pakistan rupee	130,505,594	132,078,173	1,380,333	(192,246)
United States dollar	9,464,146	7,952,053	(1,291,550)	220,543
Great Britain pound	807,492	792,247	(22,356)	(7,111)
Japanese yen	114,944	144,599	32,103	2,448
Euro	379,231	310,321	(98,530)	(29,620)
Other currencies	6,014	28	-	5,986
	141,277,421	141,277,421	-	-

46.4 Equity position risk

Equity position risk is the risk arising from unfavourable fluctuations in prices of shares in which the Bank carries long and/or short positions, in its trading book. This results from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock or a defined basket of stocks.

The Bank's equity position is governed by SBP limits for overall investment and per scrip exposure. In addition, there are internal limits set for trading positions as well as stop loss limits. The Bank also deals in equity future contracts.

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46.5 Mismatch of Interest Rate Sensitive Assets and Liabilities / Yield / Interest Rate Risk

	2008											
	Effective Yield/ Interest risk	Total	Exposed to Yield/ Interest risk									
			Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	Non-interest bearing financial instruments
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	3.50	8,927,524	1,214,245	-	-	-	-	-	-	-	-	7,713,279
Balances with other banks	-	876,780	-	-	-	-	-	-	-	-	-	876,780
Lending to financial institutions	10.81	2,861,401	2,861,401	-	-	-	-	-	-	-	-	-
Investments	11.88	30,186,168	2,503,187	18,763,586	79,197	1,010,623	96	83,173	1,069,342	-	-	6,676,964
Advances	11.98	89,758,789	17,174,335	35,432,236	19,501,957	5,630,722	3,561,646	2,687,888	2,365,493	410,177	364,544	2,629,791
Other assets		2,460,316	-	-	-	-	-	-	-	-	-	2,460,316
		135,070,978	23,753,168	54,195,822	19,581,154	6,641,345	3,561,742	2,771,061	3,434,835	410,177	364,544	20,357,130
Liabilities												
Bills payable		1,536,517	-	-	-	-	-	-	-	-	-	1,536,517
Borrowings from financial institutions	8.40	13,027,468	2,806,988	6,181,025	2,232,771	404,956	425,699	288,949	515,207	163,494	-	8,379
Deposits and other accounts	7.29	102,776,793	42,595,960	19,619,476	6,778,992	10,500,297	2,318,846	282,598	152,029	-	-	20,528,595
Sub-ordinated loans	13.08	999,600	-	-	200	200	400	400	499,400	499,000	-	-
Liabilities against assets subject to finance lease	8.00	4,103	267	641	926	2,269	-	-	-	-	-	-
Other liabilities		6,101,585	-	-	-	-	-	-	-	-	-	6,101,585
		124,446,066	45,403,215	25,801,142	9,012,889	10,907,722	2,744,945	571,947	1,166,636	662,494	-	28,175,076
On-balance sheet gap		10,624,912	(21,650,047)	28,394,680	10,568,265	(4,266,377)	816,797	2,199,114	2,268,199	(252,317)	364,544	(7,817,946)
Off-balance sheet financial instruments												
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)		(3,509,852)	3,509,852	-	-	-	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		(3,509,852)	3,509,852	-	-	-	-	-	-	-	-	
Total Yield/Interest Risk Sensitivity Gap			(18,140,195)	28,394,680	10,568,265	(4,266,377)	816,797	2,199,114	2,268,199	(252,317)	364,544	
Cumulative Yield/Interest Risk Sensitivity Gap			(18,140,195)	10,254,485	20,822,750	16,556,373	17,373,170	19,572,284	21,840,483	21,588,166	21,952,710	

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	2007											
	Effective Yield/ Interest risk	Total	Exposed to Yield/ Interest risk									
			Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	Non-interest bearing financial instruments
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.32	6,872,032	455,699	-	-	-	-	-	-	-	-	6,416,333
Balances with other banks	5.41	3,708,451	2,820,115	-	-	-	-	-	-	-	-	888,336
Lendings to financial institutions	9.24	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	-	-
Investments	8.19	31,553,108	1,081,797	3,323,492	5,667,718	8,296,623	164,685	208,853	263,287	1,045,126	-	11,501,527
Advances	12.34	87,346,401	16,311,952	17,587,808	10,836,185	15,324,285	9,158,285	6,227,014	6,748,716	2,133,746	1,935,907	1,082,503
Other assets		1,694,214	-	-	-	-	-	-	-	-	-	1,694,214
		138,252,308	22,438,471	26,220,494	16,503,903	23,620,908	9,322,970	6,435,867	7,012,003	3,178,872	1,935,907	21,582,913
Liabilities												
Bills payable		2,406,927	-	-	-	-	-	-	-	-	-	2,406,927
Borrowings	6.66	9,995,855	675,243	5,273,290	2,012,767	309,904	698,387	253,859	281,844	209,648	-	280,913
Deposits and other accounts	6.76	102,067,422	36,209,052	18,395,137	7,590,863	16,305,712	1,728,423	1,868,857	350,915	-	-	19,618,463
Sub-ordinated loans	11.36	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	8.00	7,827	-	983	983	1,272	4,589	-	-	-	-	-
Other liabilities		6,300,791	-	-	-	-	-	-	-	-	-	6,300,791
		121,778,822	36,884,295	23,669,410	10,604,613	16,616,888	2,431,399	2,122,716	632,759	209,648	-	28,607,094
On-balance sheet gap		16,473,486	(14,445,824)	2,551,084	5,899,290	7,004,020	6,891,571	4,313,151	6,379,244	2,969,224	1,935,907	(7,024,181)
Off-balance sheet financial instruments												
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)		(2,200,000)	(2,200,000)	-	-	-	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		(2,200,000)	(2,200,000)	-	-	-	-	-	-	-	-	
Total Yield/Interest Risk Sensitivity Gap			(16,645,824)	2,551,084	5,899,290	7,004,020	6,891,571	4,313,151	6,379,244	2,969,224	1,935,907	
Cumulative Yield/Interest Risk Sensitivity Gap			(16,645,824)	(14,094,740)	(8,195,450)	(1,191,430)	5,700,141	10,013,292	16,392,536	19,361,760	21,297,667	

46.5.1 Yield / interest rate risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through advances and deposits portfolio.

46.5.2 The interest rate exposure of the Bank arises due to mismatches between contractual maturities or re-pricing of on- and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Management Committee that reviews the interest rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.

46.6 Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn.

The Bank's Asset and Liability Management Committee manages the liquidity position on a continuous basis. The Bank's liquidity risk management process, as carried out within the Bank and monitored by the management, includes:

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- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting of treasury and capital market maturities is done through monitoring of daily maturities. Similarly the overall liquidity maintenance is done through monthly maturity gap analysis at balance sheet level. Hence, monitoring and reporting takes the form of regular and periodic cash flow measurement and projections.

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

46.6.1 Maturities of Assets and Liabilities (based on contractual maturities)

	2008									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	Rupees in '000									
Assets										
Cash and balances with treasury banks *	8,927,524	8,927,524	-	-	-	-	-	-	-	-
Balances with other banks	876,780	876,780	-	-	-	-	-	-	-	-
Lendings to financial institutions	2,861,401	2,861,401	-	-	-	-	-	-	-	-
Investments	30,186,168	2,503,187	18,779,280	79,197	1,192,462	4,653,682	305,867	1,478,326	1,194,167	-
Advances	89,758,789	11,708,417	17,613,646	10,560,554	11,247,341	11,194,184	7,959,527	8,295,716	6,063,935	5,115,469
Operating fixed assets	2,646,978	1,865	1,370	4,670	29,076	165,876	306,633	557,049	-	1,580,439
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	2,983,846	583,723	-	1,780,435	347,312	-	272,376	-	-	-
	138,241,486	27,462,897	36,394,296	12,424,856	12,816,191	16,013,742	8,844,403	10,331,091	7,258,102	6,695,908
Liabilities										
Bills payable	1,536,517	1,536,517	-	-	-	-	-	-	-	-
Borrowings from financial institutions	13,027,468	2,815,367	6,181,025	2,232,771	404,956	425,699	288,949	515,207	163,494	-
Deposits and other accounts **	102,776,793	63,124,555	19,619,476	6,778,992	10,500,297	2,318,846	282,598	152,029	-	-
Sub-ordinated loans	999,600	-	-	200	200	400	400	499,400	499,000	-
Liabilities against assets subject to finance lease	4,103	266	642	926	2,269	-	-	-	-	-
Deferred tax liabilities - net	2,483,355	-	-	-	-	-	-	2,483,355	-	-
Other liabilities	6,641,542	1,692,941	295,850	363,549	1,105,860	861,559	956,454	1,365,329	-	-
	127,469,378	69,169,646	26,096,993	9,376,438	12,013,582	3,606,504	1,528,401	5,015,320	662,494	-
Net assets	10,772,108	(41,706,749)	10,297,303	3,048,418	802,609	12,407,238	7,316,002	5,315,771	6,595,608	6,695,908
Share capital	5,296,445									
Reserves	3,790,023									
Unappropriated profit	1,049,519									
Surplus on revaluation of assets	636,121									
	10,772,108									

Notes to the Financial Statements
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	2007									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	Rupees in '000									
Assets										
Cash and balances with treasury banks *	6,872,032	6,872,032	-	-	-	-	-	-	-	-
Balances with other banks	3,708,451	3,708,451	-	-	-	-	-	-	-	-
Lendings to financial institutions	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	-
Investments	31,553,108	999,086	3,382,118	6,015,895	7,951,149	9,553,252	316,421	2,064,527	1,270,660	-
Advances	87,346,401	17,394,457	17,587,809	10,836,185	10,759,822	10,236,064	6,928,165	7,313,366	2,820,775	3,469,758
Operating fixed assets	2,514,959	18,106	54,324	58,167	108,649	217,297	268,714	462,938	1,086,487	240,277
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	2,204,368	540,117	121,002	-	1,270,873	-	272,376	-	-	-
	141,277,421	31,301,157	26,454,447	16,910,247	20,090,493	20,006,613	7,785,676	9,840,831	5,177,922	3,710,035
Liabilities										
Bills payable	2,406,927	2,406,927	-	-	-	-	-	-	-	-
Borrowings from financial institutions	9,995,855	956,156	5,273,290	2,012,767	309,904	698,387	253,859	281,844	209,648	-
Deposits and other accounts **	102,067,422	55,827,515	18,395,137	7,590,863	16,305,712	1,728,423	1,868,857	350,915	-	-
Sub-ordinated loans	1,000,000	-	-	200	200	400	400	800	998,000	-
Liabilities against assets subject to finance lease	7,827	616	261	629	1,835	4,486	-	-	-	-
Deferred tax liabilities - net	2,691,466	-	-	-	-	-	-	2,691,466	-	-
Other liabilities	6,951,421	3,046,185	485,188	325,063	1,029,823	492,235	427,542	1,145,385	-	-
	125,120,918	62,237,399	24,153,876	9,929,522	17,647,474	2,923,931	2,550,658	4,470,410	1,207,648	-
Net assets	16,156,503	(30,936,242)	2,300,571	6,980,725	2,443,019	17,082,682	5,235,018	5,370,421	3,970,274	3,710,035
Share capital	5,296,445									
Reserves	3,567,033									
Unappropriated profit	1,481,668									
Surplus on revaluation of assets	5,811,357									
	16,156,503									

* Included in cash and balances with treasury banks are the current and deposit accounts with the SBP which are maintained to meet the Statutory Liquidity Reserve Requirements (SLR). Since such balances have no actual maturity the same are classified in the earliest maturity band of upto one month.

** As per SBP's requirement, the entire balance held in saving deposit accounts is classified under the maturity band of upto one month. On the basis of history the Bank expects that these deposits will be maintained over a longer period without withdrawal.

Notes to the Financial Statements
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46.6.2 Maturities of Assets and Liabilities - Based on expected withdrawal pattern

The following maturity analysis is presented as an additional disclosure to depict the maturities of assets and liabilities as determined by the Bank's Asset and Liabilities Management Committee (ALCO) keeping in view the historical withdrawal pattern of deposits.

	2008									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	8,927,524	4,498,312	1,133,028	569,631	764,319	302,930	442,273	429,994	389,133	397,904
Balances with other banks	876,780	876,780	-	-	-	-	-	-	-	-
Lendings to financial institutions	2,861,401	2,861,401	-	-	-	-	-	-	-	-
Investments	30,186,168	2,503,187	18,779,280	79,197	1,192,462	4,653,682	305,867	1,478,326	1,194,167	-
Advances	89,758,789	11,708,417	17,613,646	10,560,554	11,247,341	11,194,184	7,959,527	8,295,716	6,063,935	5,115,469
Operating fixed assets	2,646,978	1,865	1,370	4,670	29,076	165,876	306,633	557,049	-	1,580,439
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	2,983,846	583,723	-	1,780,435	347,312	-	272,376	-	-	-
	138,241,486	23,033,685	37,527,324	12,994,487	13,580,510	16,316,672	9,286,676	10,761,085	7,647,235	7,093,812
Liabilities										
Bills payable	1,536,517	1,536,517	-	-	-	-	-	-	-	-
Borrowings from financial institutions	13,027,468	2,815,367	6,181,025	2,232,771	404,956	425,699	288,949	515,207	163,494	-
Deposits and other accounts	102,776,793	21,851,028	22,552,256	10,096,142	14,757,101	5,835,653	6,632,165	7,085,623	6,933,594	7,033,231
Sub-ordinated loans	999,600	-	-	200	200	400	400	499,400	499,000	-
Liabilities against assets subject to finance lease	4,103	266	642	926	2,269	-	-	-	-	-
Deferred tax liabilities - net	2,483,355	-	-	-	-	-	-	2,483,355	-	-
Other liabilities	6,641,542	1,692,941	295,850	363,549	1,105,860	861,559	956,454	1,365,329	-	-
	127,469,378	27,896,119	29,029,773	12,693,588	16,270,386	7,123,311	7,877,968	11,948,914	7,596,088	7,033,231
Net assets	10,772,108	(4,862,434)	8,497,551	300,899	(2,689,876)	9,193,361	1,408,708	(1,187,829)	51,147	60,581
Share capital	5,296,445									
Reserves	3,790,023									
Unappropriated profit	1,049,519									
Surplus on revaluation of assets	636,121									
	10,772,108									

46.7 Operational Risk

Operational Risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Bank’s businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts.

The Bank has implemented risk controls and loss mitigation actions for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area. These include key controls and the provision of business continuity plans to protect against major disruptions.

Notes to the Financial Statements
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47. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 24, 2009 by the Board of Directors of the bank.

48. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 24, 2009 has proposed a cash dividend of Rs Nil per share (2007: Rs 2.5 per share) and proposed a bonus issue of 15% (2007 : Nil). The appropriation of bonus issue for the current year will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended December 31, 2008 do not include the effect of current year's appropriations which will be accounted for in the financial statements for the year ending December 31, 2009.

49. GENERAL

49.1 Standards, interpretations and amendments published / approved, effective current and future periods

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Bank's operations or are not expected to have significant impact on the Bank's financial statements.

Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income."

Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after 1 January 2009) removes the option to expense borrowing costs and requires than 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 the Bank's financial statements.

Revised IAS 29 - Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 28 April 2008). The Bank does not have any operations in Hyperinflationary Economies and therefore the application of the standard is not likely to have an effect on the Bank's financial statements."

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) - Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity and obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which require retrospective application, are not expected to have any impact on the Bank's financial statements.

Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the Bank's financial statements.

Notes to the Financial Statements
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Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Bank's financial statements.

Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Bank's financial statements.

IFRS 7 - Financial Instruments: Disclosures (effective for annual periods beginning on or after 28 April 2008) supersedes IAS 30 - Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32 - Financial Instruments: Disclosure and Presentation. The application of the standard is not expected to have significant impact on the Bank's financial statements other than increase in disclosures.

IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 January 2009) introduces the "management approach" to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Bank presents segment information in respect of its business and geographical segments. This standard will have no effect on the Bank's reported total profit or loss or equity.

IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008) addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The application of IFRIC 13 is not likely to have an effect on the Bank's financial statements.

IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Bank's operations.

IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2009) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to the profit or loss. The Interpretation allows an entity that used the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. The amendment is not relevant to the Bank's operations.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 financial statements. These amendments are unlikely to have an impact on the Bank's accounts except for the following:

Notes to the Financial Statements
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IAS 27 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Bank's financial investment.

IFRIC 17 - Distributions on Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a company distributes non cash assets to its shareholders as dividend the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognized in equity. When the non cash asset is distributed, the difference between the carrying amount as fair value is recognized in the income statement. As the Bank does not distribute non cash assets to its shareholders, this interpretation has no impact on the Bank's financial statements.

IFRS 5 Amendment - Improvements to IFRSs - IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 July 2009) specify that: if an entity is committed to a sale plan involving the loss of control of a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of IFRS 5 are met disclosures for discontinued operation. The amendment is not likely to have an effect on Bank's financial statements.

49.2 Comparatives

49.2.1 Previous year's figures have been rearranged and reclassified wherever necessary for the purposes of comparison. Major changes made in the comparative figures which are not disclosed in the relevant notes are as follows:

Reclassification from		Reclassification to		Reason for reclassification	Rupees in '000
Note	**Component**	**Note**	**Component**		
14	Other assets - Stationery and stamps on hand - Receivable from brokers secured - Others	14	Other assets - Suspense account	Comparative amounts have been reclassified to conform with current year's presentation	24,242
11.2	Investments by segment - Fully Paid up Preference Shares - Listed companies	11.2	Investments by segment - Fully Paid up Preference Shares - Unlisted companies		226,250

In addition to the above, the Bank has included 'retirement benefit plan' in the disclosure of 'related party transactions' (note no. 44), as a result of which the comparative figure of the deposits pertaining to related parties in note no. 17.2 has increased by Rs. 103 million.

49.3 Figure have been rounded off to the nearest thousand rupees unless other wise stated.

49.4 Captions as prescribed in BSD circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan in respect of which no amounts are outstanding have not been reproduced in these financial statements except for in the balance sheet and the profit and loss account.

49.5 As per the instructions issued by the State Bank of Pakistan banks are advised not to offer Islamic products without obtaining Islamic Banking licenses. In the light of these instructions, the terminology for morabahas and ijaras previously being used by the Bank has been changed to conventional terms in line with conventional banking license issued during the year.

President & CEO   Director   Director   Director

Annexure I to the Financial Statements

Statement showing details of investments in ordinary and preference shares / certificates of listed and unlisted companies / modarabas / mutual funds and Term Finance Certificates and bonds as referred to in note 11 to the financial statements.

1. Details of investments in listed companies / modarabas / closed end mutual funds are as follows:

Ordinary shares / certificates of Rs 10 each 2008	Ordinary shares / certificates of Rs 10 each 2007	Name of company/ modaraba/ mutual fund	2008 At Cost Rupees '000	2007 At Cost Rupees '000	2008 Market Values Rupees '000	2007 Market Values Rupees '000	Quality of Available for Sale Securities: Medium to Long Term Rating Assigned (where available)
		Closed end Mutual funds					
3,994,715	3,994,716	Al-Meezan Mutual Fund	35,263	35,263	14,301	50,733	4-Star
2,000,000	2,000,000	NAMCO Balanced Fund	20,000	20,000	18,900	16,700	
19,178	-	Pakistan Premier Fund	31	-	38	-	5-Star
325,000	345,000	Pakistan Strategic Allocation Fund	3,485	3,681	741	3,140	4-Star
2,812,895	2,812,895	UTP Large CAP Fund (FormerlyAbamco Composite Fund)	27,888	27,888	6,470	22,784	5-Star
63,000	-	Golden Arrow Selected Fund **	279	-	128	-	
6,645	-	Picic Growth Fund	46	-	37	-	
22,138	-	JS Value Fund Limited	61	-	99	-	
		Modarabas					
2,990,000	2,990,000	First Habib Modaraba **	22,656	22,656	16,953	24,219	AA
67	67	First HBL Modaraba	1	1	1	1	AA-
788,591	5,271,591	First Prudential Modaraba	1,307	8,741	1,072	12,915	
		Leasing Companies					
31	206	Pakistan Industrial & Commercial Leasing Limited	1	1	1	1	
		Commercial / Investment Banks / Investment Companies					
2,175,100	2,703,600	Atlas Bank Limited (Formerly Dawood Bank Limited)	21,751	27,036	7,221	45,961	A-
1,709,700	1,709,700	Prudential Investment Bank Limited ***	12,528	12,528	-	4,958	
134,837	-	Askari Commercial Bank	4,872	-	1,964	-	AA
2,626	-	Allied Bank Limited	88	-	82	-	AA
152,381	-	Arif Habib Bank Limited	3,008	-	3,623	-	A
2,648	-	Dawood Equities Limited	24	-	22	-	
245,948	-	Bank Alfalah Limited	4,468	-	4,115	-	AA
12,734	-	Bank Al Habib Limited	310	-	316	-	AA
111,067	-	Javed Omer Vohra & Company	1,270	-	1,007	-	BB+
298,201	-	JS Bank Limited	1,049	-	1,711	-	A-
147,323	-	Jahangir Siddiqui & Co Ltd	8,271	-	7,702	-	AA+
2,756	-	JS Investment Limited	110	-	119	-	AA-
24,205	-	Habib Bank Limited	1,946	-	1,812	-	AA+
140,462	-	MCB Bank Limited	19,485	-	17,671	-	AA+
173,461	-	Pervez Ahmed Securities	1,155	-	626	-	
41,452	-	The Bank of Punjab	624	-	547	-	AA-
112,420	-	Arif Habib Securities Limited	5,079	-	4,728	-	A+
4,610,400	-	First Credit & Investment Bank Limited	46,104	-	13,785	-	
120,161	-	SPCBL	1,827	-	602	-	A-
1,123,085	-	NBP	68,526	-	56,513	-	AAA
467,568	-	NIB	2,371	-	2,183	-	AA-
216,686	-	UBL	16,850	-	7,997	-	AA+
171,608	-	Bank Islami Pakistan Limited	871	-	1,244	-	A-
7,313	-	Soneri Bank Limited	61	-	80	-	AA-
3,634	-	Meezan Bank Limited	79	-	78	-	A+
200	-	HMB	6	-	5	-	AA+
539	-	First National Equities Limited	25	-	28	-	
345	-	Investment & Finance Securities Ltd	1	-	2	-	
		Textile Spinning					
-	1,613,000	Asim Textile Mills Limited *	-	19,516	-	2,016	
127,045	127,045	Crown Textile Mills Limited ***	1,238	1,239	-	-	
99,500	99,500	Dewan Farooq Spinning Mills Limited	994	995	159	796	
335,093	586,093	Hira Textile Mills Limited	4,188	7,326	757	4,659	
33,778	-	D.S. Industries	439	-	502	-	
		Textile Composite					
151,941	-	Azgard Nine Limited	2,697	-	2,473	-	A+
1,226	-	Dawood Lawarencepur Ltd	53	-	61	-	
6,974	-	Nishat (Chunion) Ltd	51	-	67	-	
167,859	-	Nishat Mills Limited	3,687	-	3,794	-	A+
2,500,000	2,500,000	Zahur Textile Mills Limited ***	2,500	2,500	-	-	
		Balances carried forward	349,624	189,371	202,337	188,883	

Annexure I to the Financial Statements

Ordinary shares / certificates of Rs 10 each 2008	2007	Name of company/ modaraba/ mutual fund	At Cost Rupees '000 2008	2007	Market Values Rupees '000 2008	2007	Quality of Available for Sale Securities Medium to Long Term Rating Assigned (where available)
		Balances brought forward	349,624	189,371	202,337	188,883	
		Cement					
24,902	-	Maple Leaf Cement	67	-	102	-	BBB+
34,959	-	Fauji Cement Ltd	122	-	164	-	
128,370	-	Pakistan Cement Co Ltd	255	-	411	-	
12,558	-	Pioneer Cement Ltd	265	-	303	-	BBB
257,454	-	Lucky Cement	19,884	-	8,050	-	
764,101	-	D.G. Khan Cement	29,126	-	16,252	-	
1,000	-	Attock Cement	75	-	38	-	AA
14,395	-	Al Abbas Cement	40	-	55	-	
138	-	Thatta Cement Limited	2	-	2	-	
12,421	-	Dewan Cement Limited	42	-	38	-	
		Power Generation and Distribution					
1,066,067	891,500	Hub Power Company Limited	32,048	30,004	15,021	27,190	
939,375	939,375	Ideal Energy Limited *	28,181	28,181	14,090	14,091	
723,000	723,000	Kohinoor Energy Limited	23,174	23,174	13,918	22,991	
291,282	-	PPL	42,280	-	29,309	-	
90,168	-	PSO	25,230	-	13,036	-	AAA
295,729	-	POL	30,523	-	30,309	-	
147,253	-	Bosicor Pakistan Limited	487	-	686	-	
3,847	-	Attock Petroleum Limited	596	-	555	-	
47,790	-	Attock Refinery Limited	3,074	-	2,862	-	AA
12,442	-	Pakistan Refinery Limited	1,071	-	1,224	-	
234	-	National Refinery Limited	24	-	22	-	AAA
1,702	-	Mari Gas Company Limited	181	-	168	-	
33,961	-	SNGPL	550	-	728	-	AA
350,805	-	SSGC	4,104	-	3,687	-	AA-
31,352	-	KAPCO	730	-	989	-	
1,604,913	-	OGDCL	106,004	-	80,229	-	AAA
		Technology & Communication					
24,213	1,329,000	Pakistan Telecommunication Company Limited	443	82,009	409	55,884	
1,074	-	Eye Television Network	30	-	37	-	
329,435	-	TRG	406	-	586	-	BBB+
6,701	-	Netsol Technologies	182	-	169	-	
73,771	-	Telecard	98	-	147	-	
236,559	-	World Call	666	-	702	-	
		Fertilizer					
1,643,958	1,374,615	Fauji Fertilizer Company Limited	115,015	100,000	96,550	163,236	
22,170	-	Fauji Fertilizer Bin Qasim	4,859	-	2,956	-	
205,584	-	Engro Chemical	46,285	-	19,830	-	AA
		Insurance					
1,869	-	Adamjee Insurance Company Limited	204	-	190	-	AA
510	-	EFU General Insurance Limited	62	-	68	-	AA
9,834	-	Pakistan Reinsurance Co Ltd	250	-	233	-	
		Engineering					
6,861	-	Crescent Steel and Allied Products Ltd	118	-	117	-	
15,684	-	Dost Steel Limited	127	-	124	-	
300	-	Intern'l Industries Limited	17	-	14	-	
100	-	Siemens Pakistan Eng Ltd	113	-	113	-	
		Automobiles Parts & Accessories					
20,185	-	Honda Atlas Cars Ltd	272	-	232	-	
1,384	-	Indus Motor Company Ltd	165	-	170	-	
		Cables & Electrical Goods					
521,605	-	Pak Electron	25,244	-	11,851	-	A
		Balances carried forward	892,315	452,739	569,083	472,276	

Annexure I to the Financial Statements

Ordinary shares / certificates of Rs 10 each 2008	2007	Name of company/ modaraba/ mutual fund	At Cost Rupees '000 2008	2007	Market Values Rupees '000 2008	2007	Quality of Available for Sale Securities: Medium to Long Term Rating Assigned (where available))
		Balances brought forward	892,315	452,739	569,083	472,276	
		Chemical					
273	-	BOC Pakistan Limited	32	-	31	-	
10,219	-	Sitra Peroxide Limited	164	-	185	-	
257,986	-	ICI	19,025	-	17,726	-	
188,342	-	Pakistan PTA Limited	216	-	299	-	
		Synthetic & Rayon					
100,258	-	Dewan Salman Fibre Ltd	92	-	141	-	
		Transport					
5,890	-	Pakistan Intl Container Terminal	259	-	267	-	A-
		Pharmaceuticals					
136	-	Searle Pakistan Limited	8	-	9	-	BBB
		Paper & Board					
7,158	-	Packages Limited	589	-	581	-	AA
		Others					
225	-	VISA Incorporation	-	-	907	-	
138,569	-	Pace Pakistam Limited	1,483	-	1,197	-	A+
204	-	Tri - Pak Filims	24	-	25	-	A+
			914,207	452,739	590,451	472,276	

*The bank holds more than 10% of investees' capital in the following:

- Ideal Energy Limited - 11.74% (2007: 11.74%)
- Prudential Investment Bank Limited - 17.10% (2007: 17.10%)
- Asim Textile Mills Limited - Nil (2007: 10.62%)

** Certificates of Rs 5 each
*** Delisted companies

Annexure I to the Financial Statements

	At Cost Rupees '000 2008	At Cost Rupees '000 2007	Market Values Rupees '000 2008	Market Values Rupees '000 2007	Quality of Available for Sale Securities: Medium to Long Term Rating Assigned (where available)
2. Details of investments in unlisted companies are as follows:					
Faysal Asset Management Limited 4,500,000 (2007:1,500,000) ordinary shares of Rs 10 each The bank holds 30% (2007: 30%) of investee's capital. Chief Executive: Mr. Salman Haider Shaikh Break up value of share: Rs. 15.22 (2007: Rs 18.36) Period of financial statements: June 30, 2008	**45,000**	15,000	Not Applicable		**AM3+**
Faysal Management Services (Private) Limited 1,080,000 (2007 : 1,080,000) ordinary shares of Rs 100 each The bank holds 60% (2007: 60%) of investee's capital. Chief Executive: Mr. Taimur Afzal Break up value of share: Rs 102.37 (2007: Rs. 104.63) Period of financial statements: December 31, 2008	**108,000**	108,000	Not Applicable		
Al Hamra Avenue (Private) Limited 24,375,000 (2007 : 24,375,000) ordinary shares of Rs 10 each The bank holds 15.22% (2007 : 17.38%) of investee's capital. Chief Executive: Mr. Habib Ahmed Break up value per share: Rs. 13.03 (2007: Rs 11.38) Period of financial statements: June 30, 2008	**243,750**	243,750	Not Applicable		
Al Hamra Hills (Private) Limited 12,500,000 (2007 : 12,500,000) ordinary shares of Rs 10 each The bank holds 14.13% (2007 : 14.71%) of investee's capital. Chief Executive: Mr. Habib Ahmed Break up value per share: Rs. 9.71 (2007: Rs. 9.76) Period of financial statements: June 30, 2008	**125,000**	125,000	Not Applicable		
DHA Cogen Limited 32,500,000 (2007 : 32,500,000) ordinary shares of Rs 10 each The bank holds 18.52% (2007 : 18.52%) of investee's capital. Chief Executive: Mr. Azam Mehmood Break up value per share: Rs. 10.73 (2007: Rs. 10.00) Period of financial statements: June 30 ,2008	**325,000**	325,000	Not Applicable		
First Capital Investment (Private) Limited * 150,000 (2007 : 150,000) ordinary shares of Rs 10 each The bank holds 3.95 % (2007: 3.95%) of investee's capital. Chief Executive: Mr. Faisal Portik Break up value per share: Not Available (2007: Not Available)	**750**	750	Not Applicable		**AM4+**
Himont Chemical (Private) Limited * 810,000 (2007 : 810,000) ordinary shares of Rs 10 each The bank holds 2.92 % (2007: 2.92%) of investee's capital. Chief Executive: Mr. Intesar A. Siddiqui Break up value per share: Not Available (2007: Not Available)	**7,063**	1,037	Not Applicable		
Sukhchayn Gardens (Private) Limited 386,531 (2007 : 660,000) ordinary shares of Rs 100 each The bank holds 8.78% (2007 : 15.00%) of investee's capital. Chief Executive: Mr. Shujaat Azeem Break up value per share: Rs. 162.61 Period of financial statements: June 30, 2007	**160,000**	273,186	Not Applicable		
	1,008,537	1,091,723			

* Fully provided for investments

Annexure I to the Financial Statements

3. Preference shares – Listed companies

Share of each Rs 10 2008	2007	Name of Company	Rate	At Cost Rupees '000 2008	2007	Market Values Rupees '000 2008	2007	Quality of Available for Sale Securities Medium to Long Term Rating Assigned
2,249,000	2,249,000	Azgard Nine Limited	8.95% Cumulative	**22,490**	22,490	**19,904**	18,554	**A+**
24,394,111	24,394,111	Maple Leaf Cement Factory Limited	9.75% Cumulative Convertible	**243,937**	243,937	**184,663**	219,547	**BBB+**
				266,427	266,427	**204,567**	238,101	

4. Preference shares – Unlisted companies

Share of each Rs 10 2008	2007	Name of Company	Rate	At Cost 2008	2007	Market Values	Rating
2,500,000	2,500,000	**Fazal Cloth Mills (Pvt) Limited** Chief Executive: Mr. S H Naseem Ahmad The bank holds 10% (2007 : 10.00%) of investee's capital.	2.5% plus 6 months KIBOR	**25,000**	25,000	Not Applicable	
7,500,000	10,000,000	**Pak Elektron Limited** Chief Executive: Mr. Naseem Saigol The bank holds 14.25% (2007 : 16.5%) of Class A preference shares in investee's capital.	9.50% Cumulative Convertible	**75,000**	100,000	Not Applicable	**A**
12,625,000	12,625,000	**Pak Elektron Limited** Chief Executive: Mr. Naseem Saigol The bank holds 41.74% (2007 : 41.74%) of Class B preference shares in investee's capital.	1 1 % Cumulative Convertible	**126,250**	126,250	Not Applicable	**A**
				226,250	251,250		

5. Details of investments in open ended mutual funds:

2008	2007	Name of Company	At Cost 2008	2007	Market Values 2008	2007	Rating
		Open ended Mutual funds					
1,310,292	1,310,292	Faysal Balanced Growth Fund	**80,374**	80,374	**87,698**	142,167	**MFR-3 Star**
1,873,887	-	Faysal Income & Growth Fund	**200,000**	-	**193,160**	-	**A+(f)**
2,100,000	2,100,000	Faysal Savings Growth Fund	**207,411**	207,411	**217,518**	220,815	**A(f)**
234,258	-	First Habib Income Fund	**25,000**	-	**22,730**	-	
4,727,507	-	NAFA Cash Fund	**50,000**	-	**45,305**	-	**A(f)**
194,073,089	154,885,924	National Investment (Unit) Trust	**3,475,056**	2,670,544	**4,388,852**	9,254,895	**5-Star**
234,307	-	United Money Market Fund	**25,000**	-	**22,454**		
65,505	-	Atlas Income Fund	**35,000**	-	**31,291**	-	**A(f)**
			4,097,841	2,958,329	**5,009,008**	9,617,877	

Annexure I to the Financial Statements

	2008 At Cost Rupees '000	2007 At Cost Rupees '000	2008 Market Values Rupees '000	2007 Market Values Rupees '000	Quality of Available for Sale Securities Medium to Long Term Rating Assigned
6. Term Finance Certificates - Listed, Secured					
Al Zamin Leasing Modaraba - First Tranche Nil (2007: 5,094) certificates of Rs. 5,000 each Mark-up: Minimum 8.00%, on PLS basis Redemption: Three annual installments commencing December 24, 2006 Maturity: Matured in December 2008 Modaraba Management Company: Al Zamin Modaraba Management (Private) Limited Chief Executive : Mr. Basheer A. Chowdry	-	8,660	-	3,275	-
Al Zamin Leasing Modaraba - Second Tranche 9,942 (2007: 9,942) certificates of Rs. 5,000 each Mark-up: Minimum 9.5% on PLS Basis (4% above six months KIBOR - Floor 11%) Redemption: Three annual installments commencing May 2008 Maturity: May 2010 Modaraba Management Company: Al Zamin Modaraba Management (Private) Limited CEO of Management Company : Mr. Basheer Ahmed Chowdry	**33,803**	49,710	**30,900**	47,225	**A**
Azgard Nine 31,640 (2007: 31,640) certificates of Rs. 5,000 each Mark-up: 2.40% above six months KIBOR rate with no floor and cap Redemption: 10 unequal semi-annual installments commencing from the 30th month Maturity: September 2012 Chief Executive Officer: Mr. Ahmad Shaikh	**144,857**	158,073	**149,246**	164,396	**AA-**
Bank Al Habib Limited -Unsecured 20,000 (2007: 20,000) certificates of Rs. 5,000 each Mark-up: 1.5% above six months KIBOR,with floor-3.50% & cap-10% Redemption: 0.25% per annum in first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month. Maturity: July 2012 Chief Executive Officer: Mr. Abbas D. Habib	**99,840**	99,880	**91,619**	96,384	**AA-**
Chanda Oil and Gas Securitization Company Limited Nil (2007:40,968) certificates of Rs.5,000 each Mark-up: 3.25% above three months KIBOR rate, with floor-8.95% & cap-13% Redemption: Unequal quarterly installments starting six months from the date issue Maturity: Early redemption during May 2008 Chief Executive Officer: Mr. Irfan A Khan	-	147,485	-	152,175	
Crescent Standard Investment Bank Limited (Formerly: Pacific Leasing Limited) Nil (2007: 8,000) certificates of Rs. 5,000 each Mark-up: 2% above SBP discount rate; Floor-10.5% per annum Cap-13.5% per annum Redemption: Six semi – annual installments commencing January 2005 Maturity: July, 2007 Chief Executive Officer: Mr. Badr-ud-din Khan	-	13,264	-	13,264	**Suspended**
Jahangir Siddiqui & Co. Limited Nil (2007: 2,621) certificates of Rs. 5,000 each Mark-up: 1.5% above the cut off yield of 5 year Pakistan Investment Bonds; Floor-7.50 % per annum; Cap-13% per annum Redemption: Four semi – annual installments commencing October 2006 Maturity: April, 2008 Chief Executive Officer: Mr. Munaf Ibrahim	-	3,272	-	3,326	**AA+**
Balances carried forward	**278,500**	480,344	**271,765**	480,045	

Annexure I to the Financial Statements

	2008 At Cost Rupees '000	2007 At Cost Rupees '000	2008 Market Values Rupees '000	2007 Market Values Rupees '000	Quality of Available for Sale Securities Medium to Long Term Rating Assigned
Balances brought forward	**278,500**	480,344	**271,765**	480,045	
Jahangir Siddiqui & Co. Limited - Fourth Tranche 10,000 (2007: 10,000) certificates of Rs. 5,000 each Mark-up: 2.5% above six months KIBOR Floor-6 % per annum; Cap-16% per annum Redemption: 0.18% of principal in the first 54 months, remaining 99.82% in equal installments in 60th & 66th month Maturity: May 2012 Chief Executive Officer: Mr. Munaf Ibrahim	**49,960**	49,980	**50,225**	51,479	AA+
Nishat Mills Limited Nil (2007: 12,000) certificates of Rs. 5,000 each Mark-up: 1.7% above 6 month Treasury Bills rate Redemption: Five semi – annual installments commencing from 36th month Maturity: September, 2008 Chief Executive Officer: Mr Mian Umer Mansha	-	23,976	-	23,976	-
Pakistan Services Limited Nil (2007: 15,173) certificates of Rs. 5,000 each Mark-up: 2.25% above SBP discount rate; Floor-9.75% per annum Cap-13.75% per annum Redemption: Seven semi – annual installments commencing November 12,2005 Maturity: November, 2008 Chief Executive Officer: Mr. Murtaza Hashwani	-	21,663	-	21,951	-
Trust Leasing & Investment Bank Limited - First Tranche 16,507 (2007: 16,507) certificates of Rs. 5,000 each Mark-up: 3% above six months KIBOR rate; Floor-6% per annum Cap-10% per annum Redemption: Ten semi – annual installments commencing 6 months from date of issue Maturity: July 2009 Chief Executive Officer: Mr. Jawaid B. Shaikh	**16,507**	33,014	**16,454**	32,829	A
Trust Leasing & Investment Bank Limited - Second Tranche 24,450 (2007: 24,450) certificates of Rs. 5,000 each Mark-up: 2% above six months KIBOR rate; with no floor and no cap Redemption: Ten semi – annual installments commencing 6 months from date of issue Maturity: November 2010 Chief Executive Officer: Mr. Jawaid B. Shaikh	**48,900**	73,350	**49,242**	74,084	A
United Bank Limited - First Issue 50,000 (2007: 50,000) certificates of Rs. 5,000 each Mark-up: 8.45% per annum Redemption: 0.25% per annum is first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month. Maturity: July 2012 Chief Executive Officer: Mr. Atif R. Bokhari	**249,616**	249,712	**218,414**	230,359	AA
United Bank Limited - Second Issue 20,000 (2007: 20,000) certificates of Rs. 5,000 each Mark-up: 9.49% per annum Redemption: At maturity Maturity: March 2013 Chief Executive Officer: Mr. Atif R. Bokhari	**99,986**	99,990	**88,817**	93,181	AA
Naimat Bisal Oil and Gas Securitization Company Limited Nil (2007: 22,000) certificates of Rs. 5,000 each Mark-up: 2.50% above six months KIBOR rate, Floor-7.50%, Cap-13% Redemption: 3% of principal during first six months, and remaining 97% in 54 equal monthly installments thereafter. Maturity: April, 2010 Chief Executive Officer: Mr. Intisar-ul-Hasan Alvi	-	55,329	-	56,463	-
Balances carried forward	**743,469**	1,087,358	**694,917**	1,064,367	

Annexure I to the Financial Statements

		2008	2007	2008	2007	Quality of Available for Sale Securities
		At Cost Rupees '000		Market Values Rupees '000		Medium to Long Term Rating Assigned
	Balances brought forward	**743,469**	1,087,358	**694,917**	1,064,367	
	Financial Receivables Securitization Co. Ltd. 20,000 (2007: 20,000) certificates of Rs. 5,000 each Mark-up: 2.00% above six months KIBOR rate, Floor-8%, Cap-16% Redemption: Equal Semi annual installment with a grace period of 1 year Maturity: December 2013 Chief Executive Officer: Mr. S. M. Nasir Raza	**94,171**	99,980	**94,764**	103,479	**AA-**
	Tele Card Limited 70,233 (2007 : 70,263) certificates of Rs. 5,000 each Mark-up: 3.75% above six months KIBOR rate, with no floor and no cap Redemption: Ten unequal semi-annual installments commencing 18 months from the last date of public subscription. Maturity: April 2011 Chief Executive Officer: Mr. Shahid Firoz	**203,219**	255,900	**165,420**	217,668	**BBB**
		1,040,859	1,443,238	**955,101**	1,385,514	
7.	**Term Finance Certificates - Unlisted**					
	Dewan Cement Ltd. (formerly Pakland Cement Limited) The TFC has not currently been issued. Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui	**500,000**	-	Not applicable		-
	Dewan Cement Ltd. (formerly Pakland Cement Limited) Mark-up: 2.50% above six months KIBOR rate, with no floor and no cap Redemption: Repayment in 19 unequal semi annual installments upto July 2013 Maturity: July 2013 Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui	**-**	412,459	Not applicable		
	Dewan Hattar Cement Ltd. (formerly Saadi Cement Limited) Mark-up: 2.50% above six months KIBOR rate, with no floor and no cap Redemption: Repayment in 19 unequal semi annual installments upto July 2013 Maturity: July 2013 Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui	**-**	494,342	Not applicable		
		500,000	906,801			

Annexure II to the Financial Statements

Statement showing written-of f loans or any other financial relief of five hundred thousand rupees or above provide during the year ended December 31, 2008 as referred to in note 12.7 to the financial statements.

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other fin-ancial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Accrued Interest Not Debited	Total				
1	2	3	4	5	6	7	8	9	10	11	12
				---Rupees in '000---							
1	Network Leasing Corporation Limited	Mr. Akbar M. Bilgrami 42000-1544756-7 Mr. Mohammad Aftab Changi 42101-3116772-9 Mr. Shoaib Jawed Savul 42301-3721674-3 Mr. Saeed Jamal Tariq 42301-7408560-9 Mr. Syed Muhammad Ramanullah 42000-0551947-3 Mr. Zubair Anwar Bawany 91400-0331996-1	**N/A**	7,107	125	2,503	9,735	1,089	-	**1,920**	3,009
			TOTAL:	7,107	125	2,503	9,735	1,089	-	1,920	3,009

values at work

innovation

We pioneer novel and more efficient ways to deliver solutions.
We are dedicated to a culture of improvement and modernisation.
We stand for originality, in thought, in action and in belief.

Our Innovation: Our Strength.

Annual Accounts 2008

On behalf of the Board of Directors, I am pleased to present the audited consolidated financial statements of Faysal Bank Limited for the year ended December 31, 2008. The group consists of the following entities:

Holding Company:
Faysal Bank Limited (FBL)

Subsidiary Company:
Faysal Management Services (Pvt) Limited (FMSL)

FMSL was formed to float and manage modarabas under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. With the winding up of Fayzan Manufacturing Modaraba, FMSL is now expected to launch another venture in future.

Operating profit of 2008 is not comparable with 2007 as in 2007 the Group booked a one off gain of Rs. 762 million on redemption of NIT Units. Our focus in 2008 was to grow the stable revenue streams and consequently net markup income increased by 19%.

2008 was a challenging year for the businesses and as a result non-performing loans in the banking industry have increased. With a view to clear our loan portfolio,we prudently made a provision of Rs. 1.45 billion for non-performing loans as shown.

Another significant factor affecting the financial sector in particular, was the dismal performance of stock market, causing revaluation losses. The regulators allowed some relaxation in booking of these revaluation losses and SBP also allowed relaxation vide BSD Circular No 04 of 2009. revaluation losses and SBP also allowed relaxation vide BSD Circular No 04 of 2009. We are pleased to inform you that the profitability of your Group allowed it to fully absorb such losses and therefore we did not take any benefit under the afore - mentioned circular. The benefits on improvement in stock valuations will come in future years.

Financial Highlights

	Rupees in Millions 2008	2007
Operating Profit	3.855	4,724
Provision for non performing advances	1,456	1,871
Provision for diminution in value of investments	591	207
	2,047	2,078
Profit before tax	1,808	2,646
Provision for taxation	682	429
Profit after tax	1,126	2,217
Minority Interest	5	3
Profit after tax attributable to equity holders	1,121	2,214
Unappropriated profit brought forward	1,505	1,897
	2,626	4,111
Appropriations:		
Transfer to statutory reserve	223	455
Transfer to capital market reserve	-	33
Bonus shares issued interim 2007 @ 25%	-	1,059
Final cash dividend for 2007 at Rs.2.50 per share (paid subsequent to year end)	1,324	-
Cash dividend final 2006 @ 25%	-	1,059
	1,547	2,606
Unappropriated Profit carried forward	1,079	1,505
Earning per share - Rupees	2.12	4.18

On balance sheet side the focus was to improve liquidity profile of the bank, as such financing shows little growth. Our efforts have been on improving core deposits as a result our core deposits show an encouraging growth.

Overall reduction in balance sheet size is attributable to reduction in surplus on revaluation of investment caused by poor economic conditions.

Credit Rating of the Holding Company

Based on superior performance, the holding company has been assigned the highest short term rating of A1+ and AA for the long term by JCR-VIS. These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments. Another major credit rating company, PACRA, has also assigned the same ratings to the holding company.

Corporate Governance:

i. The Group has implemented the requirements of the Code of Corporate Governance (the Code) relevant to the year ended December 31, 2008. A prescribed statement by the management along with the auditor's review report thereon forms part of this Annual Report.

Governance (the Code) relevant to the year ended December 31, 2008. A prescribed statement by the management along with the auditor's review report thereon forms part of this Annual Report.

ii. Statement under clause xix of the code:

a. The financial statements prepared by the management of the group present fairly the state of affairs and the results of its operations;

b. Proper books of account of the group have been maintained;

c. Appropriate accounting policies have consistently been applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment;

d. International Financial Reporting Standard, as applicable to banks in Pakistan, have been followed in preparation of financial statements without any material departure;

e. The system of internal control is sound in design and has been effectively implemented and monitored. Measures are being considered to further strengthen it;

f. There are no doubts about the group continuing as a going concern;

g. There has been no material departure from the best practices of corporate governance as detailed in the listing regulations;

Our efforts have been on improving core deposits as a result our core deposits show an encouraging growth.

h. Summarized key operating and financial data of the last six yeas is tabulated in respective Annual Reports of each group company;

i. The value of investment of provident and gratuity funds are Rs.278 million and Rs.107 million respectively as per the unaudited financial statements;

j. The details of Board Meetings held and attended by the Directors form part of this Annual Report;

k. The prescribed pattern of holding company's shareholding is given as part of this Annual Report. The movement in the directors' shareholding, if any, is disclosed in the footnote to the pattern of shareholding.

Acknowledgement

On behalf of the Board and Management of the Group I would like to thank our shareholders for the confidence they reposed in the Group. I would also like to thank our customers for their continued support and patronage. I am grateful to the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan for the guidance and support they provided from time to time. Last but not the least, I would like to express my sincere appreciation for the employees of the Group for their dedication and hard work.

On behalf of the Board of Directors,

President & CEO
Naved A Khan
Dated: February 24, 2009

Faysal Bank Limited and its Subsidiaries
Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Faysal Bank Limited as at 31 December 2008 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 consolidated financial statements include unaudited certified returns from the branches, except for 15 branches, which have been audited by us. The financial statements of subsidiary company, Faysal Management Services (Private) Limited was audited by other firm of Chartered Accountants whose report has been furnished to us and our opinion in so far as
it relates to the amounts included for such company, is based solely on the report of such auditor.

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly the financial position of Faysal Bank Limited as at 31 December 2008, and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

KPMG

Date: February 24, 2009

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi

Faysal Bank Limited and its Subsidiaries

Consolidated Balance Sheet

As at December 31, 2008

	Note	2008	2007
		Rupees '000	
ASSETS			
Cash and balances with treasury banks	9	**8,927,524**	6,872,035
Balances with other banks	10	**876,780**	3,708,451
Lendings to financial institutions	11	**2,861,401**	7,078,102
Investments	12	**30,106,298**	31,463,993
Advances	13	**89,758,789**	87,346,401
Operating fixed assets	14	**2,646,978**	2,514,959
Deferred tax asset - net		**-**	-
Other assets	15	**2,984,148**	2,204,849
		138,161,918	141,188,790
LIABILITIES			
Bills payable	16	**1,536,517**	2,406,927
Borrowings from financial institutions	17	**13,027,468**	9,995,855
Deposits and other accounts	18	**102,592,473**	101,879,244
Sub-ordinated loans	19	**999,600**	1,000,000
Liabilities against assets subject to finance lease	20	**4,103**	7,827
Deferred tax liabilities - net	21	**2,484,227**	2,691,966
Other liabilities	22	**6,641,902**	6,951,750
		127,286,290	124,933,569
NET ASSETS		**10,875,628**	16,255,221
REPRESENTED BY			
Share capital	23	**5,296,445**	5,296,445
Reserves	24	**3,790,023**	3,567,033
Unappropriated profit		**1,079,333**	1,505,053
		10,165,801	10,368,531
Minority interest		**73,706**	75,333
		10,239,507	10,443,864
Surplus on revaluation of assets	25	**636,121**	5,811,357
		10,875,628	16,255,221
CONTINGENCIES AND COMMITMENTS	26		

The annexed notes 1 to 50 form an integral part of these consolidated financial statements.

President & CEO	Director	Director	Director

Faysal Bank Limited and its Subsidiaries

Consolidated Profit and Loss Account

For the year ended December 31, 2008

	Note	2008	2007
		Rupees '000	
Mark-up / return / interest earned	28	13,404,132	11,610,781
Mark-up / return / interest expensed	29	8,436,136	7,447,539
Net mark-up / interest income		4,967,996	4,163,242
Provision against non-performing loans and advances	13.5	1,561,016	1,797,432
(Reversal) / Provision for consumer loans - general	13.6	(104,822)	74,537
Provision for diminution in the value of investments	12.3	591,168	207,075
Bad debts written off directly		-	-
		2,047,362	2,079,044
Net mark-up / interest income after provisions		2,920,634	2,084,198
Non mark-up / interest income			
Fee, commission and brokerage income		814,001	744,508
Dividend income		1,197,862	1,191,521
Income from dealing in foreign currencies		347,114	313,597
(Loss) / Gain on sale of securities	30	(133,881)	1,070,213
Unrealised (loss) / gain on revaluation of investments classified as held-for-trading		(3,410)	2,984
Other income	31	79,403	43,821
Total non mark-up / interest income		2,301,089	3,366,644
		5,221,723	5,450,842
Non mark-up / interest expenses			
Administrative expenses	32	3,264,693	2,798,966
Other provisions	15.3	96,864	6,061
Other charges	33	61,364	9,855
Total non mark-up / interest expenses		3,422,921	2,814,882
		1,798,802	2,635,960
Extraordinary items / unusual items		-	-
Share of income from associates	12.7.1	9,245	9,631
Profit before taxation		1,808,047	2,645,591
Taxation - Current	34	155,956	286,688
- Prior years		100,000	(48,433)
- Deferred		426,001	190,480
		681,957	428,735
Profit after taxation		1,126,090	2,216,856
Profit attributable to minority interest		4,709	3,294
Profit attributable to equity holders		1,121,381	2,213,562
		1,126,090	2,216,856
Basic and diluted earnings per share - Rupees	35	2.12	4.18

The annexed notes 1 to 50 form an integral part of these consolidated financial statements.

President & CEO	Director	Director	Director

Faysal Bank Limited and its Subsidiaries
Consolidated Cash Flow Statement
As at December 31, 2008

	Note	2008	2007
		Rupees '000	
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation		1,808,047	2,645,591
Less: Dividend income		(1,197,862)	(1,191,521)
Profit on available for sale securities		(1,766,069)	(1,333,820)
		(1,155,884)	120,250
Adjustments for:			
Depreciation / Amortisation		447,630	339,198
Provision against non-performing advances		1,561,016	1,797,432
(Reversal) / Provision for consumer loans - general		(104,822)	74,537
Provision for diminution in value of investments		591,168	207,075
Provision for other assets		96,864	6,061
Unrealised loss / (gain) on revaluation of held-for-trading financial instruments		3,410	(2,984)
Gain on disposal of fixed assets		(10,761)	(3,171)
Assets charged off - intangibles			
Finance charges on leased assets		208	725
Exchange gain		(535,801)	(349,848)
		2,048,912	2,069,025
		893,028	2,189,275
(Increase) / Decrease in operating assets			
Lendings to financial institutions		3,416,701	(1,669,897)
Held-for-trading securities		(19,104)	26,960
Advances		(3,868,582)	(14,749,726)
Other assets (excluding advance taxation)		(820,408)	(662,103)
		(1,291,393)	(17,054,766)
Increase / (Decrease) in operating liabilities			
Bills payable		(870,410)	(2,109,198)
Borrowings from financial institutions		3,031,613	(4,969,182)
Deposits		713,229	27,684,965
Other liabilities		(228,085)	1,793,903
		2,646,347	22,400,488
		2,247,982	7,534,997
Income tax paid		(340,655)	(254,412)
Net cash flow from operating activities		1,907,327	7,280,585
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available-for-sale securities and associate - net		3,778,490	(7,416,149)
Net investments in held-to-maturity securities		(8,805,245)	-
Dividends received		1,183,371	1,198,318
Profit received on available for sale securities		1,724,803	1,330,329
Fixed capital expenditure		(611,191)	(634,972)
Sale proceeds from disposal of fixed assets		42,304	23,378
Net cash flow from investing activities		(2,687,468)	(5,499,096)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments of lease obligations		(3,932)	(7,562)
Sub-ordinated loans		(400)	250,000
Dividend paid to minority shareholders		(6,336)	(24,386)
Dividends paid		(1,321,174)	(1,059,941)
Net cash used in financing activities		(1,331,842)	(841,889)
(Decrease) / Increase in cash and cash equivalents		(2,111,983)	939,600
Cash and cash equivalents at beginning of the year as previously reported		11,380,486	10,091,038
Effects of exchange rate changes on cash and cash equivalents		535,801	349,848
Cash and cash equivalents at beginning of the year as restated		11,916,287	10,440,886
Cash and cash equivalents at end of the year	36	9,804,304	11,380,486

The annexed notes 1 to 50 form an integral part of these consolidated financial statements.

President & CEO　　Director　　Director　　Director

Faysal Bank Limited and its Subsidiaries

Consolidated Statement of Changes In Equity

For the year ended December 31, 2008

	Attributable to the equity holders								
		Reserves							
		Capital			Revenue				
	Share capital	Share premium	Reserve for issue of bonus shares	Statutory reserve	Capital market reserve	Unappro-priated profit	Total	Minority Interest	Total Equity
	Rupees ' 000								
Balance at December 31, 2006	4,237,157	-	-	2,723,070	356,457	1,897,574	9,214,258	96,425	9,310,683
Changes in equity for 2007:									
Final dividend for the year ended December 31, 2006 at Rs. 2.50 per share approved subsequent to the year end	-	-	-	-	-	(1,059,289)	(1,059,289)	-	(1,059,289)
Transfer to reserve capital market reserve	-	-	-	-	33,085	(33,085)	-	-	-
Transfer to reserve for issue of bonus shares	-	-	1,059,288	-	-	(1,059,288)	-	-	-
Issue of bonus shares	1,059,288	-	(1,059,288)	-	-	-	-	-	-
Profit after tax for the year ended December 31, 2007	-	-	-	-	-	2,213,562	2,213,562	3,294	2,216,856
Dividend paid	-	-	-	-	-	-	-	(24,386)	(24,386)
Transfer to statutory reserve	-	-	-	454,421	-	(454,421)	-	-	-
Balance at December 31, 2007	5,296,445	-	-	3,177,491	389,542	1,505,053	10,368,531	75,333	10,443,864
Changes in equity for 2008:									
Final dividend for the year ended December 31, 2007 at Rs. 2.50 per share approved subsequent to the year end	-	-	-	-	-	(1,324,111)	(1,324,111)	-	(1,324,111)
Transfer to statutory reserve	-	-	-	222,990	-	(222,990)	-	-	-
Transfer to reserve for issue of bonus shares	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	(6,336)	(6,336)
Profit after tax for the year ended December 31, 2008	-	-	-	-	-	1,121,381	1,121,381	4,709	1,126,090
Balance at December 31, 2008	5,296,445	-	-	3,400,481	389,542	1,079,333	10,165,801	73,706	10,239,507

The annexed notes 1 to 50 form an integral part of these consolidated financial statements.

President & CEO   Director   Director   Director

Faysal Bank Limited and its Subsidiaries
Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

1. THE GROUP AND ITS OPERATIONS

The Group consists of following entities:

Holding Company
Faysal Bank Limited (FBL, the Bank)

Subsidiary Company
Faysal Management Services (Private) Limited (shareholding - 60.00%)

Faysal Bank Limited was incorporated in Pakistan on October 3, 1994 as a public limited company under the Companies Ordinance, 1984. Its shares are listed on Karachi, Lahore and Islamabad Stock Exchanges. The Bank is engaged in Commercial, Consumer and Corporate banking activities. The Bank has branch network of 129 branches (2007: 105 branches) and operates 2 (2007: 5) service centres.

The Registered Office (Head Office) of the Bank is located at Faysal House, ST-02, Shahra-e-Faisal, Karachi.

Ithmaar Bank B.S.C., an Investment Bank listed in Bahrain, is the ultimate holding company of Faysal Bank Limited.

Faysal Management Services (Private) Limited (FMSL) is a company formed under the Companies Ordinance, 1984 as a private limited company to float and manage modarabas under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980.

2. BASIS OF PRESENTATION

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

3. BASIS OF CONSOLIDATION

The consolidated financial statements include FBL and its subsidiary, Faysal Management Services (Private) Limited.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which the Group acquires the effective control and are excluded from consolidation from the date of disposal.

The financial statements of subsidiary have been consolidated on a line by line basis.

Minority interest is that part of the net results of operations and of the net assets of subsidiary companies which is not owned by the Group.

Associates are entities over which the Group has a significant influence but not control over the financial and operating policies. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost, thereafter adjusted for the post acquisition change in the Group's share of net assets of the associates. The consolidated financial statements include the Group's share of income and expenses of associates from the date that significant influence commences until the date that such influence ceases.

All material intra group transactions, balances and unrealised surplus / deficit on transactions between Group entities have been eliminated.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

4. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) 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 and the Banking Companies Ordinance, 1962 and the directives issued by SBP. In case the requirements differ, the provisions of and directives issued under the Companies Ordinance, 1984 and the Banking Companies Ordinance, 1962 and the directives issued by SBP shall prevail.

SBP vide BSD Circular No. 10 dated August 26, 2002 has deferred the applicability of International Accounting Standard 39, Financial Instruments: Recognition and Measurement and International Accounting Standard 40, Investment Property for banking companies till further instructions. Accordingly, the requirements of these standards and their relevant interpretations (issued by the Standards Interpretation Committee - SICs, and the International Financial Reporting Interpretations Committee - IFRICs) have not been considered in the preparation of these financial statements. However, the investments have been classified and valued in accordance with the requirements prescribed by SBP through various circulars.

In addition, Securities and Exchange Commission of Pakistan (SECP) has notified the Islamic Financial Accounting Standard (IFAS) 1 - Morabaha and IFAS 2 - Ijara issued by the Institute of Chartered Accountants of Pakistan. IFAS 1 was effective for financial periods beginning on or after January 1, 2006 and IFAS 2 was effective for leases entered into after July 1, 2007, subsequently extended to January 1, 2009. These standards are not applicable on the Group.

5. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared under the historical cost convention, except for the following financial instruments:

- Derivative financial instruments are measured at fair value; and

- Investments classified as held for trading and available-for-sale are also measured at fair values.

6. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements have been presented in Pakistani Rupee, which is the Group's functional as well as the reporting currency.

7. USE OF ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in accordance with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses in the current and future reporting periods. The actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates (other than adjusting events) are recognised prospectively commencing from the period of revision.

Judgements made by the management that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 42 to these consolidated financial statements.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

8. SIGNIFICANT ACCOUNTING POLICIES

8.1 Financial assets and liabilities

The Group initially recognises financial assets and liabilities on the date at which they originate except investments which are recognized on the trade date.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are transferred. The Group also enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or part of the risks and rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet.

Financial liabilities are derecognised when the contractual obligations expire, or are discharged or cancelled.

8.2 Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash, money at call and balances with treasury and other banks.

8.3 Lendings to / borrowings from financial institutions

The Group enters into transactions of repos and reverse repos at contracted rates for a specified period of time. These are recorded as under:

(a) Sale under repurchase obligation

Securities sold subject to a re-purchase agreement (repo) are retained in the consolidated financial statements as investments and the counter party liability is included in borrowings. The differential between sale and re-purchase value is accrued over the period of the contract and recorded as an expense.

(b) Purchase under resale obligation

Securities purchased under agreement to resell (reverse repo) are included in lendings to financial institutions or financing as appropriate. The underlying security is not recognised as a separate asset in the consolidated financial statements. The difference between the contracted price and resale price is amortised over the period of the contract and recorded as income.

(c) Other borrowings

These are recorded at the proceeds received. Mark-up paid on such borrowings is charged to the profit and loss account over the period of borrowings on time proportion basis.

8.4 Investments

Investments in securities, other than investments in associates are classified as follows:

(a) Held for trading

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

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

(b) Held to maturity

These are securities with fixed or determinable payments and maturity in respect of which the Group has the positive intent and ability to hold to maturity.

(c) Available-for-sale

These represent securities, which do not fall under the held for trading or held to maturity categories.

Investments other than those classified as held for trading and investments in associates, are initially recognised at fair value including transaction costs associated with such investments. Investments classified as held for trading are initially recognised at fair value. Subsequently, aforesaid quoted securities are stated at market value. Held to maturity investments are carried at amortised cost as per the requirements laid down in BSD Circular No. 14 dated September 24, 2004, issued by SBP. As per SBP directives, the surplus / deficit arising on revaluation is taken to the profit and loss account for trading securities, while for available for sale securities, it is reported below equity.

In accordance with SBP's BSD Circular No. 11 of 2004 and BSD Circular No. 06 of 2007, investments in associates, as defined in approved accounting standards are stated at cost less impairment loss (if any) and are not subject to mark to market.

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

Premium or discount on acquisition of investments is amortised through the consolidated profit and loss account over the remaining period till maturity using effective interest rate method.

Unquoted equity securities are valued at the lower of cost and break-up value. Subsequent increases or decreases in the carrying values are recognised in the profit and loss account. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Provision for diminution in the value of securities (except term finance certificates) is made for impairment, if any. Provision for diminution in value of term finance certificates is made as per the aging criteria prescribed by the Prudential Regulations issued by SBP.

8.5 Advances

These are stated net of specific and general provision.

Specific provision is made for non-performing advances in accordance with the requirements of the Prudential Regulations issued by SBP. The Group also maintains general provision in accordance with the requirements of the Prudential Regulations and for present potential losses on performing loans, finance leases and consumer loan portfolio.

Finance leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset are recognised at an amount equal to lower of its fair value and the present value of the minimum lease payment including any guaranteed residual value.

Non-performing advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful. The Group determines write-offs in accordance with the criteria prescribed by SBP vide BPRD Circular No. 06 of 2007 dated June 05, 2007.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

8.6 Operating fixed assets

Owned

Items of property and equipment are stated at cost less accumulated depreciation and impairment (if any) except freehold and leasehold land which are stated at cost.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Capital work in progress is stated at cost.

Assets subject to finance lease

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as assets subject to finance lease. These are stated at amounts equal to the lower of their fair value and the present value of minimum lease payments including any guaranteed residual value, at inception of the lease, less accumulated depreciation and impairment losses (if any). Financial charges are allocated over the period of the lease term so as to provide a constant periodic rate of financial charge on the outstanding liability.

Intangibles

Intangible assets with finite useful lives are stated at cost less accumulated amortisation and impairment losses (if any). Intangible assets with indefinite useful lives are stated at cost less impairment losses (if any).

Subsequent costs

Renewals and improvements are included in an 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. All other expenses are charged to income during the financial period in which they are incurred.

Depreciation and amortisation

Depreciation on property and equipment other than freehold and leasehold land, and amortisation on intangibles is charged to income using the straight-line method so as to write off the depreciable amount of an asset over its estimated useful lives at the rates given in notes 14.2 and 14.3. The residual value, useful life and depreciation method is assessed annually.

A full month’s depreciation / amortisation is charged in the month of addition and no depreciation / amortisation is charged in the month of disposal.

Impairment of operating fixed assets

The carrying amounts of the Group's operating fixed assets are regularly reviewed to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Such losses are recognised directly in the profit and loss account.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. Such reversals are only made to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

8.7 Operating leases

Lease payments under operating leases are charged to income on straight line basis over the lease term.

8.8 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity or below equity, in which case it is recognised in equity or below equity.

Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the prevailing laws for taxation on income. The charge for the current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date. The charge for current tax also includes adjustments, where considered necessary relating to prior years.

Deferred

Deferred tax is recognised using the balance sheet method on all temporary differences arising between tax base of assets and liabilities and their carrying amounts appearing in the consolidated financial statements. No deferred tax is provided on the initial recognition of assets and liabilities that affect neither accounting nor taxable profits. A deferred tax asset is recognised only to the extent it is probable that future taxable profits will be available against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

8.9 Deposits

Deposits are initially recorded at the amount of proceeds received. Mark-up accrued on deposits is recognised separately as part of other liabilities and is charged to the profit and loss account over the period.

8.10 Provisions and Impairment

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events and 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.

The carrying amount of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the relevant asset is estimated. An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss is recognized.

8.11 Staff retirement benefits

The Group operates:

a) an approved funded gratuity scheme for all its permanent employees. Contributions are made to cover the obligations under the scheme on the basis of actuarial valuation using Projected Unit Credit method and are charged to income. Cumulative net unrecognised actuarial gains and losses at the end of the previous year are charged or credited to income over the expected average remaining working lives of the permanent and bank contract employees.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

b) an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the Group and the employees at the rate of 10 percent of basic salary.

Staff retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

8.12 Revenue recognition

a) Interest / mark-up and return on regular advances and investments is recognised on time proportion basis. Interest / mark-up on classified advances and investments is recognised on receipt basis. Gains and losses on termination and documentation charges are recognised on receipt basis.

b) Fee, commission and brokerage income is recognised when earned.

c) Dividend income from investments is recognised when the Group's right to receive the dividend is established.

d) Gains and losses on sale of investments and operating fixed assets are recognised in the profit and loss account, when the risks and rewards of ownership are transferred.

e) All exchange differences are recognised in income.

8.13 Dividends and appropriation to reserves

Dividend and appropriation to reserves are recognised in the year in which these are approved, except appropriations required by the law, which are recorded in the period to which they pertain.

8.14 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivative financial instruments are carried as assets when net fair value is positive and liabilities when net fair value is negative. Any change in the fair value is recognised in the profit and loss account.

8.15 Foreign currencies

All monetary assets, liabilities and commitments for letters of credit, acceptances and guarantees in foreign currencies are translated at rates of exchange approximating those prevailing at the balance sheet date. Foreign currency transactions are translated at the rates prevailing on the transaction date.

Foreign bills purchased and forward contracts and swaps are valued at forward rates applicable to the respective maturities of the relevant contracts.

8.16 Off Setting

Financial assets and liabilities are set off and the net amount is reported in the balance sheet when and only when, the group has a legal right to set off the amounts and it intends either to settle on a net basis or to realise the asset and to settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the approved accounting standards, or for gains and losses arising from a Group of similar transactions.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

8.17 Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products 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. Segment information is presented as per the Group's functional structure and the guidance of SBP. The Group comprises of the following main business segments:

8.17.1 Business Segments

Corporate finance

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

Trading and Sales

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

Retail banking

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

Commercial banking

This includes loans, deposits, other transactions and balances with corporate customers. Subsidiaries are included as part of this segment for the purpose of business segmentation.

8.17.2 Geographical segment

The Group conducts all its operations in Pakistan.

	Note	2008	2007
		Rupees '000	
9. CASH AND BALANCES WITH TREASURY BANKS			
In hand			
- local currency		**2,331,104**	1,190,475
- foreign currency		**425,575**	334,029
With State Bank of Pakistan in			
- local currency current account	*9.1*	**4,061,066**	4,302,738
- foreign currency current account	*9.2*	**400,691**	434,975
- foreign currency deposit account	*9.3*	**1,214,245**	455,699
With National Bank of Pakistan in			
- local currency current account		**493,628**	154,119
- local currency deposit account		**-**	-
National Prize Bonds		**1,215**	-
		8,927,524	6,872,035

9.1 This represents current account maintained with SBP under the requirements of section 22 (Cash Reserve Requirement) of the Banking Companies Ordinance, 1962.

9.2 This represents cash reserve of 5% on FE 25 Deposits, maintained with SBP under the requirements of BSD Circular No. 18 dated March 31, 2001.

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9.3 This represents special cash reserve maintained with SBP under the requirements of BSD Circular No. 14 of 2008 dated June 21, 2008 and local USD clearing account maintained with the SBP to facilitate USD Clearing. Profit rates on these balances are fixed on monthly basis by SBP. Profit ranging between 0.90% to 3.60% per annum (2007: 3.71% to 4.72% per annum) was earned during the year.

10. BALANCES WITH OTHER BANKS	**Note**	**2008**	**2007**
		Rupees '000	
In Pakistan			
- Current accounts		**163,851**	18,583
- Deposit accounts		**-**	-
Outside Pakistan			
- Current accounts		**712,929**	869,753
- Deposit accounts		**-**	2,820,115
		876,780	3,708,451

11. LENDINGS TO FINANCIAL INSTITUTIONS

Call money lendings	*11.2*	**-**	800,000
Repurchase agreement lendings (Reverse Repo)	*11.3*	**2,861,401**	4,578,102
Certificates of investment	*11.4*	**-**	1,700,000
		2,861,401	7,078,102

11.1 PARTICULARS OF LENDING

In local currency	**2,861,401**	7,078,102
In foreign currencies	**-**	-
	2,861,401	7,078,102

11.2 Call money lendings were extended to banks at rates ranging from 9.8% to 10.0% per annum, maturing upto March, 2008.

11.3 **Securities held as collateral against lendings to financial institutions**

	2008			2007		
	Held by Group	**Given as collateral**	**Total**	Held by Group	Given as collateral	Total
	Rupees '000					
Market Treasury Bills - note 11.3.1	**2,861,401**	**-**	**2,861,401**	2,504,602	-	2,504,602
Pakistan Investments Bonds - note 11.3.2	**-**	**-**	**-**	2,073,500	-	2,073,500
	2,861,401	**-**	**2,861,401**	4,578,102	-	4,578,102

11.3.1 Market Treasury Bills have been purchased under resale agreements at rates ranging from 14.0% to 14.9% (2007: 8.90% to 9.95% per annum) with maturities up to January 2009. The market value of these securities is Rs. 2.9 billion (2007 : Rs 2.56 billion).

11.3.2 Pakistan Investment Bonds were purchased under resale agreements at the rates ranging from 9.30% to 9.55% per annum with maturities up to March 2008. The market value of these securities was Rs 2.19 billion.

11.4 These represent placements in certificates of investments with banks and financial institutions at rates ranging from 10.4% to 11.0% per annum with maturities up to March 2008.

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12. INVESTMENTS

Investments by type and segment are given below while the detailed break down is contained in Annexure I to these consolidated financial statements.

12.1 Investments by type

	2008			2007		
	Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
	Rupees '000					
Held for trading securities						
Fully paid up ordinary shares	19,104	-	19,104	-	-	-
Available-for-sale securities						
Market Treasury Bills	11,345,481	1,122,182	12,467,663	16,899,271	-	16,899,271
Pakistan Investment Bonds	1,154,312	-	1,154,312	1,174,945	-	1,174,945
Units of open ended mutual funds						
- National Investment (Unit) Trust - note 12.2.5	3,475,056	-	3,475,056	2,670,544	-	2,670,544
- First Habib Income Fund	25,000	-	25,000	-	-	-
- Faysal Balanced Growth Fund	80,374	-	80,374	80,374	-	80,374
- Faysal Income Growth Fund	200,000	-	200,000	-	-	-
- Faysal Savings Growth Fund	207,411	-	207,411	207,411	-	207,411
- NAFA Cash Fund	50,000	-	50,000	-	-	-
- Atlas Income Fund	35,000	-	35,000			
- United Money Market Fund	25,000	-	25,000			
Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	1,750,640	-	1,750,640	1,421,466	-	1,421,466
Fully paid up preference shares	492,677	-	492,677	517,677	-	517,677
Term finance certificates and bonds	1,540,859	-	1,540,859	2,350,039	-	2,350,039
	20,381,810	1,122,182	21,503,992	25,321,727	-	25,321,727
Held to Maturity						
Treasury Bills	8,805,245	-	8,805,245	-	-	-
Associates						
Shares of Faysal Asset Management Ltd. - note 12.7.1	73,130	-	73,130	33,885	-	33,885
Investments at cost	29,279,289	1,122,182	30,401,471	25,355,612	-	25,355,612
Provision for diminution in the value of investments - note 12.3	(871,481)	-	(871,481)	(280,313)	-	(280,313)
Investments (Net of Provisions)	28,407,808	1,122,182	29,529,990	25,075,299	-	25,075,299
Surplus / (Deficit) on revaluation of held for trading securities - note 12.5	(3,410)	-	(3,410)	-	-	-
Surplus / (Deficit) on revaluation of available for sale securities (net) - note 25	579,718	-	579,718	6,388,694	-	6,388,694
Total investments at market value	28,984,116	1,122,182	30,106,298	31,463,993	-	31,463,993

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12.1.1	Strategic Investments	2008	2007
		Rupees '000	
	Available-for-sale securities - Listed		
	Fully paid up ordinary shares / modaraba certificates / units of closed end mutual funds	238,981	238,981
	Units of open ended mutual funds	80,374	80,374
	Available-for-sale securities - Unlisted		
	Fully paid up ordinary shares	853,750	966,936
	Associate	73,130	33,885
		1,246,235	1,320,176
	Provision for diminution in the value of investments	(175,517)	(160,440)
		1,070,718	1,159,736
	(Deficit) / Surplus on revaluation of investments	(11,945)	133,960
		1,058,773	1,293,696

Strategic investments are those which the Group makes with the intention of holding them for a long term duration and are marked as such at the time of investment. Disposals of such investments can only be made subject to fulfillments of criteria prescribed by SBP in the Prudential Regulations. The overall exposure limit for equity investments prescribed by SBP does not apply to these investments. Further, as per SBP instructions in BPD Circular Letter No 16 of 2006 dated August 01, 2006, investments marked as strategic have a minimum retention period of 5 years from the original purchase date, however, these can be sold before the stipulated period with the prior permission of SBP. During the current year the Bank has entered into an agreement for sale of one of stretegic investment after taking approval from SBP. Part of that investment has been disposed of and its respective provision is derecognized in the current year.

12.2	Investments by segment	Note	2008	2007
			Rupees '000	
	Federal Government Securities			
	- Market Treasury Bills	*12.2.1*	21,272,908	16,899,271
	- Pakistan Investment Bonds	*12.2.2*	1,154,312	1,174,945
	Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units			
	- Listed companies/ modarabas/ mutual funds		914,207	471,378
	- Unlisted companies		928,667	983,723
	Fully Paid up Preference Shares			
	- Listed companies		266,427	266,677
	- Unlisted companies	*12.2.3*	226,250	251,250
	Term Finance Certificates and Bonds			
	- Listed TFCs		1,040,859	1,443,237
	- Unlisted TFCs	*12.2.4*	500,000	906,802
	Open ended Mutual Fund Units		4,097,841	2,958,329
			30,401,471	25,355,612
	Provision for diminution in the value of investments	*12.3*	(871,481)	(280,313)
	Investment (Net of provision)		29,529,990	25,075,299
	Deficit on revaluation of held for trading securities	*12.5*	(3,410)	6,388,694
	Surplus on revaluation of available-for-sale securities	*25*	579,718	-
	Total Investment at market value		30,106,298	31,463,993

Notes to the Consolidated Financial Statements
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12.2.1 Market Treasury Bills have tenures of three months to one year. The group's yield on these instruments ranges from 10.1% to 13.6% per annum (2007: 9.0% to 9.4% per annum) with maturities up to March 2009.

12.2.2 Pakistan Investment Bonds are for periods of 10 years. The group's return on these investments ranges from 4.6% to 6.3% per annum (2007: 4.6% to 6.3% per annum) with maturities from June 30, 2013 to October 10, 2013.

12.2.3 This include advance of Rs. 126.25 million (2007: Rs. 126.25 million) to a company for the future issue of preference shares.

12.2.4 This represent advance in respect of Pre IPO issue of listed Term Finance Certificates (TFCs) of Dewan Cement Ltd which has not been issued in the current year. The old TFCs have been repaid by Dewan Cement Ltd in the current year, however as per the directives of SBP vide letter no. BPD/PU-22/22.03/15749/2005/8720 dated July 14, 2005, the new TFCs have also been classified as investment.

12.2.5 This includes 150,268,315 NIT Units (2007:150,268,315 NIT units) covered under letter of comfort (LOC) dated December 30, 2008 issued by the Federal Government with an expiry / renewal date of June 30, 2009. Furhermore, the dividend of NIT units were settled by 20 % cash and 80% NIT non LOC units which has been classified as investment in NI(U)T.

In accordance with the policy decision of the Government of Pakistan (GOP) and approval of the Board of Directors of National Investment Trust (Pvt) Limited, management company of National Investment Unit Trust (NI(U)T), the NI(U)T was split in two broad segments from April 01, 2007 i.e. one belonging to the LOC holders and the other segment belonging to the non-LOC holders. The two segments are being managed separately from April 01, 2007.

So far both GOP as well as the Group have exchanged proposals offering various exit options but the matter is yet to be finalised. However, in December 2007, the parties agreed and executed the redemption of 10% of the portfolio at prevailing repurchase price.

	Note	2008	2007
		Rupees '000	
12.3 Particulars of provision for diminution in the value of investments			
Opening balance		**280,313**	73,238
Charge for the year	*12.3.2*	**751,667**	239,137
Reversals	*12.3.3*	**(160,499)**	(32,062)
		591,168	207,075
Closing balance		**871,481**	280,313

	2008	2007
12.3.1 Particulars of Provision in respect of Type and Segment		
Available-for-sale securities		
Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units		
- Listed companies / modarabas / mutual funds	**513,046**	50,670
- Unlisted companies	**102,516**	162,218
Term Finance Certificates and Bonds		
- Listed TFCs	**5,919**	8,800
- Unlisted TFCs	**250,000**	58,625
	871,481	280,313

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12.3.2 During the current year, SBP vide BSD circular no 4 dated 13 February, 2009, allowed banks to adopt the notification issued by the Securities and Exchange Commission of Pakistan (SECP) on 13 February 2009. As per the notification impairment loss recognized due to the valuation of listed equity investment held as available for sale may be shown as equity. However the circular issued by SBP has encouraged banks to reconized the full impairment loss in the current year. The Group did not adopt the notification of SECP and recognized impairment loss of Rs. 477.199 million, which is included in the charge for the year. Furthermore a provision of Rs. 250 million has also been recognized in respect of an advance against pre -IPO of the listed Term Finance Certificate of Dewan Cement Ltd which has not been issued.

12.3.3 This includes reversal of Rs. 63.293 million on account of disposal of investment in Sukh Chyan Gardens Private Limited and Rs. 58.625 million on account of repayment of old TFCs by Dewan Cement Limited.

12.4 Quality of Available for Sale Securities

The details regarding the quality of available-for-sale securities is contained in Annexure I which forms an integral part of these consolidated financial statements.

	2008	2007
	Rupees '000	
12.5 Unrealized Loss on revaluation of investments classified as held for trading		
Fully paid up ordinary shares	(3,410)	-

12.6 Key unaudited financial information of subsidiary and associated company as at December 31, 2008 is as follows :

	2008				
	Assets	Liabilities	Revenues	Profit / Loss	% Holding
	Rupees '000				
Subsidiary					
Faysal Management Services (Private) Limited	184,620	357	-	11,772	60
Associate					
Faysal Asset Management Limited	279,953	31,819	135,742	30,817	30

	2007				
	Assets	Liabilities	Revenues	Profit / Loss	% Holding
	Rupees '000				
Subsidiary					
Faysal Management Services (Private) Limited	188,659	329	2,988	10,134	60
Associate					
Faysal Asset Management Limited	119,161	4,469	88,181	32,104	30

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12.7 Investment in associate

12.7.1 Investment in Faysal Asset Management Limited (FAML) is accounted for using the equity method of accounting. The Group's share of the profit and loss of the entity and its carrying amount as at December 31, 2008 is as follows:

	Note	2008	2007
		Rupees '000	
Balance at the beginning of the year		**33,885**	24,254
Investment made during the year		**30,000**	-
Share of profit		**9,245**	9,631
Dividends paid		**-**	-
Exchange differences		**-**	-
		73,130	33,885

13. ADVANCES

	Note	2008	2007
Loans, cash credits, running finances, etc. – In Pakistan		**79,492,629**	68,955,681
Net investment in finance lease – In Pakistan	13.2	**13,493,087**	15,885,502
		92,985,716	84,841,183
Bills discounted and purchased (excluding government treasury bills)			
Payable in Pakistan	13.3	**675,771**	790,852
Payable outside Pakistan		**596,917**	991,364
		1,272,688	1,782,216
		94,258,404	86,623,399
Margin financing / reverse repo transactions		**625,367**	4,392,879
Provision for non-performing advances	13.5	**(4,908,184)**	(3,348,257)
Provision for consumer loans - general	13.6	**(216,798)**	(321,620)
		89,758,789	87,346,401

13.1 Particulars of advances

13.1.1

	2008	2007
In local currency	**84,940,955**	82,500,881
In foreign currency	**4,817,834**	4,845,520
	89,758,789	87,346,401

13.1.2

	2008	2007
Short term (for upto one year)	**39,130,286**	56,578,273
Long term (for over one year)	**50,628,503**	30,768,128
	89,758,789	87,346,401

13.2 Net investment in finance lease

	2008				2007			
	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	**5,560,987**	**6,350,315**	**-**	**11,911,302**	6,195,668	9,521,760	27,533	15,744,961
Residual value	**1,016,576**	**2,559,573**	**-**	**3,576,149**	643,043	3,019,995	6,608	3,669,646
Minimum lease payment	**6,577,563**	**8,909,888**	**-**	**15,487,451**	6,838,711	12,541,755	34,141	19,414,607
Finance charge for future period	**(1,010,978)**	**(983,386)**	**-**	**(1,994,364)**	(1,511,987)	(2,014,059)	(3,059)	(3,529,105)
Present value of minimum lease payment	**5,566,585**	**7,926,502**	**-**	**13,493,087**	5,326,724	10,527,696	31,082	15,885,502

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13.3 This included receivable of a customer discounted by the holding company in 2007 amounting to Rs. 45.922 million. The amount was received from National Bank of Pakistan during the year.

13.4 Advances includes Rs. 7.479 billion (2007: Rs. 4.753 billion) which have been placed under non-performing status as detailed below:

	2008								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees '000								
Category of classification									
Other assets especially mentioned (Agri)	242,329	-	242,329	-	-	-	-	-	-
Substandard	1,882,120	-	1,882,120	655,627	-	655,627	655,627	-	655,627
Doubtful	1,553,008	-	1,553,008	658,836	-	658,836	658,836	-	658,836
Loss	3,801,842	-	3,801,842	3,535,045	-	3,535,045	3,535,045	-	3,535,045
	7,479,299	-	7,479,299	4,849,508	-	4,849,508	4,849,508	-	4,849,508

	2007								
	Classified Advances			Provision required			Provision held		
	Domestic	Overseas	Total	Domestic	Overseas	Total	Domestic	Overseas	Total
	Rupees '000								
Category of classification									
Other assets especially mentioned (Agri)	123,930	-	123,930	-	-	-	-	-	-
Substandard	1,527,739	-	1,527,739	489,878	-	489,878	489,878	-	489,878
Doubtful	567,431	-	567,431	236,502	-	236,502	236,502	-	236,502
Loss	2,534,315	-	2,534,315	2,473,201	-	2,473,201	2,473,201	-	2,473,201
	4,753,415	-	4,753,415	3,199,581	-	3,199,581	3,199,581	-	3,199,581

13.4.1 In accordance with the directives issued by SBP, the Group has considered the benefit of 30% of FSV of pledged stocks and mortgaged commercial and residential properties held as collateral against all Non Performing Loans (NPLs), except consumer financing, for three years from the date of classification for calculating provisioning requirements. This change in directives has resulted in reversal of provision of Rs. 136 million. The additional impact on profitability from this benefit is not available for payment of cash or stock dividend. For Non Performing Loans in respect of consumer financing, benefit of 50% of the FSV of mortgage property is considered in the first two years and 30% in the third year of classification.

13.5 Particulars of provision for non-performing advances - in local currency

	2008			2007		
	Specific	General	Total	Specific	General	Total
	Rupees '000					
Opening balance	3,199,581	148,676	3,348,257	1,304,339	263,952	1,568,291
Charge for the year	1,973,009	-	1,973,009	1,977,376	58,676	2,036,052
Transfer to specific provision from general provision	90,000	(90,000)	-	173,952	(173,952)	-
Reversals	(411,993)	-	(411,993)	(238,620)	-	(238,620)
	1,651,016	(90,000)	1,561,016	1,912,708	(115,276)	1,797,432
Amounts written off -note 13.7	(1,089)	-	(1,089)	(17,466)	-	(17,466)
Closing balance	4,849,508	58,676	4,908,184	3,199,581	148,676	3,348,257

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13.5.1 Particulars of provision for non-performing advances:

	2008			2007		
	Specific	General	Total	Specific	General	Total
	Rupees '000					
In local currency	4,849,508	58,676	4,908,184	3,199,581	148,676	3,348,257
In foreign currencies	-	-	-	-	-	-
	4,849,508	58,676	4,908,184	3,199,581	148,676	3,348,257

13.5.2 General provision represents provision made for potential losses and has been determined on the basis of management's best estimate.

	2008	2007
	Rupees '000	
13.6 Particulars of provision for consumer loans - general - in local currency		
Opening balance	321,620	247,083
Charge for the year	-	74,537
Reversals	(104,822)	-
	216,798	321,620

13.6.1 General provision against consumer loans has been determined in accordance with the requirements of the Prudential Regulations issued by SBP (i.e. 1.5% of secured loans and 5% of unsecured loans).

	Note	2008	2007
		Rupees '000	
13.7 Particulars of write-off			
13.7.1 Against provisions	13.5	1,089	17,466
Directly charged to profit and loss account		-	-
		1,089	17,466
13.7.2 Write offs of Rs 500,000 and above	13.8	1,089	17,466
Write offs below Rs 500,000		-	-
		1,089	17,466

13.8 Details of loans written off of Rs 500,000 and above

The statement in respect of write-offs or any other financial relief of five hundred thousand rupees or above as required under sub-section (3) of section 33A of the Banking Companies Ordinance, 1962 is given as "Annexure II" to these consolidated financial statements.

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

	Note	2008	2007
		Rupees '000	
Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons			
Balance at beginning of year		**407,271**	363,749
Loans granted during the year		**259,903**	254,881
Repayments		**(162,248)**	(211,359)
Balance at end of year		**504,926**	407,271
Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members			
Balance at beginning of year		**806,989**	975,060
Loans granted during the year		**529**	31,576
Repayments		**(75,954)**	(199,647)
Balance at end of year		**731,564**	806,989
		1,236,490	1,214,260

13.9.1 Maximum total amount of advances including temporary advances granted during the year

		2008	2007
Debts due by directors, executives or officers of the Group or any of them either severally or jointly with any other persons		**504,926**	411,166
Debts due by companies or firms in which the directors of the Group are interested as directors, partners or in the case of private companies as members		**806,989**	975,060
		1,311,915	1,386,226

14. OPERATING FIXED ASSETS

	Note	2008	2007
Capital work-in-progress	*14.1*	**241,253**	397,485
Property and equipment	*14.2*	**2,250,594**	1,976,095
Intangible assets	*14.3*	**155,131**	141,379
		2,646,978	2,514,959

14.1 Capital work-in-progress

		2008	2007
Civil works		**32,911**	179,612
Equipment		**64,022**	-
Advances to suppliers and contractors		**144,320**	217,873
		241,253	397,485

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14.2 Property and equipment

	COST					ACCUMULATED DEPRECIATION					Book value at		Rate of
	As at January 1, 2007	Additions/ (deletions)/	As at January 1, 2008	Additions/ (deletions)/	As at December 31, 2008	As at January 1, 2007	Charge/ (on deletions)/	As at January 1, 2008	Charge/ (on deletions)/	As at December 31, 2008	December 31, 2008	December 31, 2007	depreciation % per annum
	Rupees '000												
Owned													
Freehold land	40,184	-	40,184	-	40,184	-	-	-	-	-	40,184	40,184	-
Leasehold land	381,651	35,357	417,008	-	417,008	19,206	-	19,206	-	19,206	397,802	397,802	-
Building on freehold land - note 14.2.2	41,648	-	41,648	-	41,648	11,862	2,736	14,598	833	15,431	26,217	27,050	2
Leasehold property and improvement	993,393	74,853 (1,879)	1,066,367	238,680 (49)	1,304,998	106,236	90,623 (763)	196,096	96,285 (7)	292,374	1,012,624	870,271	2 to 20
Office furniture, fixtures, equipments and computers	889,274	237,151 (13,292)	1,113,133	316,807 (14,987)	1,414,953	463,472	183,248 (9,275)	637,445	250,236 (5,260)	882,421	532,532	475,688	20 to 33.33
Vehicles	199,330	75,156 (32,838)	241,648	144,035 (40,699)	344,984	62,365	40,689 (19,995)	83,059	44,628 (20,094)	107,593	237,391	158,589	20
	2,545,480	422,517 (48,009)	2,919,988	699,522 (55,735)	3,563,775	663,141	317,296 (30,033)	950,404	391,982 (25,361)	1,317,025	2,246,750	1,969,584	
Assets subject to finance lease													
Vehicles	21,410	- (5,411)	15,999	- (1,169)	14,830	8,749	3,919 (3,180)	9,488	1,498 -	10,986	3,844	6,511	20
	2,566,890	422,517 (53,420)	2,935,987	699,522 (56,904)	3,578,605	671,890	321,215 (33,213)	959,892	393,480 (25,361)	1,328,011	2,250,594	1,976,095	

14.2.1 Included in cost of property and equipment are fully depreciated items still in use having cost of Rs. 514.722 million (2007: Rs. 357.849 million).

14.2.2 One of these properties is encumbered to the extent of Rs. 34 million on account of a claim by a local bank in settlement of its second charge. Furthermore two floors of the said property have been restricted from sale by the High Court.

14.3 Intangible assets

	COST					ACCUMULATED AMORTISATION					Book value at		Rate of
	As at January 1, 2007	Additions/ (deletions)	As at January 1, 2008	Additions/ (deletions)	As at December 31, 2008	As at January 1, 2007	Charge/ (on deletions)	As at January 1, 2008	Charge/ (on deletions)	As at December 31, 2008	December 31, 2008	December 31, 2007	amortisation % per annum
	Rupees '000												
Computer software	26,824	138,566	165,390	67,901	233,291	6,028	17,983	24,011	54,149	78,160	155,131	141,379	20 to 33.33

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

14.4 Details of disposal of fixed assets to executives, and other persons having cost more than Rs.1 million or net book value Rs. 250,000 or above are as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal	Particulars of purchaser / addresses
	Rupees '000					
Owned - Vehicles						
Suzuki Cultus	555	200	355	348	Policy	Mr. Raja Imran Naseeb (Employee)
Suzuki Cultus	560	224	336	336	Policy	Mr. Riaz Ismail (Employee)
Suzuki Cultus	560	134	426	426	Policy	Mr. Azim Ahmad (Employee)
Suzuki Cultus	560	187	373	373	Policy	Mr. Muhammad Akhtar (Employee)
Suzuki Cultus	560	217	343	395	Policy	Mr. Najmus Saqib (Employee)
Suzuki Cultus	560	149	411	510	Bid	Mr. Wasim Mirza (Individual) Karachi.
Suzuki Cultus	560	164	396	485	Bid	Mr. Noman Ahmed Siddiqui (Individual) House# A-98, Block 2, Gulshan-e-Iqbal, Karachi
Suzuki Cultus	560	179	381	500	Bid	Mr. Taimur Dyer (Individual) Bungalow# 282, D'Souza Road, Garden East, Karachi
Suzuki Cultus	560	134	426	426	Policy	Mr. Saleem Shaffi (Employee)
Suzuki Cultus	560	142	418	485	Bid	M/s Car Advisor 608 - Show Room # 2 Fatima Jinah Colony, New M.A.Jinah Road, Karachi
Suzuki Cultus	583	148	435	439	Policy	Mr. Naveed Inayat (Employee)
Suzuki Cultus	595	190	405	490	Bid	Mr. Taimur Dyer Bungalow# 282, D'Souza Road, Garden East, Karachi
Suzuki Cultus	598	199	399	329	Policy	Mr. Sajjad Tanoli (Employee)
Suzuki Cultus	604	258	346	314	Policy	Mr. Rhooh Ul Amin (Employee)
Suzuki Cultus	610	211	399	399	Policy	Mr. Adeel Ali Khan (Employee)
Suzuki Cultus	620	190	430	445	Bid	Mr. Imran Sheikh (Individual) Karachi.
Suzuki Cultus	625	233	392	432	Bid	Mr. Nouman Ahmad Siddique (Individual) Karachi.
Suzuki Cultus	630	252	378	378	Policy	Mr. M.Ashfaq Ahmad (Employee)
Suzuki Cultus	635	186	449	434	Bid	M/s Ithehad Motors House # A-329, Block# 3, Gulshan-e-Iqbal, Karachi
Suzuki Cultus	635	161	474	423	Policy	Mr. Ahmad Waheed (Employee)
Suzuki Cultus	638	272	366	400	Bid	Mr. Muhammad Mumtaz Ahmed (Individual) Mudh Post Office, Shahpur, Sargodha
Suzuki Cultus	650	286	364	373	Policy	Mr. Asim Barar (Employee)
Suzuki Cultus	650	208	442	445	Bid	Mr. Kh. Sajjad Ahmed (Individual) 5 Hide Market, Lahore
Toyota Corolla	846	90	756	765	Bid	M/s Ithehad Motors House # A-329, Block# 3, Gulshan-e-Iqbal, Karachi
Toyota Corolla	849	566	283	306	Policy	Mr. Akhlaq Ahmad Buttar (Employee)
Toyota Corolla	849	555	294	306	Policy	Mr. Syed Javaid Akhtar (Employee)
Toyota Corolla	849	543	306	306	Policy	Mr. Sheraz Akhtar Chaudry (Employee)
Toyota Corolla	849	487	362	362	Policy	Mr. Sajjad Burney (Employee)
Toyota Corolla	849	577	272	260	Policy	Mr. Jahangir Ghulam Hussain (Employee)
Toyota Corolla	849	543	306	306	Bid	Mr. Pervaiz Siddiqui (Individual), Lahore
Toyota Corolla	881	223	657	860	Bid	M/s Argosy Enterprises 77 B-3, Gulberg, Lahore
Toyota Corolla	881	294	587	602	Bid	Mr. Mohsin Mumtaz (Individual) 24/2 Samanabad, Lahore
Honda City	884	330	554	616	Bid	Mr. Malik Ishaq (Individual), Rawalpindi
Honda City	885	319	566	600	Bid	Mr. Muhammad Azha Anees (Individual), Karachi
Honda City	886	343	543	620	Policy	Mr. Arif Hasan Khan (Employee)
Honda City	886	343	543	532	Policy	Mr. Azhar Hussain Dilawari (Employee)
Toyota Corolla	900	168	732	744	Policy	Mr. Taimur Hassan (Ex Employee)
Honda Civic	914	500	414	645	Bid	Mr Athar Gulzar (Individual) Karachi.
Honda City	936	300	636	695	Bid	Mr Shahzad Usman (Individual) Karachi. Flat # 08, Lalwani Building Outram Road, Hawani Chowk, Karachi
Honda Civic	1,169	935	234	421	Policy	Mr. Abadullah (Employee)
Honda Civic	1,169	748	421	421	Policy	Mr. Khawaja Khalil Shah (Employee)
Honda Civic	1,237	495	742	745	Policy	Mr. Col. Tanveer (Employee)
Honda Civic	1,288	755	532	700	Insurance Claim	UBL Insurers Limited, Karachi.
Owned - Office furniture, fixtures, equipments and computers						
Generator	1,305	1,305	-	400	Bid	Mr. Muhammad Ashraf (Individual) Karachi.
Generator	11,925	3,975	7,950	8,220	Bid	M/s Orient Engineers, Karachi.

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		Note	2008	2007
			Rupees '000	
15.	**OTHER ASSETS**			
	Income/mark-up accrued in local currency		**1,960,726**	1,323,986
	Income/mark-up accrued in foreign currency		**42,475**	44,056
	Advances, deposits, advance rent and other prepayments		**216,155**	202,778
	Non-banking assets acquired in satisfaction of claim	*15.1*	**307,376**	307,376
	Branch adjustment account		**-**	91,173
	Suspense account		**22,181**	10,599
	Others	*15.2*	**543,268**	236,050
			3,092,181	2,216,018
	Less: Provision held against other assets	*15.3*	**(108,033)**	(11,169)
			2,984,148	2,204,849
15.1	Market value of non-banking assets acquired in satisfaction of claim - determined by professional valuer		**596,964**	542,780

15.2 This includes an amount of Rs. 445 million, receivable from National Clearing Company of Pakistan Limited in accordance with CFS MK II square up scheme and receivable of Rs. 0.339 million in respect of asset recognized under defined benefit plan (note 38.5).

		2008	2007
		Rupees '000	
15.3	**Provision against other assets**		
	Opening balance	**11,169**	5,108
	Charge for the year	**96,864**	6,061
	Reversals	**-**	-
	Closing balance	**108,033**	11,169
16.	**BILLS PAYABLE**		
	In Pakistan	**1,523,430**	2,396,076
	Outside Pakistan	**13,087**	10,851
		1,536,517	2,406,927
17.	**BORROWINGS FROM FINANCIAL INSTITUTIONS**		
	In Pakistan	**13,019,090**	9,733,864
	Outside Pakistan	**8,378**	261,991
		13,027,468	9,995,855
17.1	**Particulars of borrowings from financial institutions**		
	In local currency	**12,860,893**	9,733,864
	In foreign currencies	**166,575**	261,991
		13,027,468	9,995,855

Notes to the Consolidated Financial Statements
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		Note	2008	2007
			Rupees '000	
17.2	**Details of borrowings from financial institutions**			
	Secured			
	Borrowings from State Bank of Pakistan			
	- Under export refinance scheme - Part I and II	17.3	7,568,725	4,992,256
	- Under Locally Manufactured Machinery (LMM) scheme		-	-
	- Under scheme for Long Term Financing of Export Projects - (LTF-EOP)	17.4	2,086,845	2,642,084
	- Under Long Term Financing Facility (LTFF)	17.5	95,002	-
	Repurchase agreement borrowings	17.6	1,110,321	-
			10,860,893	7,634,340
	Unsecured			
	Interbank borrowings	17.7	2,158,197	2,080,600
	Overdrawn nostro accounts		8,378	280,915
			2,166,575	2,361,515
			13,027,468	9,995,855

17.3 These represent borrowings from SBP under export refinance scheme at 6.50% per annum (2007: 6.50% per annum) maturing within six months up to June 2009. As per the terms of the agreement, the holding company has granted SBP a right to recover the outstanding amount from the holding company at the date of maturity of finances by directly debiting the current account of the holding company maintained with SBP.

17.4 These represent borrowings from SBP under scheme for long term financing of export oriented projects at rates ranging from 4% to 5% per annum (2007: 4.0% to 5.0% per annum), and have varying long term maturities stipulated by SBP. As per the terms of the agreement, the holding company has granted SBP a right to recover the outstanding amount from the holding company at the respective date of maturity of finances by directly debiting the current account of the holding company maintained with SBP.

17.5 This represents borrowings from SBP under scheme for long term financing facility at rates ranging from 6.50% to 7.00% per annum (2007:Nil), and have varying long term maturities stipulated by SBP. As per the terms of the agreement, the holding company has granted SBP a right to recover the outstanding amount from the holding company at the respective date of maturity of finances by directly debiting the current account of the holding company maintained with SBP.

17.6 This represents collateralized borrowings against market treasury bills at rates ranging from 12.75% to 14.90% per annum (2007: Nil) maturing upto January 2009.

17.7 These borrowings are from various institutions in the interbank market, made at rates ranging from 6.00% to 14.10% per annum (2007: 4.90% to 9.25% per annum) maturing up to January 2009.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2008

		2008	2007
		Rupees '000	
18.	**DEPOSITS AND OTHER ACCOUNTS**		
	Customers		
	Fixed deposits	**52,400,612**	56,420,711
	Savings deposits	**25,317,608**	25,848,248
	Current accounts – Remunerative	**-**	-
	Current accounts – Non-remunerative	**18,468,465**	18,024,696
	Margin accounts	**2,018,677**	875,641
		98,205,362	101,169,296
	Financial Institutions		
	Remunerative deposits	**4,349,693**	579,657
	Non-remunerative deposits	**37,418**	130,291
		4,387,111	709,948
		102,592,473	101,879,244
18.1	**Particulars of deposits**		
	In local currency	**94,787,258**	93,098,036
	In foreign currencies	**7,805,215**	8,781,208
		102,592,473	101,879,244

18.2 The above includes deposits of related parties amounting to Rs. 1.358 billion (2007 : Rs. 186.068 million).

19. SUB-ORDINATED LOANS

These represent listed, rated and un-secured Term Finance Certificates (TFCs). The salient features of the issue are as follows :

	2008	2007
	Rupees '000	
Outstanding amount	**999,600**	1,000,000
Total Issue Amount	**1,000,000**	1,000,000

Rating	"AA-" (Double A Minus) by JCR-VIS
Rate	Base Rate + 1.40% The Base Rate is defined as the Ask Side of Six Months Karachi Inter-bank Offered Rate (KIBOR).
Subordination	The TFCs is subordinated to all other indebtedness of the bank including deposits.
Tenure and maturity	7 years from the date of issue
Principal Repayment	0-60 months 0.2% 66-84 months 24.95%
Profit Payment	Profit is payable semi-annually in arrears.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

20. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	Minimum lease payments	Financial charges for future periods	Principal outstanding	Minimum lease payments	Financial charges for future periods	Principal outstanding
	Rupees '000					
Not later than one year	**4,147**	**44**	**4,103**	3,932	239	3,693
Later than one year and not later than five years	**-**	**-**	**-**	4,147	13	4,134
	4,147	**44**	**4,103**	8,079	252	7,827

20.1 The holding company has entered into agreements with a modaraba for lease of vehicles on commercial terms. Lease rentals are payable periodically and include finance charges at 8.0% per annum (2007: 8.0% per annum) which has been used as the discounting factor. There are no financial restrictions in the lease agreements.

21. DEFERRED TAX LIABILITIES

	2008			
	Opening Balance	Recognised in profit and loss	Recognised in surplus on revaluation	Closing Balance
	Rupees '000			
Deferred credits arising in respect of:				
- Finance lease arrangements	**2,376,846**	**455,000**	**-**	**2,831,846**
- Undistributed income of subsidiaries	**500**	**372**	**-**	**872**
- Accelerated depreciation allowance	**174,847**	**21,026**	**-**	**195,873**
- Surplus on revaluation of securities	**663,666**	**-**	**(587,406)**	**76,260**
Deferred debits arising in respect of:				
- Provision against non-performing advances	**(29,258)**	**36,689**	**-**	**7,431**
- Provision for diminution in the value of investments	**(51,958)**	**(22,004)**	**-**	**(73,962)**
- Taxable business losses	**(356,348)**	**(65,082)**	**-**	**(421,430)**
- Deficit on revaluation of government securities	**(86,329)**	**-**	**(46,334)**	**(132,663)**
	2,691,966	**426,001**	**(633,740)**	**2,484,227**

	2007			
	Opening Balance	Recognised in profit and loss	Recognised in surplus on revaluation	Closing Balance
	Rupees '000			
Deferred credits arising in respect of:				
- Finance lease arrangements	1,777,989	598,857	-	2,376,846
- Undistributed income of subsidiaries	1,172	(672)		500
- Accelerated depreciation allowance	160,536	14,311	-	174,847
- Surplus on revaluation of securities	-		663,666	663,666
Deferred debits arising in respect of:				
- Provision against non-performing advances	(15,548)	(13,710)	-	(29,258)
- Provision for diminution in the value of investments	-	(51,958)		(51,958)
- Taxable business losses	-	(356,348)		(356,348)
- Deficit on revaluation of government securities	(82,498)	-	(3,831)	(86,329)
	1,841,651	190,480	659,835	2,691,966

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

	Note	2008	2007
		Rupees '000	
22. OTHER LIABILITIES			
Mark-up / return payable in local currency		**1,418,832**	1,714,329
Mark-up / return payable in foreign currency		**48,652**	50,027
Unearned commission / income		**75,277**	105,041
Accrued expenses		**299,839**	191,519
Current taxation (provisions less payments)		**460,908**	545,607
Unclaimed dividends		**43,128**	40,192
Branch adjustment account		**3,776**	-
Exchange difference on revaluation of forward foreign exchange contracts		**23,849**	-
Withholding tax payable		**66,089**	38,101
Central Excise Duty payable		**9,266**	-
Security deposits against finance leases		**3,576,148**	3,669,646
Payable to brokers	*22.1*	**8,519**	11,883
Others		**607,619**	585,405
		6,641,902	6,951,750

22.1 This represents amounts payable to brokers against purchase of shares.

23. SHARE CAPITAL

23.1 Authorised capital

2008	2007		2008	2007
Number of Shares			Rupees '000	
600,000,000	600,000,000	Ordinary shares of Rs. 10 each	**6,000,000**	6,000,000

23.2 Issued, subscribed and paid-up capital

2008	2007	Ordinary shares	2008	2007
Number of Shares				
201,451,420	201,451,420	Fully paid in cash	**2,014,514**	2,014,514
312,533,051	312,533,051	Issued as bonus shares	**3,125,331**	3,125,331
15,660,000	15,660,000	Issued for consideration other than cash	**156,600**	156,600
529,644,471	529,644,471		**5,296,445**	5,296,445

As at December 31, 2008, Ithmaar Bank (the ultimate holding company of FBL) through its subsidiaries and nominees held 354,558,660 ordinary shares of Rs. 10 each (2007: 354,556,291 ordinary shares).

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

		Note	2008	2007
			Rupees '000	
24.	**RESERVES**			
	Statutory reserve	*24.1*	**3,400,481**	3,177,491
	Capital market reserve	*24.2*	**389,542**	389,542
			3,790,023	3,567,033

24.1 Appropriations are made to statutory reserve as required by section 21 of the Banking Companies Ordinance, 1962, @ 20% of profit after tax for the year.

24.2 This represents reserve created to meet unforeseen future contingencies in the capital market.

		Note	2008	2007
			Rupees '000	
25.	**SURPLUS / (DEFICIT) ON REVALUATION OF ASSETS - BY TYPE AND SEGMENT**			
	Available-for-sale Securities			
	Federal Government Securities			
	- Market Treasury Bills		**(27,831)**	(50,478)
	- Pakistan Investment Bonds		**(351,207)**	(197,477)
	Fully Paid up Ordinary Shares / Modaraba Certificates / Closed end Mutual Fund Units			
	- Listed companies/ modarabas/ mutual funds		**(32,402)**	58,262
	- Unlisted companies		**-**	-
	Fully Paid up Preference Shares			
	- Listed companies		**(2,586)**	(28,326)
	- Unlisted companies		**-**	-
	Term Finance Certificates and Bond			
	- Listed TFCs		**(79,836)**	(52,836)
	- Unlisted TFCs		**-**	-
	Open ended Mutual Fund Units		**1,073,580**	6,659,549
			579,718	6,388,694
	Deferred tax asset / (liability)	*25.1*	**56,403**	(577,337)
			636,121	5,811,357

25.1 This represents deferred tax computed on surplus / (deficit) on revaluation of federal government securities, quoted securities and funds.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

		Note	2008	2007
			Rupees '000	
26.	**CONTINGENCIES AND COMMITMENTS**			
26.1	**Direct credit substitutes**			
	Contingent liability in respect of guarantees favouring:			
	i) Government		-	-
	ii) Banking companies and other financial institutions		11,314	3,275
	iii) Others		2,298,364	1,479,270
			2,309,678	1,482,545
	Acceptances			
	i) Government		8,903	2,998
	ii) Banking companies and other financial institutions		-	-
	iii) Others		2,115,242	2,361,363
			2,124,145	2,364,361
26.2	**Transaction-related contingent liabilities**			
	Contingent liability in respect of performance bonds, bid bonds, shipping guarantees and standby letters of credit etc. favouring:			
	i) Government		3,940,271	3,976,830
	ii) Banking companies and other financial institutions		121,645	76,236
	iii) Others		13,053,502	14,055,339
			17,115,418	18,108,405
26.3	**Trade-related contingent liabilities**			
	Letters of credit			
	i) Government		302,870	222,008
	ii) Banking companies and other financial institutions		115,210	-
	iii) Others		8,378,903	10,885,832
			8,796,983	11,107,840
26.4	**Other Contingencies**			
	i) Suit filed by a customer for recovery of alleged losses suffered which is pending in the High Court of Sindh; holding company's legal advisors are confident that the group has a strong case		2,500,000	2,500,000
	ii) Indemnity issued favouring the High Court in above case		457,543	457,543
	iii) Claims against the group not acknowledged as debt		1,126,990	839,454

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

		2008	2007
		Rupees '000	
26.5	**Commitments in respect of forward lending / purchase**		
	Commitment to extend credit - advances	**3,179,852**	1,200,000
	Commitment to invest in securities	**330,000**	1,000,000
26.6	**Commitments in respect of forward exchange contracts**		
	Purchase		
	- Customers	**1,103,966**	734,181
	- Banks	**4,905,443**	1,940,112
		6,009,409	2,674,293
	Sale		
	- Customers	**-**	136,434
	- Banks	**3,224,281**	3,887,537
		3,224,281	4,023,971
26.7	**Commitments for acquisition of operating fixed assets**	**196,637**	67,860
26.8	**Commitments in respect of repo transactions**		
	Repurchase	**3,448,631**	-
	Resale	**1,122,184**	4,736,709

27. DERIVATIVE INSTRUMENTS

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The principal derivatives used by the group are forward foreign exchange contracts and equity futures. The group at this stage does not engage in Interest Rate Swaps, Forward Rate Agreements and FX Options.

A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Equity futures are exchange traded contractual agreements to either buy or sell a specified security at a specific price and date in the future.

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations. The principal amount of the derivative contract does not represent real exposure to credit risk, which is limited to the positive fair value of instruments.

The details of commitments under forward foreign exchange contracts outstanding at year-end have been give in note 26. There was no equity futures position at the year end.

Notes to the Consolidated Financial Statements
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		2008	2007
		Rupees '000	
28.	**MARK-UP / RETURN / INTEREST EARNED**		
	a) On financing to:		
	i) customers	**10,268,030**	8,633,779
	ii) financial institutions	**131,226**	137,274
	b) On investments in:		
	i) available for sale securities	**1,766,069**	1,333,820
	ii) held to maturity securities	**77,497**	-
	c) On deposits with treasury bank and financial institutions	**364,823**	460,837
	d) On securities purchased under resale agreements	**796,487**	1,045,071
		13,404,132	11,610,781
29.	**MARK-UP / RETURN / INTEREST EXPENSED**		
	Deposits	**7,186,535**	6,167,841
	Securities sold under repurchase agreements	**306,768**	111,927
	Other short term borrowings	**695,823**	986,303
	Long term borrowings	**116,209**	90,321
	Sub-ordinated debt	**130,801**	91,147
		8,436,136	7,447,539
30.	**GAIN / (LOSS) ON SALE OF SECURITIES**		
	(Loss) / Gain on sale of shares - listed	**(133,881)**	1,070,213
		(133,881)	1,070,213
31.	**OTHER INCOME**		
	Profit on disposal of fixed assets	**10,761**	3,171
	Rent on property	**52,670**	37,389
	Maintenance charges on property rented	**15,972**	3,261
		79,403	43,821

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		Note	2008	2007
			Rupees '000	
32.	**ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other employee benefits		**1,529,231**	1,435,750
	Charge for defined benefit plan	*38.6*	**30,195**	23,917
	Contribution to defined contribution plan		**42,816**	33,368
	Rent, taxes, insurance, electricity, etc.		**456,511**	291,267
	Legal and professional charges		**33,785**	49,057
	Communications		**79,760**	56,079
	Repairs and maintenance		**99,997**	73,956
	Donations	*32.1*	**160**	4,600
	Finance charge on leased assets		**208**	725
	Stationery and printing		**74,899**	62,409
	Advertisement and publicity		**38,925**	58,086
	Licence and technical fee		**19,969**	47,896
	Auditors' remuneration	*32.2*	**4,909**	4,254
	Depreciation	*14.2*	**393,480**	321,215
	Amortisation	*14.3*	**54,149**	17,983
	Travelling, conveyance and entertainment		**34,663**	32,544
	Vehicle running expenses		**69,378**	43,091
	Books, periodicals and subscription		**54,977**	17,387
	Brokerage and commission		**18,453**	34,057
	Others		**228,228**	191,325
			3,264,693	2,798,966
32.1	**Donations made in the year are as follows:**			
	Donee			
	Health Oriented Preventive Education (HOPE)		**50**	-
	All Pakistan Women's Association (APWA)		**10**	-
	Rotary Metropolitan Trust (President & CEO of the bank is the President of the Trust)		**100**	-
	Waqf Faisal (Trust) (President & CEO of the bank is the Managing Trustee of the Trust)		**-**	4,600
			160	4,600
32.2	**Auditors' remuneration**			
	Audit fee		**1,985**	1,690
	Review of half yearly financial statements		**350**	275
	Special certifications and sundry advisory services		**2,280**	1,930
	Out-of-pocket expenses		**294**	359
			4,909	4,254
33.	**OTHER CHARGES**			
	Penalties imposed by the State Bank of Pakistan against non-compliance of SBP regulations		**61,364**	9,855

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	Note	2008	2007
		Rupees '000	
34. TAXATION			
For the year			
Current	*34.1*	**155,956**	286,688
Deferred	*21*	**426,001**	190,480
		581,957	477,168
For prior year			
Current		**100,000**	(48,433)
Deferred		**-**	-
		100,000	(48,433)
	34.2	**681,957**	428,735

34.1 This includes charge amounting to Rs. 35.930 million (2007: Nil) in respect of worker's welfare fund.

34.2 Relationship between tax expense and accounting profit

	2008	2007
Profit before tax	**1,808,047**	2,645,591
Tax calculated at the rate of 35% (2007: 35%)	**632,817**	925,958
Effect of :		
- permanent differences	**19,156**	100,947
- income chargeable to tax at reduced rate	**(154,050)**	(317,499)
- income exempt from tax	**-**	(232,238)
- charge in respect of WWF	**35,930**	-
- prior year charge	**100,000**	(48,433)
- others	**48,104**	-
Tax charge for the year	**681,957**	428,735

34.3 Income tax assessments of the Bank have been finalised upto the tax year 2005 (Accounting year 2004). Returns filed upto tax year 2008 (Accounting year 2007) are also deemed to have been assessed as per tax law, unless selected for detailed audit.

34.4 The Bank and the Income Tax department have filed appeals against various issues which are at various levels of appellate forums The management is of the view that adequate provision has been made for any potential tax liability arising out of these appeals.

35. BASIC AND DILUTED EARNINGS PER SHARE	Note	2008	2007
		Rupees '000	
Profit for the year		**1,121,381**	2,213,562
		In thousands	
Weighted average number of ordinary shares	*23*	**529,644**	529,644
		Rupees	
Basic and diluted earnings per share		**2.12**	4.18

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		Note	2008	2007
			Rupees '000	
36.	**CASH AND CASH EQUIVALENTS**			
	Cash and balances with treasury banks	9	**8,927,524**	6,872,035
	Balances with other banks	10	**876,780**	3,708,451
	Call money lendings	11	**-**	800,000
			9,804,304	11,380,486

		Note	2008	2007
37.	**STAFF STRENGTH**		In Numbers	
	Permanent		**1,749**	1,394
	Temporary/on contractual basis		**180**	365
	Bank's own staff strength at the end of the year		**1,929**	1,759
	Outsourced	37.1	**990**	716
	Total Staff Strength		**2,919**	2,475

37.1 Outsourced represent employees hired by an outside contractor / agency and posted in the group to perform various tasks/activities of the Group.

38. DEFINED BENEFIT PLAN

38.1 Principal actuarial assumptions

The latest actuarial valuation of the Bank 's defined benefit plan based on Projected Unit Credit Actuarial Cost Method was carried out as at December 31, 2008. Following are the significant assumptions used in the valuation:

	2008	2007
Discount factor used (%age per annum)	**15**	10
Expected long term rate of return on plan assets (%age per annum)	**15**	10
Salary increase (%age per annum)	**15**	10
Normal retirement age (Years)	**60**	60

		Note	2008	2007
			Rupees '000	
38.2	**Reconciliation of payable to defined benefit plan**			
	Present value of defined benefit obligations	38.3	**167,125**	123,141
	Fair value of plan assets	38.4	**(107,351)**	(97,739)
	Net actuarial (loss) not recognized		**(60,113)**	(25,402)
		38.5	**(339)**	-

Notes to the Consolidated Financial Statements
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		Note	2008	2007
			Rupees '000	
38.3	**Movement in present value of defined benefit obligation**			
	Opening balance		**123,141**	118,509
	Current service cost		**22,567**	20,406
	Interest cost		**12,829**	12,385
	Loss on defined benefit obligation		**30,928**	2,818
	Actual benefits paid during the year		**(25,862)**	(30,977)
	Past Service Cost - contractual employees		**3,522**	-
	Closing balance		**167,125**	123,141
38.4	**Movement in fair value of plan assets**			
	Opening balance		**97,739**	97,253
	Expected return on plan assets		**10,417**	10,291
	Contribution made		**30,534**	23,917
	Benefits paid by the fund		**(25,862)**	(30,977)
	Loss on plan assets		**(5,477)**	(2,745)
	Closing balance	*38.4.1*	**107,351**	97,739
38.4.1	**Plan assets consist of the following:**			
	Balances with banks and financial institutions		**31,753**	38,383
	Certificates of investment		**-**	-
	Units of open ended mutual funds		**60,994**	40,000
	Term finance certificates		**14,604**	19,356
			107,351	97,739
38.5	**Movement in payable to defined benefit plan**			
	Opening balance		**-**	-
	Charge for the year	*38.6*	**30,195**	23,917
	Contribution to fund made during the year		**(30,534)**	(23,917)
	Closing balance		**(339)**	-
38.6	**Charge for defined benefit plan**			
	Current service cost		**22,567**	20,406
	Interest cost		**12,829**	12,385
	Expected return on plan assets		**(10,417)**	(10,291)
	Amortisation of loss		**1,694**	1,417
	Vested Past Service Cost - contractual employees		**3,522**	-
			30,195	23,917
38.7	**Actual return on plan assets**		**5,093**	8,189

Notes to the Consolidated Financial Statements

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38.8 Historical information

	2008	2007	2006	2005	2004
	Rupees '000				
Defined Benefit Obligation	**(167,125)**	(123,141)	(118,509)	(93,553)	(79,512)
Fair value of plan assets	**107,351**	97,739	97,253	79,134	64,070
Surplus / (Deficit)	**(59,774)**	(25,402)	(21,256)	(14,419)	(15,442)
Experience adjustments on plan liabilities	**30,928**	(2,818)	(4,231)	581	(17,557)
Experience adjustments on plan assets	**(5,477)**	(2,745)	888	767	397

39. DEFINED CONTRIBUTION PLAN

The holding company operates an approved funded contributory provident fund for all its permanent employees to which equal monthly contributions are made both by the group and the employees at the rate of 10% per annum of basic salary. The financial statements of the fund are separately prepared and audited and are not included as part of these consolidated financial statements.

40. REMUNERATION OF DIRECTORS AND EXECUTIVES

	Chief Executive Officer*		Executives	
	2008	2007	2008	2007
	Rupees '000			
Managerial remuneration	**60,577**	48,586	**228,249**	125,978
Payments to Ex President for past services	**-**	304,200	**-**	-
Charge for defined benefit plan	**1,861**	2,206	**12,481**	6,631
Contribution to defined contribution plan	**2,219**	2,649	**14,939**	7,960
Rent and house maintenance	**1,161**	6,329	**74,699**	36,741
Utilities	**243**	2,649	**14,004**	8,132
Medical	**107**	147	**10,727**	5,718
Leave fare assistance	**1,545**	8,217	**24,769**	12,589
Others	**4,602**	1,944	**30,150**	33,949
	72,315	376,927	**410,018**	237,698
Number of persons	**2**	2	**167**	83

* Remuneration of the Chief Executive Officer in the year 2008 includes Ex-Acting Chief Executive Officer and present President & CEO.

40.1 In addition to the above, the Chief Executive and Executives are provided with free use of group's maintained cars and security services.

41. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of traded investments is based on quoted market price. Fair value of unquoted equity investments is determined on the basis of break-up value of these investments as per the latest financial statements.

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Fair value of fixed term advances, other assets, other liabilities and fixed term deposits cannot be calculated with sufficient reliability due to absence of current and active market for assets and liabilities and reliable data regarding market rates for similar instruments. The provision for impairment of advances has been calculated in accordance with group's accounting policy as stated in note 8.5 of these consolidated financial statements.

The maturity and repricing profile and effective rates are stated in note 47.6.1 and 47.5 respectively.

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

42. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Some of the critical accounting estimates and judgements are as follows:

42.1 Provision against advances portfolio

The Group reviews its advances portfolio to assess amount of non-performing advances and provision required there against on a quarterly basis. The provision is made in accordance with Prudential Regulations issued by the State Bank of Pakistan (SBP). The SBP vide BSD circular No. 2 of 2009 dated January 27, 2009 has allowed banks to avail the benefit of 30% of FSV of pledged stock and mortgaged commercial and residential properties held as collateral against all NPLs for three years from the date of classification for calculating provision w.e.f. December 31, 2008. Further as per SBP directives, for non performing loans in respect of consumer financing, benefit of 50% of FSV of mortgaged property is considered in the first and second year and 30% in the third year of classification. The management has revised its accounting estimate for determining provisions in the light of the State Bank of Pakistan's directives, the impact of which is given in note 13.4.1. The forced sale values in respect of collaterals in the case of home mortgage loans are estimated by independent valuations of the assets mortgaged / pledged. General provision in respect of unidentified loan losses is made based on historical experience for assets with credit risk characteristics.

42.2 Income taxes

In making the estimates for income taxes currently payable by the Group, the management looks at the current income tax law and the decisions of appellate authorities on disputed issues in the past. However, the Group has made adequate provision in this respect. The allocation of expenses between income chargeable to tax under final tax regime (FTR) and normal tax regime (NTR) is based on the assessment order of the Group.

42.3 Impairment in respect of listed securities

The Group determines that listed AFS securities are impaired when there has been a significant or prolonged decline in fair value below its cost. In making this judgement, the Group evaluates among other factors volatility in share prices in normal course.

42.4 Gratuity

The holding company has adopted certain actuarial assumptions as disclosed in note 38.1 to the consolidated financial statements for determining present value of defined benefit obligations and fair value of plan assets, based on actuarial advice. Any change in the assumptions from actual results would change the amount of unrecognised gains and losses.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

42.5 Segmentation

As per the requirements of SBP, the management has divided the Group into four functional segments. The basis of segmentation and related assumptions are disclosed in note 8.17.

42.6 Fair Value

The Karachi Stock Exchange (Guarantee) Limited ("KSE") placed a "Floor Mechanism" on the market value of securities based on the closing prices of securities prevailing as on August 27, 2008. Under the "Floor Mechanism", the individual security price of equity securities could vary within normal circuit breaker limit, but not below the floor price level. The mechanism was effective from August 28, 2008 had remained in place until December 15, 2008. Consequent to the introduction of 'floor mechanism' by KSE, the market value declined significantly during the period from August 27, 2008 to December 15, 2008. There were lower floors on a number of securities at December 31, 2008. The equity securities have been valued at prices quoted on the KSE on December 31, 2008 without any adjustment as allowed by SBP BSD Circular Letter No. 2 dated January 27, 2009.

43. SEGMENT DETAILS WITH RESPECT TO BUSINESS ACTIVITIES

Primary segment information

For management purposes the Group is organised into four major business segments

Corporate Finance;
Trading and Sales;
Retail Banking; and
Commercial Banking.

All assets, liabilities, off balances sheet items, and items of income and expense are distributed in primary segments in accordance with the core functions performed by the business groups.

	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	Rupees '000			
2008				
Total income	811,944	2,417,389	4,683,320	7,801,814
Total expenses	(658,759)	(2,306,964)	(4,300,561)	(7,322,093)
Net income (loss)	153,185	110,425	382,759	479,721
Segment assets (Gross)	7,213,708	17,816,850	47,952,947	71,174,874
Segment non performing Assets	1,734,787	1,408,147	3,112,530	4,366,769
Segment provision required	(354,452)	(517,029)	(1,797,676)	(3,327,306)
Segment liabilities	(1,468,576)	(16,274,040)	(42,275,906)	(67,267,768)
Segment return on assets (ROA) (%) *	11.26	13.57	9.77	10.96
Segment cost of funds (%) *	10.46	9.57	6.14	6.46

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	Corporate Finance	Trading & Sales	Retail Banking	Commercial Banking
	Rupees '000			
2007				
Total income	1,041,294	2,601,331	4,051,249	7,293,182
Total expenses	(673,875)	(1,731,629)	(3,644,489)	(6,720,207)
Net income (loss)	367,419	869,702	406,760	572,975
Segment assets (Gross)	7,657,516	17,730,469	46,120,943	73,630,052
Segment non performing Assets	273,186	91,460	2,105,390	2,648,025
Segment provision required	(160,440)	(61,248)	(1,188,153)	(2,540,349)
Segment liabilities	(1,301,319)	(6,848,633)	(44,593,360)	(72,190,257)
Segment return on assets (ROA) (%) *	13.60	14.67	8.78	9.91
Segment cost of funds (%) *	7.60	15.26	5.32	5.45

* These percentages have been computed based on closing assets / liability figure instead of average balances.

Note : The above table is based on best estimates / assumptions and other segments (Payment & Settlement and Agency Services) as required to be disclosed are not material.

44. TRUST ACTIVITIES

The Group is not engaged in any significant trust activities. However, it acts as security agent for various Term Finance Certificates it arranges and distributes on behalf of its customers.

45. RELATED PARTY TRANSACTIONS

The Group has related party relations with its associated undertakings, group companies, employee benefit plans (refer note 8.11) and its directors and executive officers (including their associates). Transactions with key management personnel and entities in which the Group has a strategic investment are also disclosed as part of related party transactions.

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Banking transactions with the related parties are executed substantially on the same terms, except transaction with directors and executive officers that are as per their terms of employment, including mark-up rates and collateral, as those prevailing at the time of comparable transactions with unrelated parties and do not involve more than a normal risk. Details of advances to the companies or firms in which the directors of the Group are interested as directors, partners or in case of private companies as members are given in note 13.9 to these consolidated financial statements.

Contributions to and accruals in respect of staff retirements and other benefit plans are made in accordance with the actuarial valuations / terms of contribution plan (refer note 8.11 and note 38 to these consolidated financial statements for the details of the plans). Remuneration of key management personnel, including salaries and other short-term employee benefits and post-employee benefits is given below. Remuneration to executives (including key management personnel) of the Group is disclosed in note 40 to these consolidated financial statements. Such remuneration is determined in accordance with the terms of their appointment. Strategic investments are disclosed in note 12.1.1.

	2008				
	Directors and Key Management Personnel	Group Companies	Associates	Strategic Investments	Retirement Benefit Plan
	Rupees '000				
Deposits					
Balance at the beginning of the year	48,487	2,028	73	135,480	102,998
Placements during the year	560,812	60,476,240	235,824	859,183	757,198
Withdrawals during the year	(588,218)	(59,303,812)	(234,939)	(981,251)	(711,308)
Balance at end of the year	21,081	1,174,456	958	13,412	148,888
Advances					
Balance at the beginning of the year	4,146	-	-	806,989	-
Disbursement during the year	74,641	-	-	529	-
Repayment during the year	(6,980)	-	-	(75,954)	-
Balance at the end of the year	71,807	-	-	731,564	-

	2007				
	Directors and Key Management Personnel	Group Companies	Associates	Strategic Investments	Retirement Benefit Plan
	Rupees '000				
Deposits					
Balance at the beginning of the year	71,086	1,187	5,287	223,589	197,384
Placements during the year	1,131,960	51,010	833,046	4,229,246	703,411
Withdrawals during the year	(1,154,559)	(50,169)	(838,260)	(4,317,355)	(797,797)
Balance at end of the year	48,487	2,028	73	135,480	102,998
Advances					
Balance at the beginning of the year	25,489	-	-	975,060	-
Disbursement during the year	-	-	-	31,576	-
Repayment during the year	(21,343)	-	-	(199,647)	-
Balance at the end of the year	4,146	-	-	806,989	

Balances pertaining to parties that were related at the beginning of the year but ceased to be so related during any part of the current period are not reflected as part of the closing balance. The same are accounted for through the movement presented above.

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	2008	2007
	Rupees '000	
Foreign Currency Placement of funds / Nostro balances with associates	**15,238**	5,147
Transactions involving Sale / Purchase of investments with related parties		
Shares / Units purchased during the year	**550,383**	250,000
Shares / Units / Term Finance Certificates sold during the year	**428,411**	364,852
Income on foreign currency placement of funds	**-**	10,215
Profit paid / accrued	**152,937**	11,223
Profit return / earned	**86,537**	70,480
Technical fee paid	**-**	46,472
Dividend paid to holding company and associates	**870,266**	709,117
Remuneration of key management personnel		
- Salaries and other short-term employee benefits	**122,177**	97,633
- Post-employment benefits	**35,056**	7,003
- Payments to Ex President for past service	**-**	304,200
Contribution to staff retirement benefits	**73,350**	57,286

Disposal of vehicles to key management personnel and other executives is disclosed in note 14.4 to these consolidated financial statements.

46. CAPITAL-ASSESSMENT AND ADEQUACY BASEL II SPECIFIC

46.1 Capital Management

Basel II capital adequacy framework applies to all Banks and DFIs on stand-alone as well consolidated basis.

The Group's objectives when managing its capital are:
a) To comply with the capital requirements set by SBP;
b) 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
c) To maintain a strong capital base to support the development of its business.

Capital adequacy is monitored periodically by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and as mandated by SBP for supervisory purposes. The required information is submitted to the State Bank of Pakistan on a quarterly basis. The disclosure given is based on the Basel II standardized approach.

The SBP requires each Bank or Banking group to: (a) hold the minimum level of the paid up capital and (b) maintain a ratio of total regulatory capital to the risk-weighted assets at or above the required minimum of 9% as prescribed for year 2008.

The Group's regulatory capital is divided into two tiers:
a) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings;
b) Tier 2 capital: qualifying subordinated loan capital, general provision and unrealized gains arising on the fair valuation of equity instruments held as available for sale; and
c) Tier 3 capital: the Group has no eligible Tier 3 capital.

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Book value of Goodwill, other intangible assets including software, brand value etc are deducted from Tier 1 capital whereas Investments in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and operational risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of potential future exposure.

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.

SBP has prescribed a minimum paid-up capital requirement (net of losses) of Rs. 5 billion for all Banks to be achieved by December 31, 2008. The required minimum Capital Adequacy Ratio (CAR), on consolidated as well as on stand alone basis is 9%.

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

46.2 Capital Structure

	2008	2007
	Rupees '000	
Tier I Capital		
Share Capital	**5,296,445**	5,296,445
Reserves	**3,790,023**	3,567,033
Unappropriated / unremitted profits (Net of Losses)	**1,079,333**	1,505,053
Minority in the equity of the subsidiaries	**73,706**	75,333
	10,239,507	10,443,864
Less: Book value of intangible assets	**(155,131)**	(141,379)
Other deductions (50% of the amount as calculated on CAP 2)	**(22,500)**	(7,500)
	(177,631)	(148,879)
Total Tier I Capital	**10,061,876**	10,294,985
Tier II Capital		
Subordinated Debt (upto 50% of total Tier 1 Capital)	**999,600**	1,000,000
General Provisions subject to 1.25% of Total Risk Weighted Assets	**275,474**	470,296
Revaluation Reserve (upto 45%)	**286,254**	2,615,111
	1,561,328	4,085,407
Less: Other deductions (50% of the amount as calculated on CAP 2)	**(22,500)**	(7,500)
Total Tier II Capital	**1,538,828**	4,077,907
Eligible Tier III Capital	**-**	-
Total Regulatory Capital Base	**11,600,704**	14,372,892

* The comparative figures have not been audited by the external auditors.

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46.3 Capital Adequacy

	Capital Requirements 2008	Capital Requirements 2007*	Risk Weighted Assets 2008	Risk Weighted Assets 2007*
	Rupees in '000			
Credit Risk				
Sovereign	**2,470**	-	**27,440**	-
Public Sector Enterprise	**-**	-	**-**	-
Financial Institution	**65,691**	96,349	**729,898**	1,204,365
Corporate	**6,122,742**	5,965,133	**68,030,462**	74,564,167
Retail	**1,449,704**	860,132	**16,107,827**	10,751,649
Past Due Loans	**377,381**	304,067	**4,193,126**	3,800,840
Other	**465,842**	419,839	**5,176,017**	5,247,982
	8,483,830	7,645,520	**94,264,770**	95,569,003
Equity Exposure Risk in the Banking Book				
Equity portfolio subject to market-based approaches				
Public Sector Enterprise	**87,158**	-	**968,425**	-
	87,158	-	**968,425**	-
Total Credit Risk	**8,570,988**	7,645,520	**95,233,195**	95,569,003
Market Risk				
Capital Requirement for portfolios subject to Standardized Approach				
Interest rate risk	**209,679**	247,304	**2,329,763**	3,091,300
Equity position risk	**264,986**	1,612,512	**2,944,288**	20,156,400
Foreign Exchange risk	**731,218**	675,195	**8,124,650**	8,439,938
Total Market Risk	**1,205,883**	2,535,011	**13,398,701**	31,687,638
Operational Risk				
Capital Requirement for operational risks	**1,121,253**	962,837	**12,458,368**	10,698,192
Total Operational Risk	**1,121,253**	962,837	**12,458,368**	10,698,192
Total	**10,898,124**	11,143,368	**121,090,264**	137,954,832

Capital Adequacy Ratio	Note	2008	2007
Total eligible regulatory capital held	46.2 (a)	**11,600,704**	14,372,892
Total Risk Weighted Assets	(b)	**121,090,264**	137,954,832
Capital Adequacy Ratio	(a) / (b)	**9.58%**	10.42%

* The comparative figures have not been audited by the external auditors.

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47. RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks. The management's aim is to achieve an appropriate balance between risk and return, and minimize potential adverse effects on its financial performance.

The Group's risk management policies are designed to identify and analyze financial and non-financial risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to risk limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the Group under policies approved by the Board of Directors. The principal risks associated with the banking business are credit risk, market risk, liquidity risk and operational risk.

The Group is focused to further refine its risk management processes in line with the changing economic scenario and Group's business expansions. FBL is taking many initiatives including assessments of various risks through self-assessment questionnaire, stress testing, scenarios analysis, portfolio review, early warning indicators and alerts, and business process re-engineering.

47.1 Credit Risk

The Group takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the bank by failing to discharge an obligation. Credit exposures arise principally in lending activities that lead to loans and advances. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

Credit risk management and control are carried out by credit risk management teams, which report to the Board of Directors through risk management committees. The Group has well defined credit structures under which credit committees, comprising of senior officers with requisite credit background, critically scrutinize and sanction financing. The Group's exposure to credit is measured on an individual counterparty basis, as well as by Groups of counterparties that share similar attributes. To reduce the potential of risk concentration, counter party limits, Group exposure limits, and industry limits are established and monitored in light of changing counterparty and market conditions.

Besides financial, industry and transaction analysis, the credit evaluation also includes risk rating systems, which gauge risk rating of customers. This rating process encompasses relevant criteria including macro factors enabling the Group to factor in the dynamics and influence of operating environment as well. More specifically, due consideration is given to industry sector (growing / saturated / decline), other competitors and threats / vulnerability to changes in environment such as changes in government policy, tariff structure, taxation rates, etc.

47.1.1 Segment by class of business

Portfolio management is an integral part of the Group's credit process. Risk concentration may arise where total exposure to a particular Group or industry is high in relation to shareholders' equity. The Group has set up a portfolio strategy and planning function with an aim to monitor the overall risk and to avoid high exposure to a single group or industry.

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Segmental information in respect of the class of business and geographical distribution of advances, deposits, and contingencies and commitments is given below:

	2008					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and Pharmaceuticals	7,042,513	7.85	1,664,015	1.62	2,299,415	7.46
Agribusiness	3,622,330	4.04	2,901,940	2.83	87,394	0.28
Textile	14,152,639	15.77	888,011	0.87	1,385,165	4.50
Cement	4,198,980	4.68	351,138	0.34	563,411	1.83
Telecommunication	430,843	0.48	3,018,489	2.94	1,438,728	4.67
Sugar	2,157,503	2.40	35,958	0.04	15,924	0.05
Construction	2,278,952	2.54	2,033,544	1.98	2,784,768	9.04
Ready made garments	2,204,814	2.46	247,763	0.24	246,645	0.80
Shoes and leather garments	1,176,004	1.31	204,694	0.20	145,504	0.47
Automobile and transportation equipment	557,690	0.62	799,902	0.78	226,863	0.74
Transportation, Road and Air	2,488,700	2.77	22,659	0.02	292,264	0.95
Financial	1,040,300	1.16	5,390,282	5.25	964,594	3.13
Oil Refining / Marketing	140,461	0.16	16,655,678	16.23	1,931,310	6.27
Distribution / Trading	5,440,244	6.06	1,985,012	1.93	584,988	1.90
Electronics and electrical appliances	3,363,931	3.75	849,693	0.83	951,559	3.09
Production and transmission of energy	8,919,741	9.94	2,846,412	2.77	10,150,425	32.95
Iron and Steel	734,798	0.82	566,888	0.55	2,345,450	7.61
Synthetic and Rayon	-	-	102,094	0.10	-	-
Food Industries	1,680,318	1.87	273,678	0.27	97,093	0.32
Minning and Quarrying	-	-	40,072	0.04		-
Paper and Board	766,843	0.85	56,073	0.05	24,394	0.08
Individuals	14,335,240	15.97	35,664,466	34.76	73,820	0.24
Others	13,025,945	14.50	25,994,012	25.36	4,194,053	13.62
	89,758,789	100.00	102,592,473	100.00	30,803,767	100.00

	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Chemical and Pharmaceuticals	2,732,554	3.13	1,584,505	1.56	975,247	2.91
Agribusiness	2,806,910	3.21	2,032,446	1.99	509,423	1.52
Textile	12,627,595	14.46	1,091,039	1.07	2,470,765	7.37
Cement	5,575,180	6.38	302,128	0.30	1,714,023	5.11
Telecommunication	-	-	8,721	0.01	1,567,209	4.68
Sugar	1,624,007	1.86	37,345	0.04	9,894	0.03
Construction	2,781,506	3.18	2,487,339	2.44	2,581,411	7.70
Ready made garments	2,084,721	2.39	135,991	0.13	18,896	0.06
Shoes and leather garments	1,143,908	1.31	234,294	0.23	115,293	0.34
Automobile and transportation equipment	222,376	0.25	167,730	0.16	422,533	1.26
Transportation, Road and Air	2,384,186	2.73	-	-	-	-
Financial	5,096,307	5.83	3,723,344	3.65	772,154	2.30
Oil Refining / Marketing	198,073	0.23	19,277,956	18.92	2,032,669	6.06
Distribution / Trading	5,871,123	6.72	1,961,520	1.93	442,716	1.32
Electronics and electrical appliances	942,614	1.08	565,494	0.56	1,304,608	3.89
Production and transmission of energy	5,368,869	6.15	2,391,451	2.35	13,197,524	39.37
Iron and Steel	747,497	0.86	427,948	0.42	344,834	1.03
Food and Allied	-	-	-	-	190,200	0.57
Synthetic and Rayon	-	-	59,184	0.06	44,408	0.13
Food Industries	4,669,556	5.35	311,716	0.31	40,171	0.12
Paper and Board	639,559	0.73	431,083	0.42	177,486	0.53
Individuals	15,589,414	17.85	28,328,709	27.81	73,103	0.22
Others	14,240,446	16.30	36,319,301	35.65	4,516,127	13.47
	87,346,401	100.00	101,879,244	100.00	33,520,694	100.00

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47.1.2 Segment by sector

	2008					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	4,286,700	4.78	3,998,961	3.90	11,992,200	38.93
Private	85,472,089	95.22	98,593,512	96.10	18,811,567	61.07
	89,758,789	100.00	102,592,473	100.00	30,803,767	100.00

	2007					
	Advances		Deposits		Contingencies and Commitments	
	Rupees '000	Percent	Rupees '000	Percent	Rupees '000	Percent
Public / Government	1,148,481	1.31	4,505,076	4.42	11,497,679	34.30
Private	86,197,920	98.69	97,374,168	95.58	22,023,015	65.70
	87,346,401	100.00	101,879,244	100.00	33,520,694	100.00

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

	2008		2007	
	Classified Advances	Specific Provision Held	Classified Advances	Specific Provision Held
	Rupees '000			
Chemical and Pharmaceuticals	822,855	738,069	727,617	699,000
Agribusiness	325,491	23,813	144,720	7,271
Textile	1,642,258	1,210,950	874,729	669,981
Transportation, Road and Air	356,856	200,578	170,402	116,857
Construction	273,023	120,686	50,028	34,420
Ready Made Garments	143,755	109,561	79,659	61,279
Shoes and leather garments	8,836	1,398	-	-
Telecommunication	736	440	-	-
Automobile and Transport Equipment	150,202	115,653	-	-
Financial	-	-	7,750	7,750
Distribution / Trading	545,661	384,018	357,896	284,857
Electronics and electrical appliances	662,871	497,287	5,791	1,274
Production and transmission of energy	149,538	149,538	970,355	516,663
Iron & Steel	143,949	71,974	5,448	1,362
Food Industries	123,154	106,396	83,769	33,875
Paper & Board	54,993	54,993	49,743	49,743
Individuals	935,943	373,855	546,656	183,638
Others (including manufacturing, and real estate)	1,139,178	690,299	678,852	531,611
	7,479,299	4,849,508	4,753,415	3,199,581

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

	2008		2007	
Public / Government	-	-	-	-
Private	7,479,299	4,849,508	4,753,415	3,199,581
	7,479,299	4,849,508	4,753,415	3,199,581

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47.1.5 Geographical segment analysis

	2008			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees '000			
Pakistan	**1,808,047**	**138,161,918**	**10,875,628**	**30,803,767**
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	1,808,047	**138,161,918**	**10,875,628**	**30,803,767**

	2007			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	Rupees '000			
Pakistan	2,645,591	141,188,790	16,255,221	33,520,694
Asia Pacific (including South Asia)	-	-	-	-
Europe	-	-	-	-
United States of America and Canada	-	-	-	-
Middle East	-	-	-	-
Others	-	-	-	-
	2,645,591	141,188,790	16,255,221	33,520,694

Total assets employed shown above mean total assets shown on the balance sheet and intra group items. Net assets employed mean net assets shown on the consolidated balance sheet.

47.2 Market Risk

Market risk is the risk of loss due to unfavourable movements in market factors such as interest rates, exchange rates and equity prices. Market risks arise generally from trading activities due open positions in currency, holding common equity, and other products. All such instruments and transactions are exposed to general and specific market movements.

The Group seeks to mitigate market risk by employing strategies that correlate rate, price, and spread movements of its earning assets, liabilities and trading activities. Treasury Front Office (TFO) and Treasury Middle Office (TMO) divisions perform market risk management activities within the Group. The Group has Market Risk Management Committee which is responsible for reviewing and approving market risk policies, strategies. The details of market risk faced by the Group are discussed in the following notes.

47.3 Foreign Exchange Risk / Currency Risk

Currency risk is the risk of loss resulting from fluctuations in foreign exchange rates. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect revenues from foreign exchange dealing.

The Group undertakes currency risk mostly to support its trade services and maintains overall foreign exchange risk position to the extent of statutory Net Open Position limit prescribed by SBP. Foreign Exchange Risk exposures are managed by matching future maturities.

Exposure limits such as counterparty and stop loss limits are also in place in accordance with the Group's approved Standard Operating Procedures to limit risk and concentration to the acceptable tolerance levels.

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47.3.1 Currency Risk

	2008			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net currency exposure
	Rupees '000			
Pakistan rupee	130,555,685	130,103,064	425,349	877,970
United States dollar	6,989,917	6,334,032	680,312	1,336,197
Great Britain pound	174,805	979,128	(803,251)	(1,607,574)
Japanese yen	20,272	6	14,022	34,288
Euro	428,078	739,611	(316,432)	(627,965)
Other currencies	(6,839)	6,077	-	(12,916)
	138,161,918	138,161,918	-	-

	2007			
	Assets	Liabilities and share holders' equity	Off-balance sheet items	Net currency exposure
	Rupees '000			
Pakistan rupee	130,416,963	131,989,542	1,380,333	(192,246)
United States dollar	9,464,146	7,952,053	(1,291,550)	220,543
Great Britain pound	807,492	792,247	(22,356)	(7,111)
Japanese yen	114,944	144,599	32,103	2,448
Euro	379,231	310,321	(98,530)	(29,620)
Other currencies	6,014	28	-	5,986
	141,188,790	141,188,790	-	-

47.4 Equity position risk

Equity position risk is the risk arising from unfavourable fluctuations in prices of shares in which the Group carries long and/or short positions, in its trading book. This results from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments that derive their value from a particular stock or a defined basket of stocks.

The Group's equity position is governed by SBP limits for overall investment and per scrip exposure. In addition, there are internal limits set for trading positions as well as stop loss limits. The Group also deals in equity future contracts.

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47.5 Mismatch of Interest Rate Sensitive Assets and Liabilities / Yield / Interest Rate Risk

	2008											
	Effective Yield/ Interest risk	Total	Exposed to Yield/ Interest risk									
			Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	Non-interest bearing financial instruments
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	3.50	8,927,524	1,214,245	-	-	-	-	-	-	-	-	7,713,279
Balances with other banks	-	876,780	-	-	-	-	-	-	-	-	-	876,780
Lending to financial institutions	10.81	2,861,401	2,861,401	-	-	-	-	-	-	-	-	-
Investments	11.88	30,106,298	2,503,188	18,763,585	79,197	1,010,623	96	83,173	1,069,342	-	-	6,597,094
Advances	11.98	89,758,789	17,174,335	35,432,236	19,501,957	5,630,722	3,561,646	2,687,888	2,365,493	410,177	364,544	2,629,791
Other assets		2,460,616	-	-	-	-	-	-	-	-	-	2,460,616
		134,991,408	23,753,169	54,195,821	19,581,154	6,641,345	3,561,742	2,771,061	3,434,835	410,177	364,544	20,277,560
Liabilities												
Bills payable		1,536,517	-	-	-	-	-	-	-	-	-	1,536,517
Borrowings from financial institutions	8.40	13,027,468	2,806,988	6,181,025	2,232,771	404,956	425,699	288,949	515,207	163,494	-	8,379
Deposits and other accounts	7.29	102,592,473	42,595,960	19,619,476	6,594,672	10,500,297	2,318,846	282,598	152,029	-	-	20,528,595
Sub-ordinated loans	13.08	999,600	-	-	200	200	400	400	499,400	499,000	-	-
Liabilities against assets subject to finance lease	8.00	4,103	267	641	926	2,269	-	-	-	-	-	-
Other liabilities		6,101,938	-	-	-	-	-	-	-	-	-	6,101,938
		124,262,099	45,403,215	25,801,142	8,828,569	10,907,722	2,744,945	571,947	1,166,636	662,494	-	28,175,429
On-balance sheet gap		10,729,309	(21,650,046)	28,394,679	10,752,585	(4,266,377)	816,797	2,199,114	2,268,199	(252,317)	364,544	(7,897,869)
Off-balance sheet financial instruments												
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)		(3,509,852)	(3,509,852)	-	-	-	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		(3,509,852)	(3,509,852)	-	-	-	-	-	-	-	-	
Total Yield/Interest Risk Sensitivity Gap			(25,159,898)	28,394,679	10,752,585	(4,266,377)	816,797	2,199,114	2,268,199	(252,317)	364,544	
Cumulative Yield/Interest Risk Sensitivity Gap			(25,159,898)	3,234,781	13,987,366	9,720,989	10,537,786	12,736,900	15,005,099	14,752,782	15,117,326	

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	2007											
	Effective Yield/ Interest risk	Total	Exposed to Yield/ Interest risk									
			Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years	Non-interest bearing financial instruments
		Rupees in '000										
On-balance sheet financial instruments												
Assets												
Cash and balances with treasury banks	4.32	6,872,035	455,702	-	-	-	-	-	-	-	-	6,416,333
Balances with other banks	5.41	3,708,451	2,820,115	-	-	-	-	-	-	-	-	888,336
Lendings to financial institutions	9.24	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	-	-
Investments	8.19	31,463,993	1,081,797	3,323,492	5,567,718	8,296,623	164,685	208,853	263,287	1,045,126	-	11,512,412
Advances	12.34	87,346,401	16,311,952	17,587,808	10,836,185	15,324,285	9,158,285	6,227,014	6,748,716	2,133,746	1,935,907	1,082,503
Other assets		1,694,692	-	-	-	-	-	-	-	-	-	1,694,692
		138,163,674	22,438,474	26,220,494	16,403,903	23,620,908	9,322,970	6,435,867	7,012,003	3,178,872	1,935,907	21,594,276
Liabilities												
Bills payable		2,406,927	-	-	-	-	-	-	-	-	-	2,406,927
Borrowings		9,995,855	675,243	5,273,290	2,012,767	309,904	698,387	253,859	281,844	209,648	-	280,913
Deposits and other accounts	6.66	101,879,244	36,209,052	18,395,137	7,590,863	16,305,712	1,728,423	1,868,857	350,915	-	-	19,430,285
Sub-ordinated loans	6.76	1,000,000	-	-	1,000,000	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	11.36	7,827	-	983	983	1,272	4,589	-	-	-	-	-
Other liabilities	8.00	6,301,101	-	-	-	-	-	-	-	-	-	6,301,101
		121,590,954	36,884,295	23,669,410	10,604,613	16,616,888	2,431,399	2,122,716	632,759	209,648	-	28,419,226
On-balance sheet gap		16,572,720	(14,445,821)	2,551,084	5,799,290	7,004,020	6,891,571	4,313,151	6,379,244	2,969,224	1,935,907	(6,824,950)
Off-balance sheet financial instruments												
Forward Lending (including call lending, repurchase agreement lending, commitments to extend credit, etc.)		(2,200,000)	(2,200,000)	-	-	-	-	-	-	-	-	-
Forward borrowings (including call borrowing, repurchase agreement borrowing, etc.)		-	-	-	-	-	-	-	-	-	-	-
Off-balance sheet gap		(2,200,000)	(2,200,000)	-	-	-	-	-	-	-	-	
Total Yield/Interest Risk Sensitivity Gap			(16,645,821)	2,551,084	5,799,290	7,004,020	6,891,571	4,313,151	6,379,244	2,969,224	1,935,907	
Cumulative Yield/Interest Risk Sensitivity Gap			(16,645,821)	(14,094,737)	8,295,447	(1,291,427)	5,600,144	9,913,295	16,292,539	19,261,763	21,197,670	

47.5.1 Yield / interest rate risk is the risk of deviations in earnings or economic value due to adverse movement of the yield curve. It is inherent primarily to the banking book mainly through advances and deposits portfolio.

47.5.2 The interest rate exposure of the Group arises due to mismatches between contractual maturities or re-pricing of on- and off-balance sheet assets and liabilities. It is addressed by an Asset and Liability Management Committee that reviews the interest rate dynamics at regular intervals and decides re-pricing of assets and liabilities ensuring that the spread of the Bank remains at an acceptable level.

47.5 Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn.

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The Group's Asset and Liability Management Committee manages the liquidity position on a continuous basis. The Group's liquidity risk management process, as carried out within the Group and monitored by management of the Group, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or borrowed by customers. The Group maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting of treasury and capital market maturities is done through monitoring of daily maturities. Similarly the overall liquidity maintenance is done through monthly maturity gap analysis at balance sheet level. Hence, monitoring and reporting takes the form of regular and periodic cash flow measurement and projections.

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, provider, product and term.

47.6.1 Maturities of Assets and Liabilities (based on contractual maturities)

	2008									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	Rupees in '000									
Assets										
Cash and balances with treasury banks *	8,927,524	8,927,524	-	-	-	-	-	-	-	-
Balances with other banks	876,780	876,780	-	-	-	-	-	-	-	-
Lendings to financial institutions	2,861,401	2,861,401	-	-	-	-	-	-	-	-
Investments	30,106,298	2,503,188	18,779,280	79,197	1,192,462	4,653,682	305,867	1,398,455	1,194,167	-
Advances	89,758,789	11,708,417	17,613,646	10,560,554	11,247,341	11,194,184	7,959,527	8,295,716	6,063,935	5,115,469
Operating fixed assets	2,646,978	1,865	1,370	4,670	29,076	165,876	306,633	557,049	-	1,580,439
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	2,984,148	584,025	-	1,780,435	347,312	-	272,376	-	-	-
	138,161,918	27,463,200	36,394,296	12,424,856	12,816,191	16,013,742	8,844,403	10,251,220	7,258,102	6,695,908
Liabilities										
Bills payable	1,536,517	1,536,517	-	-	-	-	-	-	-	-
Borrowings from financial institutions	13,027,468	2,815,367	6,181,025	2,232,771	404,956	425,699	288,949	515,207	163,494	-
Deposits and other accounts **	102,592,473	63,124,555	19,619,476	6,594,672	10,500,297	2,318,846	282,598	152,029	-	-
Sub-ordinated loans	999,600	-	-	200	200	400	400	499,400	499,000	-
Liabilities against assets subject to finance lease	4,103	266	642	926	2,269	-	-	-	-	-
Deferred tax liabilities - net	2,484,227	-	-	-	-	-	-	2,484,227	-	-
Other liabilities	6,641,902	1,693,301	295,850	363,549	1,105,860	861,559	956,454	1,365,329	-	-
	127,286,290	69,170,006	26,096,993	9,192,118	12,013,582	3,606,504	1,528,401	5,016,192	662,494	-
Net assets	10,875,628	(41,706,806)	10,297,303	3,232,738	802,609	12,407,238	7,316,002	5,235,028	6,595,608	6,695,908
Share capital	5,296,445									
Reserves	3,790,023									
Unappropriated profit	1,079,333									
Minority interest	73,706									
Surplus on revaluation of assets	636,121									
	10,875,628									

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

	2007									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	Rupees in '000									
Assets										
Cash and balances with treasury banks *	6,872,035	6,872,035	-	-	-	-	-	-	-	-
Balances with other banks	3,708,451	3,708,451	-	-	-	-	-	-	-	-
Lendings to financial institutions	7,078,102	1,768,908	5,309,194	-	-	-	-	-	-	-
Investments	31,463,993	999,086	3,382,118	6,015,895	7,951,149	9,553,252	316,421	2,064,527	1,181,545	-
Advances	87,346,401	17,394,457	17,587,809	10,836,185	10,759,822	10,236,064	6,928,165	7,313,366	2,820,775	3,469,758
Operating fixed assets	2,514,959	18,106	54,324	58,167	108,649	217,297	268,714	462,938	1,086,487	240,277
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	2,204,849	540,118	121,002	-	1,271,353	-	272,376	-	-	-
	141,188,790	31,301,161	26,454,447	16,910,247	20,090,973	20,006,613	7,785,676	9,840,831	5,088,807	3,710,035
Liabilities										
Bills payable	2,406,927	2,406,927	-	-	-	-	-	-	-	-
Borrowings from financial institutions	9,995,855	956,156	5,273,290	2,012,767	309,904	698,387	253,859	281,844	209,648	-
Deposits and other accounts **	101,879,244	55,827,515	18,395,137	7,402,685	16,305,712	1,728,423	1,868,857	350,915	-	-
Sub-ordinated loans	1,000,000	-	-	200	200	400	400	800	998,000	-
Liabilities against assets subject to finance lease	7,827	616	261	629	1,835	4,486	-	-	-	-
Deferred tax liabilities - net	2,691,966	-	-	-	-	-	-	2,691,966	-	-
Other liabilities	6,951,750	3,046,514	485,188	325,063	1,029,823	492,235	427,542	1,145,385	-	-
	124,933,569	62,237,728	24,153,876	9,741,344	17,647,474	2,923,931	2,550,658	4,470,910	1,207,648	-
Net assets	16,255,221	(30,936,567)	2,300,571	7,168,903	2,443,499	17,082,682	5,235,018	5,369,921	3,881,159	3,710,035
Share capital	5,296,445									
Reserves	3,567,033									
Unappropriated profit	1,505,053									
Minority interest	75,333									
Surplus on revaluation of assets	5,811,357									
	16,255,221									

* Included in cash and balances with treasury banks are the current and deposit accounts with the SBP which are maintained to meet the Statutory Liquidity Reserve Requirements (SLR). Since such balances have no actual maturities the same are classified in the earliest maturity band of upto one month.

** As per SBP's requirement, the entire balance held in saving deposit accounts is classified under the maturity band of upto one month. On the basis of history, the Group expects that these deposits will be maintained over a longer period without withdrawal.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

47.6.2 Maturities of Assets and Liabilities - Based on expected withdrawal pattern

The following maturity analysis is presented as an additional disclosure to depict the maturities of assets and liabilities as determined by the group's Asset and Liabilities Management Committee (ALCO) keeping in view the historical withdrawal pattern of deposits:

	2008									
	Total	Upto one month	Over one month to three months	Over three months to six months	Over six months to one year	Over one year to two years	Over two years to three years	Over three years to five years	Over five years to ten years	Over ten years
	Rupees in '000									
Assets										
Cash and balances with treasury banks	8,927,524	4,498,312	1,133,028	569,631	764,319	302,930	442,273	429,994	389,133	397,904
Balances with other banks	876,780	876,780	-	-	-	-	-	-	-	-
Lendings to financial institutions	2,861,401	2,861,401	-	-	-	-	-	-	-	-
Investments	30,106,298	2,503,188	18,779,280	79,197	1,192,462	4,653,682	305,867	1,398,455	1,194,167	-
Advances	89,758,789	11,708,415	17,613,648	10,560,554	11,247,341	11,194,184	7,959,527	8,295,716	6,063,935	5,115,469
Operating fixed assets	2,646,978	1,865	1,370	4,670	29,076	165,876	306,633	557,049	-	1,580,439
Deferred tax assets - net	-	-	-	-	-	-	-	-	-	-
Other assets	2,984,148	584,025	-	1,780,435	347,312	-	272,376	-	-	-
	138,161,918	23,033,986	37,527,326	12,994,487	13,580,510	16,316,672	9,286,676	10,681,214	7,647,235	7,093,812
Liabilities										
Bills payable	1,536,517	1,536,517	-	-	-	-	-	-	-	-
Borrowings from financial institutions	13,027,468	2,815,367	6,181,025	2,232,771	404,956	425,699	288,949	515,207	163,494	-
Deposits and other accounts	102,592,473	21,851,028	22,552,256	9,911,822	14,757,101	5,835,653	6,632,165	7,085,623	6,933,594	7,033,231
Sub-ordinated loans	999,600	-	-	200	200	400	400	499,400	499,000	-
Liabilities against assets subject to finance lease	4,103	266	642	926	2,269	-	-	-	-	-
Deferred tax liabilities - net	2,484,227	-	-	-	-	-	-	2,484,227	-	-
Other liabilities	6,641,902	1,693,301	295,850	363,549	1,105,860	861,559	956,454	1,365,329	-	-
	127,286,290	27,896,479	29,029,773	12,509,268	16,270,386	7,123,311	7,877,968	11,949,786	7,596,088	7,033,231
Net assets	10,875,628	(4,862,493)	8,497,553	485,219	(2,689,876)	9,193,361	1,408,708	(1,268,572)	51,147	60,581
Share capital	5,296,445									
Reserves	3,790,023									
Unappropriated profit	1,079,333									
Minority interest	73,706									
Surplus on revaluation of asset	636,121									
	10,875,628									

47.7 Operational Risk

Operational Risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes or systems, human factors, or from external events. The Group's businesses are dependent on the ability to process a large number of transactions efficiently and accurately. Operational risks and losses originate from business/operational process failure, IT security failure, natural disasters, dependence on key suppliers, fraud, service quality compromised, regulatory non-compliance, loss of key staff, and social and environmental impacts.

The Group has implemented risk controls and loss mitigation actions for curtailing operational risk. Each division has processes and systems in place to address operational risks within their area. These include key controls and the provision of business continuity plans to protect against major disruptions.

48. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on February 24, 2009 by the Board of Directors of the bank.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

49. NON-ADJUSTING EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in its meeting held on February 24, 2009 has proposed a cash dividend of Rs Nil per share (2007: Rs 2.5 per share) and proposed a bonus issue of 15% (2007 : Nil). The appropriation of bonus issue for the current year will be approved in the forthcoming Annual General Meeting. The consolidated financial statements for the year ended December 31, 2008 do not include the effect of current year's appropriations which will be accounted for in the consolidated financial statements for the year ending December 31, 2009.

50. GENERAL

50.1 Standards, interpretations and amendments published / approved, effective current and future periods

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Group's operations or are not expected to have significant impact on the Group's financial statements.

Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income."

Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after 1 January 2009) removes the option to expense borrowing costs and requires than 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 the Group's financial statements.

Revised IAS 29 - Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 28 April 2008). The Group does not have any operations in Hyperinflationary Economies and therefore the application of the standard is not likely to have an effect on the Group's financial statements.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009) - Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity and obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which require retrospective application, are not expected to have any impact on the Group's financial statements.

Amendment to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the group's financial statements.

Revised IFRS 3 Business Combinations (applicable for annual periods beginning on or after 1 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Group's financial statements.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

Amended IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Group's financial statements.

IFRS 7 - Financial Instruments: Disclosures (effective for annual periods beginning on or after 28 April 2008) super cedes IAS 30 - Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32 - Financial Instruments: Disclosure and Presentation. The application of the standard is not expected to have significant impact on the Group's financial statements other than increase in disclosures.

IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 January 2009) introduces the "management approach" to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments. This standard will have no effect on the Group's reported total profit or loss or equity.

IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008) addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. The application of IFRIC 13 is not likely to have an effect on the Group's financial statements.

IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or 1 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Group's operations.

IFRIC 16 - Hedge of Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2009) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the Group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to the profit or loss. The Interpretation allows an entity that used the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. The amendment is not relevant to the Group's operations.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the group's 2009 financial statements. These amendments are unlikely to have an impact on the group's accounts except for the following:

IAS 27 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Group's financial investment.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2008

IFRIC 17 - Distributions on Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009) states that when a company distributes non cash assets to its shareholders as dividend the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognized in equity. When the non cash asset is distributed, the difference between the carrying amount as fair value is recognized in the income statement. As the Company does not distribute non cash assets to its shareholders, this interpretation has no impact on the Group's financial statements.

IFRS 5 Amendment - Improvements to IFRSs - IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 July 2009) specify that: if an entity is committed to a sale plan involving the loss of control of a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of IFRS 5 are met disclosures for discontinued operation. The amendment is not likely to have an effect on Group's financial statements.

50.2 Comparatives

50.2.1 Previous year's figures have been rearranged and reclassified wherever necessary for the purposes of comparison. Major changes made in the comparative figures which are not disclosed in the relevant notes are as follows:

Reclassification from		Reclassification to		Reason for reclassification	Rupees in '000
Note	Component	Note	Component		
15	Other assets - Stationery and stamps on hand - Receivable from brokers secured - Others	15	Other assets - Suspense account	Comparative amounts have been reclassified to conform with current year's presentation	24,242
12.2	Investments by segment - Fully Paid up Preference Shares - Listed companies	12.2	Investments by segment - Fully Paid up Preference Shares - Unlisted companies		226,250

In addition to the above, the Bank has included 'retirement benefit plan' in the disclosure of 'related party transactions' (note no. 45), as a result of which the comparative figure of the deposits pertaining to related parties in note no. 18.2 has increased by Rs. 103 million.

50.3 Figure have been rounded off to the nearest thousand rupees unless other wise stated.

50.4 Captions as prescribed in BSD circular No. 4 dated February 17, 2006 issued by SBP in respect of which no amounts are outstanding have not been reproduced in these financial statements except for in the balance sheet and the profit and loss account.

50.5 As per the instructions issued by SBP banks are advised not to offer Islamic products without obtaining Islamic Banking licenses. In the light of these instructions, the terminology for morabahas and ijaras previously being used by the Bank has been changed to conventional terms in line with conventional banking license issued during the year.

President & CEO | Director | Director | Director

Annexure I to the Consolidated Financial Statements

Statement showing details of investments in ordinary and preference shares / certificates of listed and unlisted companies / modarabas / mutual funds and Term Finance Certificates and bonds as referred to in note 12 to the financial statements.

1. Details of investments in listed companies / modarabas / closed end mutual funds are as follows:

Ordinary shares / certificates of Rs 10 each 2008	2007	Name of company/ modaraba/ mutual fund	At Cost Rupees '000 2008	2007	Market Values Rupees '000 2008	2007	Quality of Available for Sale Securities: Medium to Long Term Rating Assigned (where available)
		Closed end Mutual funds					
3,994,715	3,994,716	Al-Meezan Mutual Fund	35,263	35,263	14,301	50,733	4-Star
2,000,000	2,000,000	NAMCO Balanced Fund	20,000	20,000	18,900	16,700	
19,178	-	Pakistan Premier Fund	31	-	38	-	5-Star
325,000	345,000	Pakistan Strategic Allocation Fund	3,485	3,681	741	3,140	4-Star
2,812,895	2,812,895	UTP Large CAP Fund (FormerlyAbamco Composite Fund)	27,888	27,888	6,470	22,784	5-Star
63,000	-	Golden Arrow Selected Fund **	279	-	128	-	
6,645	-	Picic Growth Fund	46	-	37	-	
22,138	-	JS Value Fund Limited	61	-	99	-	
		Modarabas					
2,990,000	2,990,000	First Habib Modaraba **	22,656	22,656	16,953	24,219	AA
67	67	First HBL Modaraba	1	1	1	1	AA-
788,591	5,271,591	First Prudential Modaraba	1,307	8,741	1,072	12,915	
		Leasing Companies					
31	206	Pakistan Industrial & Commercial Leasing Limited	1	1	1	1	
		Commercial / Investment Banks / Investment Companies					
2,175,100	2,703,600	Atlas Bank Limited (Formerly Dawood Bank Limited)	21,751	27,036	7,221	45,961	A-
1,709,700	1,709,700	Prudential Investment Bank Limited ***	12,528	12,528	-	4,958	
134,837	-	Askari Commercial Bank	4,872	-	1,964	-	AA
2,626	-	Allied Bank Limited	88	-	82	-	AA
152,381	-	Arif Habib Bank Limited	3,008	-	3,623	-	A
2,648	-	Dawood Equities Limited	24	-	22	-	
245,948	-	Bank Alfalah Limited	4,468	-	4,115	-	AA
12,734	-	Bank Al Habib Limited	310	-	316	-	AA
111,067	-	Javed Omer Vohra & Company	1,270	-	1,007	-	BB+
298,201	-	JS Bank Limited	1,049	-	1,711	-	A-
147,323	-	Jahangir Siddiqui & Co Ltd	8,271	-	7,702	-	AA+
2,756	-	JS Investment Limited	110	-	119	-	AA-
24,205	-	Habib Bank Limited	1,946	-	1,812	-	AA+
140,462	-	MCB Bank Limited	19,485	-	17,671	-	AA+
173,461	-	Pervez Ahmed Securities	1,155	-	626	-	
41,452	-	The Bank of Punjab	624	-	547	-	AA-
112,420	-	Arif Habib Securities Limited	5,079	-	4,728	-	A+
4,610,400	-	First Credit & Investment Bank Limited	46,104	-	13,785	-	
120,161	-	SPCBL	1,827	-	602	-	A-
1,123,085	-	NBP	68,526	-	56,513	-	AAA
467,568	-	NIB	2,371	-	2,183	-	AA-
216,686	-	UBL	16,850	-	7,997	-	AA+
171,608	-	Bank Islami Pakistan Limited	871	-	1,244	-	A-
7,313	-	Soneri Bank Limited	61	-	80	-	AA-
3,634	-	Meezan Bank Limited	79	-	78	-	A+
200	-	HMB	6	-	5	-	AA+
539	-	First National Equities Limited	25	-	28	-	
345	-	Investment & Finance Securities Ltd	1	-	2	-	
		Textile Spinning					
-	1,613,000	Asim Textile Mills Limited *	-	19,516	-	2,016	
127,045	127,045	Crown Textile Mills Limited ***	1,238	1,239	-	-	
99,500	99,500	Dewan Farooq Spinning Mills Limited	994	995	159	796	
335,093	586,093	Hira Textile Mills Limited	4,188	7,326	757	4,659	
33,778	-	D.S. Industries	439	-	502	-	
		Textile Composite					
151,941	-	Azgard Nine Limited	2,697	-	2,473	-	A+
1,226	-	Dawood Lawarencepur Ltd	53	-	61	-	
6,974	-	Nishat (Chunion) Ltd	51	-	67	-	
167,859	-	Nishat Mills Limited	3,687	-	3,794	-	A+
2,500,000	2,500,000	Zahur Textile Mills Limited ***	2,500	2,500	-	-	
		Balances carried forward	349,624	189,371	202,337	188,883	

Annexure I to the Consolidated Financial Statements

Ordinary shares / certificates of Rs 10 each 2008	2007	Name of company/ modaraba/ mutual fund	2008 At Cost Rupees '000	2007 At Cost Rupees '000	2008 Market Values Rupees '000	2007 Market Values Rupees '000	Quality of Available for Sale Securities Medium to Long Term Rating Assigned (where available)
		Balances brought forward	349,624	189,371	202,337	188,883	
		Cement					
24,902	-	Maple Leaf Cement	67	-	102	-	BBB+
34,959	-	Fauji Cement Ltd	122	-	164	-	
128,370	-	Pakistan Cement Co Ltd	255	-	411	-	
12,558	-	Pioneer Cement Ltd	265	-	303	-	BBB
257,454	-	Lucky Cement	19,884	-	8,050	-	
764,101	-	D.G. Khan Cement	29,126	-	16,252	-	
1,000	-	Attock Cement	75	-	38	-	AA
14,395	-	Al Abbas Cement	40	-	55	-	
138	-	Thatta Cement Limited	2	-	2	-	
12,421	-	Dewan Cement Limited	42	-	38	-	
		Power Generation and Distribution					
1,066,067	891,500	Hub Power Company Limited	32,048	30,004	15,021	27,190	
939,375	939,375	Ideal Energy Limited *	28,181	28,181	14,090	14,091	
723,000	723,000	Kohinoor Energy Limited	23,174	23,174	13,918	22,991	
291,282	-	PPL	42,280	-	29,309	-	
90,168	-	PSO	25,230	-	13,036	-	AAA
295,729	-	POL	30,523	-	30,309	-	
147,253	-	Bosicor Pakistan Limited	487	-	686	-	
3,847	-	Attock Petroleum Limited	596	-	555	-	
47,790	-	Attock Refinery Limited	3,074	-	2,862	-	AA
12,442	-	Pakistan Refinery Limited	1,071	-	1,224	-	
234	-	National Refinery Limited	24	-	22	-	AAA
1,702	-	Mari Gas Company Limited	181	-	168	-	
33,961	-	SNGPL	550	-	728	-	AA
350,805	-	SSGC	4,104	-	3,687	-	AA-
31,352	-	KAPCO	730	-	989	-	
1,604,913	-	OGDCL	106,004	-	80,229	-	AAA
		Technology & Communication					
24,213	1,329,000	Pakistan Telecommunication Company Limited	443	82,009	409	55,884	
1,074	-	Eye Television Network	30	-	37	-	
329,435	-	TRG	406	-	586	-	BBB+
6,701	-	Netsol Technologies	182	-	169	-	
73,771	-	Telecard	98	-	147	-	
236,559	-	World Call	666	-	702	-	
		Fertilizer					
1,643,958	1,374,615	Fauji Fertilizer Company Limited	115,015	100,000	96,550	163,236	
22,170	-	Fauji Fertilizer Bin Qasim	4,859	-	2,956	-	
205,584	-	Engro Chemical	46,285	-	19,830	-	AA
		Insurance					
1,869	-	Adamjee Insurance Company Limited	204	-	190	-	AA
510	-	EFU General Insurance Limited	62	-	68	-	AA
9,834	-	Pakistan Reinsurance Co Ltd	250	-	233	-	
		Engineering					
6,861	-	Crescent Steel and Allied Products Ltd	118	-	117	-	
15,684	-	Dost Steel Limited	127	-	124	-	
300	-	Intern'l Industries Limited	17	-	14	-	
100	-	Siemens Pakistan Eng Ltd	113	-	113	-	
		Automobiles Parts & Accessories					
20,185	-	Honda Atlas Cars Ltd	272	-	232	-	
1,384	-	Indus Motor Company Ltd	165	-	170	-	
		Cables & Electrical Goods					
521,605	-	Pak Electron	25,244	-	11,851	-	A
		Balances carried forward	892,315	452,739	569,083	472,276	

Annexure I to the Consolidated Financial Statements

Ordinary shares / certificates of Rs 10 each 2008	2007	Name of company/ modaraba/ mutual fund	At Cost Rupees '000 2008	2007	Market Values Rupees '000 2008	2007	Quality of Available for Sale Securities Medium to Long Term Rating Assigned (where available))
		Balances brought forward	892,315	452,739	569,083	472,276	
		Chemical					
273	-	BOC Pakistan Limited	32	-	31	-	
10,219	-	Sitra Peroxide Limited	164	-	185	-	
257,986	-	ICI	19,025	-	17,726	-	
188,342	-	Pakistan PTA Limited	216	-	299	-	
		Synthetic & Rayon					
100,258	-	Dewan Salman Fibre Ltd	92	-	141	-	
		Transport					
5,890	-	Pakistan Intl Container Terminal	259	-	267	-	A-
		Pharmaceuticals					
136	-	Searle Pakistan Limited	8	-	9	-	BBB
		Paper & Board					
7,158	-	Packages Limited	589	-	581	-	AA
		Others					
225	-	VISA Incorporation	-	-	907	-	
138,569	-	Pace Pakistam Limited	1,483	-	1,197	-	A+
204	-	Tri - Pak Filims	24	-	25	-	A+
			914,207	452,739	590,451	472,276	

*The bank holds more than 10% of investees' capital in the following:

- Ideal Energy Limited - 11.74% (2007: 11.74%)
- Prudential Investment Bank Limited - 17.10% (2007: 17.10%)
- Asim Textile Mills Limited - Nil (2007: 10.62%)

** Certificates of Rs 5 each
*** Delisted companies

Annexure I to the Consolidated Financial Statements

	2008 At Cost Rupees '000	2007 At Cost Rupees '000	2008 Market Values Rupees '000	2007 Market Values Rupees '000	Quality of Available for Sale Securities: Medium to Long Term Rating Assigned (where available)
2. Details of investments in unlisted companies are as follows:					
Faysal Asset Management Limited 4,500,000 (2007:1,500,000) ordinary shares of Rs 10 each The bank holds 30% (2007: 30%) of investee's capital. Chief Executive: Mr. Salman Haider Shaikh Break up value of share: Rs. 15.22 (2007: Rs 18.36) Period of financial statements: June 30, 2008	45,000	15,000	Not Applicable		AM3+
Al Hamra Avenue (Private) Limited 24,375,000 (2007 : 24,375,000) ordinary shares of Rs 10 each The bank holds 15.22% (2007 : 17.38%) of investee's capital. Chief Executive: Mr. Habib Ahmed Break up value per share: Rs. 13.03 (2007: Rs 11.38) Period of financial statements: June 30, 2008	243,750	243,750	Not Applicable		
Al Hamra Hills (Private) Limited 12,500,000 (2007 : 12,500,000) ordinary shares of Rs 10 each The bank holds 14.13% (2007 : 14.71%) of investee's capital. Chief Executive: Mr. Habib Ahmed Break up value per share: Rs. 9.71 (2007: Rs. 9.76) Period of financial statements: June 30, 2008	125,000	125,000	Not Applicable		
DHA Cogen Limited 32,500,000 (2007 : 32,500,000) ordinary shares of Rs 10 each The bank holds 18.52% (2007 : 18.52%) of investee's capital. Chief Executive: Mr. Azam Mehmood Break up value per share: Rs. 10.73 (2007: Rs. 10.00) Period of financial statements: June 30 ,2008	325,000	325,000	Not Applicable		
First Capital Investment (Private) Limited * 150,000 (2007 : 150,000) ordinary shares of Rs 10 each The bank holds 3.95 % (2007: 3.95%) of investee's capital. Chief Executive: Mr. Faisal Portik Break up value per share: Not Available (2007: Not Available)	750	750	Not Applicable		AM4+
Himont Chemical (Private) Limited * 810,000 (2007 : 810,000) ordinary shares of Rs 10 each The bank holds 2.92 % (2007: 2.92%) of investee's capital. Chief Executive: Mr. Intesar A. Siddiqui Break up value per share: Not Available (2007: Not Available)	7,063	1,037	Not Applicable		
Sukhchayn Gardens (Private) Limited 386,531 (2007 : 660,000) ordinary shares of Rs 100 each The bank holds 8.78% (2007 : 15.00%) of investee's capital. Chief Executive: Mr. Shujaat Azeem Break up value per share: Rs. 162.61 Period of financial statements: June 30, 2007	160,000	273,186	Not Applicable		
	900,537	983,723			

* Fully provided for investments

Annexure I to the Consolidated Financial Statements

3. Preference shares – Listed companies

Share of each Rs 10 2008	2007	Name of Company	Rate	2008 At Cost Rupees '000	2007 At Cost Rupees '000	2008 Market Values Rupees '000	2007 Market Values Rupees '000	Quality of Available for Sale Securities Medium to Long Term Rating Assigned
2,249,000	2,249,000	Azgard Nine Limited	8.95% Cumulative	**22,490**	22,490	**19,904**	18,554	**A+**
24,394,111	24,394,111	Maple Leaf Cement Factory Limited	9.75% Cumulative Convertible	**243,937**	243,937	**184,663**	219,547	**BBB+**
				266,427	266,427	**204,567**	238,101	

4. Preference shares – Unlisted companies

Share of each Rs 10 2008	2007	Name of Company	Rate	2008 At Cost Rupees '000	2007 At Cost Rupees '000	Market Values	Rating Assigned
2,500,000	2,500,000	**Fazal Cloth Mills (Pvt) Limited** Chief Executive: Mr. S H Naseem Ahmad The bank holds 10% (2007 : 10.00%) of investee's capital.	2.5% plus 6 months KIBOR	**25,000**	25,000	Not Applicable	
7,500,000	10,000,000	**Pak Elektron Limited** Chief Executive: Mr. Naseem Saigol The bank holds 14.25% (2007 : 16.5%) of Class A preference shares in investee's capital.	9.50% Cumulative Convertible	**75,000**	100,000	Not Applicable	**A**
12,625,000	12,625,000	**Pak Elektron Limited** Chief Executive: Mr. Naseem Saigol The bank holds 41.74% (2007 : 41.74%) of Class B preference shares in investee's capital.	11% Cumulative Convertible	**126,250**	126,250	Not Applicable	**A**
				226,250	251,250		

5. Details of investments in open ended mutual funds:

2008	2007	Name of Company	2008 At Cost Rupees '000	2007 At Cost Rupees '000	2008 Market Values Rupees '000	2007 Market Values Rupees '000	Rating Assigned
		Open ended Mutual funds					
1,310,292	1,310,292	Faysal Balanced Growth Fund	**80,374**	80,374	**87,698**	142,167	**MFR-3 Star**
1,873,887	-	Faysal Income & Growth Fund	**200,000**	-	**193,160**	-	**A+(f)**
2,100,000	2,100,000	Faysal Savings Growth Fund	**207,411**	207,411	**217,518**	220,815	**A(f)**
234,258	-	First Habib Income Fund	**25,000**	-	**22,730**	-	
4,727,507	-	NAFA Cash Fund	**50,000**	-	**45,305**	-	**A(f)**
194,073,089	154,885,924	National Investment (Unit) Trust	**3,475,056**	2,670,544	**4,388,852**	9,254,895	**5-Star**
234,307	-	United Money Market Fund	**25,000**	-	**22,454**		
65,505	-	Atlas Income Fund	**35,000**	-	**31,291**	-	**A(f)**
			4,097,841	2,958,329	**5,009,008**	9,617,877	

Annexure I to the Consolidated Financial Statements

		2008	2007	2008	2007	Quality of Available for Sale Securities
		At Cost Rupees '000		Market Values Rupees '000		Medium to Long Term Rating Assigned
6.	**Term Finance Certificates - Listed, Secured**					
	Al Zamin Leasing Modaraba - First Tranche Nil (2007: 5,094) certificates of Rs. 5,000 each Mark-up: Minimum 8.00%, on PLS basis Redemption: Three annual installments commencing December 24, 2006 Maturity: Matured in December 2008 Modaraba Management Company: Al Zamin Modaraba Management (Private) Limited Chief Executive : Mr. Basheer A. Chowdry	-	8,660	-	3,275	-
	Al Zamin Leasing Modaraba - Second Tranche 9,942 (2007: 9,942) certificates of Rs. 5,000 each Mark-up: Minimum 9.5% on PLS Basis (4% above six months KIBOR - Floor 11%) Redemption: Three annual installments commencing May 2008 Maturity: May 2010 Modaraba Management Company: Al Zamin Modaraba Management (Private) Limited CEO of Management Company : Mr. Basheer Ahmed Chowdry	33,803	49,710	30,900	47,225	A
	Azgard Nine 31,640 (2007: 31,640) certificates of Rs. 5,000 each Mark-up: 2.40% above six months KIBOR rate with no floor and cap Redemption: 10 unequal semi-annual installments commencing from the 30th month Maturity: September 2012 Chief Executive Officer: Mr. Ahmad Shaikh	144,857	158,073	149,246	164,396	AA-
	Bank Al Habib Limited -Unsecured 20,000 (2007: 20,000) certificates of Rs. 5,000 each Mark-up: 1.5% above six months KIBOR,with floor-3.50% & cap-10% Redemption: 0.25% per annum in first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month. Maturity: July 2012 Chief Executive Officer: Mr. Abbas D. Habib	99,840	99,880	91,619	96,384	AA-
	Chanda Oil and Gas Securitization Company Limited Nil (2007:40,968) certificates of Rs.5,000 each Mark-up: 3.25% above three months KIBOR rate, with floor-8.95% & cap-13% Redemption: Unequal quarterly installments starting six months from the date issue Maturity: Early redemption during May 2008 Chief Executive Officer: Mr. Irfan A Khan	-	147,485	-	152,175	
	Crescent Standard Investment Bank Limited (Formerly: Pacific Leasing Limited) Nil (2007: 8,000) certificates of Rs. 5,000 each Mark-up: 2% above SBP discount rate; Floor-10.5% per annum Cap-13.5% per annum Redemption: Six semi – annual installments commencing January 2005 Maturity: July, 2007 Chief Executive Officer: Mr. Badr-ud-din Khan	-	13,264	-	13,264	Suspended
	Jahangir Siddiqui & Co. Limited Nil (2007: 2,621) certificates of Rs. 5,000 each Mark-up: 1.5% above the cut off yield of 5 year Pakistan Investment Bonds; Floor-7.50 % per annum; Cap-13% per annum Redemption: Four semi – annual installments commencing October 2006 Maturity: April, 2008 Chief Executive Officer: Mr. Munaf Ibrahim	-	3,272	-	3,326	AA+
	Balances carried forward	278,500	480,344	271,765	480,045	

Annexure I to the Consolidated Financial Statements

	2008 At Cost Rupees '000	2007 At Cost Rupees '000	2008 Market Values Rupees '000	2007 Market Values Rupees '000	Quality of Available for Sale Securities Medium to Long Term Rating Assigned
Balances brought forward	**278,500**	480,344	**271,765**	480,045	
Jahangir Siddiqui & Co. Limited - Fourth Tranche 10,000 (2007: 10,000) certificates of Rs. 5,000 each Mark-up: 2.5% above six months KIBOR Floor-6 % per annum; Cap-16% per annum Redemption: 0.18% of principal in the first 54 months, remaining 99.82% in equal installments in 60th & 66th month Maturity: May 2012 Chief Executive Officer: Mr. Munaf Ibrahim	**49,960**	49,980	**50,225**	51,479	AA+
Nishat Mills Limited Nil (2007: 12,000) certificates of Rs. 5,000 each Mark-up: 1.7% above 6 month Treasury Bills rate Redemption: Five semi – annual installments commencing from 36th month Maturity: September, 2008 Chief Executive Officer: Mr Mian Umer Mansha	-	23,976	-	23,976	-
Pakistan Services Limited Nil (2007: 15,173) certificates of Rs. 5,000 each Mark-up: 2.25% above SBP discount rate; Floor-9.75% per annum Cap-13.75% per annum Redemption: Seven semi – annual installments commencing November 12,2005 Maturity: November, 2008 Chief Executive Officer: Mr. Murtaza Hashwani	-	21,663	-	21,951	-
Trust Leasing & Investment Bank Limited - First Tranche 16,507 (2007: 16,507) certificates of Rs. 5,000 each Mark-up: 3% above six months KIBOR rate; Floor-6% per annum Cap-10% per annum Redemption: Ten semi – annual installments commencing 6 months from date of issue Maturity: July 2009 Chief Executive Officer: Mr. Jawaid B. Shaikh	**16,507**	33,014	**16,454**	32,829	A
Trust Leasing & Investment Bank Limited - Second Tranche 24,450 (2007: 24,450) certificates of Rs. 5,000 each Mark-up: 2% above six months KIBOR rate; with no floor and no cap Redemption: Ten semi – annual installments commencing 6 months from date of issue Maturity: November 2010 Chief Executive Officer: Mr. Jawaid B. Shaikh	**48,900**	73,350	**49,242**	74,084	A
United Bank Limited - First Issue 50,000 (2007: 50,000) certificates of Rs. 5,000 each Mark-up: 8.45% per annum Redemption: 0.25% per annum is first 78 months, balance in 3 semi annual installments of 33.25% each starting from 84th month. Maturity: July 2012 Chief Executive Officer: Mr. Atif R. Bokhari	**249,616**	249,712	**218,414**	230,359	AA
United Bank Limited - Second Issue 20,000 (2007: 20,000) certificates of Rs. 5,000 each Mark-up: 9.49% per annum Redemption: At maturity Maturity: March 2013 Chief Executive Officer: Mr. Atif R. Bokhari	**99,986**	99,990	**88,817**	93,181	AA
Naimat Bisal Oil and Gas Securitization Company Limited Nil (2007: 22,000) certificates of Rs. 5,000 each Mark-up: 2.50% above six months KIBOR rate, Floor-7.50%, Cap-13% Redemption: 3% of principal during first six months, and remaining 97% in 54 equal monthly installments thereafter. Maturity: April, 2010 Chief Executive Officer: Mr. Intisar-ul-Hasan Alvi	-	55,329	-	56,463	-
Balances carried forward	**743,469**	1,087,358	**694,917**	1,064,367	

Annexure I to the Consolidated Financial Statements

	2008	2007	2008	2007	Quality of Available for Sale Securities
	At Cost Rupees '000		Market Values Rupees '000		Medium to Long Term Rating Assigned
Balances brought forward	**743,469**	1,087,358	**694,917**	1,064,367	
Financial Receivables Securitization Co. Ltd. 20,000 (2007: 20,000) certificates of Rs. 5,000 each Mark-up: 2.00% above six months KIBOR rate, Floor-8%, Cap-16% Redemption: Equal Semi annual installment with a grace period of 1 year Maturity: December 2013 Chief Executive Officer: Mr. S. M. Nasir Raza	**94,171**	99,980	**94,764**	103,479	**AA-**
Tele Card Limited 70,233 (2007 : 70,263) certificates of Rs. 5,000 each Mark-up: 3.75% above six months KIBOR rate, with no floor and no cap Redemption: Ten unequal semi-annual installments commencing 18 months from the last date of public subscription. Maturity: April 2011 Chief Executive Officer: Mr. Shahid Firoz	**203,219**	255,900	**165,420**	217,668	**BBB**
	1,040,859	1,443,238	**955,101**	1,385,514	

7. Term Finance Certificates - Unlisted

	2008	2007	2008	2007	Rating
Dewan Cement Ltd. (formerly Pakland Cement Limited) The TFC has not currently been issued. Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui	**500,000**	-	Not applicable		-
Dewan Cement Ltd. (formerly Pakland Cement Limited) Mark-up: 2.50% above six months KIBOR rate, with no floor and no cap Redemption: Repayment in 19 unequal semi annual installments upto July 2013 Maturity: July 2013 Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui	**-**	412,459	Not applicable		
Dewan Hattar Cement Ltd. (formerly Saadi Cement Limited) Mark-up: 2.50% above six months KIBOR rate, with no floor and no cap Redemption: Repayment in 19 unequal semi annual installments upto July 2013 Maturity: July 2013 Chief Executive Officer: Mr. Dewan M. Yousuf Farooqui	**-**	494,342	Not applicable		
	500,000	906,801			

Annexure II to the Consolidated Financial Statements

Annexure - II

Statement showing written-of f loans or any other financial relief of five hundred thousand rupees or above provide during the year ended December 31, 2008 as referred to in note 13.7 to the financial statements.

S. No.	Name and address of the borrower	Name of individuals/ partners/ directors (with NIC No.)	Father's/ Husband's name	Outstanding Liabilities at beginning of year				Principal written-off	Interest/ Mark-up written-off	Other fin-ancial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Accrued Interest Not Debited	Total				
1	2	3	4	5	6	7	8	9	10	11	12
				--------------------------	--------------------------	--------------------------	--------Rupees in '000--------	--------------------------	--------------------------	--------------------------	--------------------------
1	Network Leasing Corporation Limited	Mr. Akbar M. Bilgrami 42000-1544756-7 Mr. Mohammad Aftab Changi 42101-3116772-9 Mr. Shoaib Jawed Savul 42301-3721674-3 Mr. Saeed Jamal Tariq 42301-7408560-9 Mr. Syed Muhammad Ramanullah 42000-0551947-3 Mr. Zubair Anwar Bawany 91400-0331996-1	**N/A**	7,107	125	2,503	9,735	1,089	-	**1,920**	3,009
			TOTAL:	7,107	125	2,503	9,735	1,089	-	1,920	3,009

Faysal Bank Limited

Combined Pattern of CDC and Physical Share Holdings as at 31-12-2008

FAYSAL BANK LIMITED — COMBINED PATTERN OF CDC AND PHYSICAL SHARE HOLDINGS AS AT 31-12-2008

CATEGORY NO.	CATEGORIES OF SHARE HOLDERS	NUMBER OF SHARES HELD	CATEGORY WISE NO. OF SHARE HOLDERS	CATEGORY WISE SHARES HELD	PERCENTAGE %
1	**INDIVIDUALS**		12,663	39,596,148	7.48
2	**INVESTMENT COMPANIES**		24	3,133,460	0.59
3	**JOINT STOCK COMPANIES**		164	4,317,283	0.82
4	**DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN**		7	23,002	0.00
	SYED NASEEM AHMAD	500			
	MR. NAVED A. KHAN	500			
	(A/C - Shamil Bank of Bahrain B.S.C.)				
	MR. GRAHAM RODERICK WALKER	500			
	(A/C - Shamil Bank of Bahrain B.S.C.)				
	MR. MOHAMED A. R. HUSSAIN	500			
	(A/C - Shamil Bank of Bahrain B.S.C.)				
	MR. MOHAMMAD A. RAHMAN BUCHEEREI	500			
	(A/C - Shamil Bank of Bahrain B.S.C.)				
	MR. FAROOQ RAHMATULLAH	500			
	MR. SHAHID AHMAD	20,002			
	MR. TARIQ IQBAL KHAN	-			
	(Nominee - NIT)				
5	**COMPANY SECRETARY**	-	-	-	-
6	**EXECUTIVES**		11	244,990	0.05
7	**NIT / ICP**		10	15,274,036	2.88
	NATIONAL BANK OF PAKISTAN , TRUSTEE DEPTT.	15,230,961			
	INVESTMENT CORPORATION OF PAKISTAN	43,075			
8	**ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES**		13	354,556,660	66.94
	SHAMIL BANK OF BAHRAIN B.S.C. (SPONSOR COMPANY)	238,042,855			
	FAISAL FINANCE (LUXEMBOURG) S.A.	45,420,385			
	MFAI (JERSEY) LTD.	31,262,332			
	FAISAL PRIVATE BANK (SWITZERLAND) S.A.	17,120,896			
	DMI (JERSEY) LIMITED	22,710,192			
9	**PUBLIC SECTOR COMPANIES AND CORPORATIONS**	-	-	-	-
10	**BANKS, DFIs, NBFIs, INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS**		62	33,059,100	6.24
11	**FOREIGN INVESTORS**		39	78,572,107	14.83
12	**CO-OPERATIVE SOCIETIES**		1	625	0.00
13	**CHARITABLE TRUSTS**		3	200,728	0.04
14	**OTHERS**		24	666,334	0.13
	TOTALS		**13,021**	**529,644,473**	**100.00**

SHARE-HOLDERS HOLDING TEN PERCENT OR MORE VOTING INTEREST IN THE LISTED COMPANY

TOTAL PAID-UP CAPITAL OF THE COMPANY	529,644,473 SHARES
10% OF THE PAID-UP CAPITAL OF THE COMPANY	52,964,447 SHARES

NAME(S) OF SHARE-HOLDER(S)	DESCRIPTION	NO. OF SHARES HELD	PERCENTAGE %
SHAMIL BANK OF BAHRAIN B.S.C. (SPONSOR COMPANY)	FALLS IN CATEGORY # 8	238,042,855	44.94
JPMORGAN CHASE BANK	FALLS IN CATEGORY # 11	59,102,769	11.16

NOTE :
Shamil Bank of Bahrain B.S.C. holds the shares of Faysal Bank Limited in =03= different folios in Physical form and also holding shares in CDC under =01= CDC account.

Faysal Bank Limited

Combined Pattern of CDC and Physical Share Holdings as at 31-12-2008

CATEGORY NO.	CATEGORIES OF SHAREHOLDERS	NO. OF SHARE HOLDERS	SHARES HELD	PERCENTAGE
1	INDIVIDUALS	12,663	39,596,148	7.48
2	INVESTMENT COMPANIES	24	3,133,460	0.59
3	JOINT STOCK COMPANIES	164	4,317,283	0.82
4	DIRECTORS, CHEIF EXECUTIVES OFFICERS AND THEIR SPOUSE AND MINOR CHILDREN	7	23,002	0.00
5	EXECUTIVES	11	244,990	0.05
6	NIT / ICP	10	15,274,036	2.88
7	ASSOCIATED COMPANIES , UNDERTAKING AND RELATED PARTIES	13	354,556,660	66.94
8	PUBLIC SECTOR COMPANIES AND CORPORATIONS	0	0	0.00
9	BANK DFIs INSURANCE COMPANIES MODARBAS AND MUTUAL FUNDS	62	33,059,100	6.24
	9.1 FINANCIAL INSTITUATIONS	19	520,516	0.10
	9.2 LEASING COMPANIES	5	127,114	0.02
	9.3 INSURANCE COMPANIES	11	32,202,125	6.08
	9.4 MODARABAS	6	54,055	0.01
	9.5 MUTUAL FUNDS	21	155,290	0.03
10	FOREIGN INVESTORS	39	78,572,107	14.83
11	CO-OPERATIVE SOCIETIES	1	625	0.00
12	CHARITABLE TRUSTS	3	200,728	0.04
13	OTHERS	24	666,334	0.13
		13,021	**529,644,473**	**100.00**

Faysal Bank Limited

Pattern of Share Holdings CDC and Physical
As on 31-12-2008

NUMBER OF SHARE HOLDERS	SHARE HOLDING		TOTAL SHARES HELD
4,510	1-	100	298,946
2,530	101-	500	748,305
1,369	501-	1,000	1,130,597
3,623	1,001-	5,000	6,890,215
435	5,001-	10,000	3,227,741
142	10,001-	15,000	1,747,204
73	15,001-	20,000	1,287,051
79	20,001-	25,000	1,780,338
31	25,001-	30,000	855,080
27	30,001-	35,000	856,256
14	35,001-	40,000	526,500
19	40,001-	45,000	806,455
16	45,001-	50,000	756,552
16	50,001-	55,000	835,718
9	55,001-	60,000	518,346
7	60,001-	65,000	433,175
3	65,001-	70,000	204,963
4	70,001-	75,000	286,755
3	75,001-	80,000	229,154
5	80,001-	85,000	413,949
3	85,001-	90,000	260,997
2	90,001-	95,000	183,500
8	95,001-	100,000	788,445
2	100,001-	105,000	201,448
7	105,001-	110,000	748,159
1	110,001-	115,000	114,956
2	115,001-	120,000	230,651
4	120,001-	125,000	493,817
1	125,001-	130,000	130,000
1	130,001-	135,000	132,250
2	135,001-	140,000	274,224
2	140,001-	145,000	285,253
2	145,001-	150,000	300,000
1	150,001-	155,000	155,000
1	160,001-	165,000	160,518
2	165,001-	170,000	338,527
1	175,001-	180,000	177,862
2	190,001-	195,000	385,250
2	195,001-	200,000	398,385
2	210,001-	215,000	420,305
1	215,001-	220,000	215,625
1	240,001-	245,000	242,800
3	245,001-	250,000	738,689
1	260,001-	265,000	264,095
1	270,001-	275,000	270,036
1	275,001-	280,000	277,600
1	285,001-	290,000	287,500
2	295,001-	300,000	600,000
1	310,001-	315,000	314,352
1	325,001-	330,000	325,960
1	340,001-	345,000	340,033
2	355,001-	360,000	711,600
1	365,001-	370,000	368,400
1	400,001-	405,000	400,120
1	405,001-	410,000	409,500
1	485,001-	490,000	485,770
1	525,001-	530,000	526,100
1	580,001-	585,000	584,081
1	755,001-	760,000	758,775
1	775,001-	780,000	777,781
1	900,001-	905,000	902,120
1	980,001-	985,000	982,600
1	990,001-	995,000	990,312
1	995,001-	1,000,000	1,000,000
1	1,025,001-	1,030,000	1,026,835
1	1,140,001-	1,145,000	1,141,046
1	1,260,001-	1,265,000	1,261,676
1	1,395,001-	1,400,000	1,397,400
1	1,610,001-	1,615,000	1,614,150
1	1,680,001-	1,685,000	1,682,235
1	1,700,001-	1,705,000	1,700,605
1	1,730,001-	1,735,000	1,731,840
1	1,775,001-	1,780,000	1,777,000
1	1,805,001-	1,810,000	1,807,037
1	1,865,001-	1,870,000	1,870,000
1	1,895,001-	1,900,000	1,900,000
1	2,130,001-	2,135,000	2,134,613
1	2,520,001-	2,525,000	2,523,353
1	5,765,001-	5,770,000	5,765,801
1	5,945,001-	5,950,000	5,945,192
1	6,700,001-	6,705,000	6,702,800
1	6,710,001-	6,715,000	6,712,570
1	9,140,001-	9,145,000	9,144,703
1	10,830,001-	10,835,000	10,833,872
1	11,355,001-	11,360,000	11,355,095
1	13,640,001-	13,645,000	13,642,356
1	17,615,001-	17,620,000	17,619,976
1	22,710,001-	22,715,000	22,710,192
1	26,180,001-	26,185,000	26,183,061
1	26,215,001-	26,220,000	26,216,908
1	28,095,001-	28,100,000	28,095,555
2	45,420,001-	45,425,000	90,840,770
1	181,520,001-	181,525,000	181,521,136
13,021			529,644,473

Form of Proxy

I / We ______________________________

of ______________________________

a member(s) of Faysal Bank Limited and holding ______________________________

______________________________ ordinary shares, as per

Register Folio No. / Participant's ID / CDC sub Account No. ______________________________

hereby appoint ______________________________ Folio No. / Participant's

ID / CDC sub Account No. ______________________________ or failing him / her

______________________________ of ______________________________

as my / our proxy to vote and act for me / us on my / our behalf at the Annual General Meeting of the Bank to be held on March 27, 2009 and at any adjournment thereof.

Signed ______________ day of ______________, 2009.

Witness:

1.______________________

2.______________________

Revenue Stamp Rs. 5/-
Signature of Member (S)

Notes:

1. The Share Transfer Books of the Bank shall remain closed from March 20, 2009 to March 27, 2009 (both days inclusive). Transfer received at the Registrar and Share Transfer Agent of the Bank, by the close of business on March 19, 2009 will be treated in time for the purpose of the entitlement of Bonus Shares.

2. A member entitled to attend and vote at the above Annual General Meeting is entitled to appoint another member as a proxy to attend and vote on his/her behalf, save that a corporation being a member may appoint as it proxy or officer of such corporation whether a member of the company or not. This instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of the power or authority shall be deposited at the office of M/s. Noble Computer Services (Pvt.) Limited, Second Floor, Sohni Center, BS 5 & 6, Main Karimabad, Block-4, Federal B. Area, Karachi-75950, the Registrar and Share Transfer Agent of the bank not later than 48 hours before the time of holding the meeting, and must be duly stamped, signed and witnessed.

3. The CDC Account Holders and Sub-account Holders, whose registration details are available in the Share Book Details Reports shall be required to produce their respective original Computerized National Identity Card (CNIC) or original passport at the time of attending the Annual General Meeting to facilitate identification. Such Account Holders and Sub-Account Holders should also bring/know their respective participation I.D. No. and the CDC Account No. In case of proxy, he/she must enclose an attested copy of his/her CNIC or passport. Representative(s) of corporate member(s) should bring usual documents required for such purpose.

4. Members are required to timely notify any change in their address to Bank's Registrar/Share Transfer Agent M/s. Noble Computer Services (Pvt.) Limited, Second Floor, Sohni Center, BS 5 & 6, Main Karimabad, Block-4, Federal B. Area, Karachi-75950.

Registered Office
Faysal House
ST-02 Shahrah-e-Faisal
Karachi-Pakistan

www.faysalbank.com